The American Antitrust Institute

GLOBAL BEER: THE ROAD TO MONOPOLY

By Bernard Ascher

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ABSTRACT

The beer industry is highly concentrated and heavily regulated in the United States and many other countries. As markets in the industrialized countries become mature and stagnant, major beer corporations are seeking to expand to the growing markets of developing countries. World markets are becoming more concentrated and, perhaps, are moving toward a global world monopoly. There is great speculation that the world's largest beer corporation (ABInBev) will buy the second leading corporation (SABMiller) to form a huge entity with great market power.

In the U.S. market, this paper describes and analyzes beer competition in a comprehensive way, including: the emergence of specialty craft brewers (which are growing in number despite handicaps of small scale production and difficulties of distribution); the effects of antitrust policy in shaping the industry; the nature of the Post-Prohibition three-tier distribution system, administered by each of the fifty states (which are now under pressures for change through court actions and legislative initiatives); relationships between brewers, distributors and retailers under the three-tier system; the influence of advertising, brand loyalty, quality, and price in competition; and implications of the recent acquisition of full ownership of Mexico's Grupo Modelo (Corona), the third leading supplier to the U.S. market by ABInBev, the primary supplier (an acquisition currently pending approval by regulatory authorities and a possible test case for a future mega-merger of the world's two largest multinational beer corporations). In the U.S. market, the paper shows that beer prices have risen somewhat faster than the general price level since the two big consolidations in 2008 and suggests that the Department of Justice undertake a study of pricing by the two leading beer companies, whose share prices, revenues, profits and dividends have increased dramatically in the last five years, and it advocates modifications of state regulations that unduly raise costs and impede competition.

Internationally, the paper focuses on the marketing strategies of major beer multinationals in the growing global beer market, including the emergence of China as the world's largest beer producing and consuming country; the significance of international trade, investment (including cross-border mergers and acquisitions), and licensing agreements in gaining access to markets in other countries. The paper assesses the views of beer industry experts on the possibility of a mega-merger (most are skeptical, but some find it doable and a "good fit"). In case of a jumbo merger of the world's top two multinational beer companies, it stresses that antitrust authorities in the United States and other countries need to consider whether the effective elimination of a competitor would create a dominant entity that could more easily raise prices, while stifling further competition at the brewery

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and distribution levels. It also advocates increased international cooperation among antitrust authorities in the various countries. Profiles of major brewing companies and selected country markets appear in an extensive appendix to the paper.

Keywords: beer, production, distribution, competition, pricing, market structure, firm behavior, consumer economics, antitrust, concentration, deregulation, monopoly, oligopoly, regulation, industry studies, manufacturing, globalization, international trade, international business, corporate finance, regulation and business law, trade, international investment, multinational firms, government policy and regulation, antitrust law, beverages.

JEL Classifications:
D2 – Production and Organizations
D3 -- Distribution
D4 – Market Structure and Pricing
F1 -- Trade
F2 – International Factor Movements and International Business
F23 – Multinational Firms; International Business
G38 -- Government Policy and Regulations
K2 – Regulation and Business Law
K21 -- Antitrust Law
L1 – Market Structure, Firm Strategy, and Market Performance
L2 – Firm Objectives, Organization, and Behavior
L4 – Antitrust Policy
L42-- Vertical Restraints; Resale Price Maintenance; Quantity Discounts
L5 – Regulation and Industrial Policy
L6 -- Industry Studies: Manufacturing
L66-- Food and Beverages

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PREFACE

The American Antitrust Institute is an independent non-profit organization based in Washington D.C. with a mission to increase the role of competition, assure that competition works in the interests of consumers, and challenge abuses of concentrated economic power in the American and world economy. Through its education, research and advocacy work, the AAI provides valuable legal and economic information, analysis, and perspective on U.S. and international antitrust law, litigation, and legislation, with a particular focus on the effects of anticompetitive practices on consumers. Our website is www.antitrustinstitute.org.

This important and highly relevant monograph by Bernard Ascher captures the history and dynamics of both the domestic and international beer industry, providing a background picture that we believe will be helpful to government officials, the industry, the media and public interest activists in the face of further current and anticipated movements in the direction of economic concentration. Mr. Ascher is a Research Fellow at the American Antitrust Institute. He is an economist with particular expertise in international trade who in his retirement years has prepared a number of important monographs for the AAI, including portraits of the legal industry and the accounting industry. He is also the possessor of an engaging writing style, not always present in serious economic or legal monographs. Although this monograph has been read in draft form by many members of the AAI Advisory Board and some outside industry experts, with their comments taken into account, it of course represents Mr. Ascher's own work and does not necessarily reflect the views of any individual members of the Board of Directors or the Advisory Board. Having said that, we all lift our mugs in salutation to Bernie Ascher for this fine work.

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EXECUTIVE SUMMARY

Part I ("Here We Go") introduces the problems and sets the stage for discussion of the issues facing the industry's manufacturers, wholesalers, distributors, retailers, consumers, and government regulatory authorities. Essentially, the high level of concentration of the beer industry in the United States and worldwide raises concerns about the enhanced ability of major brewers to reduce competition and raise prices on this popular product. It raises the question of whether continued industry consolidation through mergers and acquisitions will eventually lead to an "unthinkable" world monopoly for beer production and marketing. Basically, the purpose of this paper is to sort out the available information and analyze the effects of concentration and regulation on competition in the beer industry.

Part II ("This Bud's for You" and "Miller Time") focuses on consolidation and concentration of the U.S. industry. Two huge transactions in 2007 and 2008 culminated a decade or more of company consolidations, creating a new industry structure, a duopoly in which the two leading companies--- ABInBev (parent company of Anheuser-Busch) and SABMiller (parent of MillerCoors and Molsons)--- account for 80 percent of U.S. sales. The next two top companies--- Modelo (Corona) and Heineken (brewers of imported beers) --- account for a combined 10 percent of sales, bringing the top four total to 90 percent of the U.S. market. All four leading beer companies are now owned by foreign-based multinational corporations. ABInBev, the leading company with a 50-percent market share, is about to complete a full acquisition of the third-ranked company, Modelo, which will raise the ABInBev market share to about 55 percent, pending approval of regulatory authorities. Inhibited by the high costs of building or acquiring plants, few, if any, new large-scale brewers have entered the market in recent years. The only new entrants have been small craft brewers, whose specialty products compete with those of the major brewers. Contrary to the general trend toward consolidation, the craft beer segment is highly fragmented, consisting of about 2,000 small brewers (microbreweries and brewpubs). This segment, which is growing at a phenomenal rate, now accounts for about 6 percent of the total U.S. market by volume and about 10 percent by value.

Part III ("More Tast…Less Filling") focuses on how implementation of U.S. antitrust policy helped shape the U.S. beer industry--- the aggressive enforcement which discouraged Anheuser-Busch from adopting a strategy of growth through acquisition (thereby ultimately leading to a strengthened company based on internal growth); the mixed approach of guarding against big-firm mergers while allowing mergers of weaker firms (which failed to save them); and the more permissive approach, allowing mergers and acquisitions if they promote economic efficiencies, making firms more competitive (regardless of the level of industry concentration). The result is a duopoly which dominates sales in the U.S. market. The duopoly companies sometimes exercise their market power with incentives for distributors to carry only their brands and through contracts awarding exclusive territories to distributors. Allegations of antitrust practices in beer marketing are discussed, including private lawsuits and complaints raised at the state level (market allocation in New York and price-fixing in Texas). Several actions have been taken by European countries and complaints have been filed in South Africa, Mexico, Greece and New Zealand. The pending acquisition of Modelo (Corona) by ABInBev will test the policy and enforcement of the current Administration.

Part IV ("The Market Is Flat, But Not the Beer") discusses the nature of competition and consumer prices of beer, including the influence of technology and advertising on competition. "Beer wars" in the 1970s and 1980s resulted in the closing of many local breweries, as national brands became predominant in the market. Currently, about 13,000 brands are available to consumers in the United States. Brewers are attempting to expand their markets by appealing to all demographic groups (e.g., women, Latinos, Millennials). Price is not the sole factor influencing beer sales, as evidenced by the relatively new craft beers which sell on the basis of taste and quality, generally at higher prices than the traditional beers. In addition, competition in beer is based on a combination of other factors, such as advertising, regulation (drinking age, licensing, store hours), introduction of new products, shelf space and product placement in retail outlets, and availability of alternative products, mainly wine. Advertising and developing brand loyalty are important factors in marketing beer. Millennials, however, are prone to be experimental and are willing to pay higher prices. Many of the craft brewers compete aggressively with the giant brewers, but they face obstacles in getting their products to consumers through the distribution system. Large companies have better access to distribution networks for their own craft brands or brands acquired through acquisition of small brewers. National retail chain stores attempt to discount beer prices, but are constrained by regulations in some states. Some retailers have introduced their own store brands at reduced prices. Retailers also are confronted with state regulations prohibiting them from storing alcoholic beverages in their own warehouses or distribution centers. Beer also competes with other beverages, particularly wine. Beer companies sometimes complain to regulatory authorities about rivals' practices to disadvantage their competitors. Based on the Consumer Price Index, the price of beer has increased each year since 1980, but mostly in line with the general price level. Since the two big M&A transactions in 2008, ABInBev and SABMiller have raised prices somewhat more than the general price level during a period of economic recession with high unemployment.

Part V ("Put a Head on It") describes federal and state regulation and taxation of alcoholic beverages in the United States. At the federal level, the Tobacco Tax and Trade Bureau (TTB), formerly the Bureau of Alcohol, Tobacco and Firearms (ATF), collects taxes and, under the Internal Revenue Code, licenses new brewers, importers, and exporters of beer. TTB also has primary jurisdiction over packaging, labeling, advertising, and trade practices for all alcoholic beverages. The Federal Trade Commission (FTC) also has jurisdiction over false and misleading advertising and shares jurisdiction over antitrust with the Department of Justice (DOJ). Part V also touches briefly on social and environmental regulations applicable to beer companies, which represent costs to the brewers. In1991, the federal government increased the excise tax on beer by 100 percent to $18 per barrel. It was the first increase in 40 years and raised $3.55 billion that year. The tax has not been increased again since then. At state level, a variety of laws enacted at the end of Prohibition regulate the distribution and sale of alcoholic beverages, dividing (1) manufacturers (brewers), (2) distributors and wholesalers, and (3) retailers into three separate tiers. Under this three-tier system, brewers generally are prohibited from selling directly to stores, bars, restaurants, and consumers. They are required to sell through distributors and wholesalers and are banned from ownership of distributors or retail outlets. The purpose of the three-tier system (as a carryover from Prohibition) is to discourage consumption. All states license businesses involved in the distribution and sale of alcoholic beverages and 18 are directly engaged in wholesale and/or retail operations. Some operate as monopolies. Others license sales at a limited number of convenience stores and supermarkets, while operating their own retail outlets; some license contractors to manage alcoholic beverage stores. In many states, exceptions are made for microbreweries, brewpubs and other small producers, who may sell directly to stores (subject to limitations). . In June 2012, Washington State sold all its stores and distribution centers, ending many restrictive regulations, such as minimum markup requirements, prohibition of quantity discounts, and a ban on the use of central warehouses. Privatization resulted from passage of an Initiative by voters in November 2011. Other states are considering privatization as a means of reducing costs and raising revenues.

Part VI ("Egg in Your Beer") focuses on areas of concern: fear of further consolidation, particularly the potential merger of the world's top two companies (which would create a near-monopoly in the United States); restrictive provisions in U.S. state distribution laws, particularly those relating to interstate commerce and federal antitrust. Problems include: exclusive distribution territories; brewer relations with distributors; craft brewer sales directly to retailers; out-of-state distribution to retailers and consumers; off-premises sales by brewpubs; and restrictions on quantity discounts and use of central warehousing and logistics of national retail chains. State governments are concerned about lawsuits by craft brewers and retailers which are eroding the three-tier system.

Part VII ("The World Is Flat, But Not the Beer") describes the growing concentration in world beer markets. While giant brewing companies in developed countries are seeking to expand their sales in developing countries, the developing countries themselves are becoming more receptive to foreign investment and are privatizing former government-owned properties. The trend toward foreign acquisitions has been growing in recent years and independent or family-owned breweries (ordinarily targets for acquisition) are becoming scarcer. Four multinational corporations--- ABInBev, SABMiller, Heineken, and Carlsberg--- now supply about half the world's beer. Markets are growing in Asia, Africa, Latin America and Eastern Europe. China, now the largest beer producing and consuming nation, has allowed foreign investment in the beer industry, but is still not highly concentrated. ABInBev and other international beer companies are active participants in China's growing market. Three large and growing Chinese companies are among the world largest: China Resources, Tsingtao and Beijing Yanjing. In Africa, where countries are privatizing their beer industries, foreign investment has increased considerably, led by SABMiller, Diageo, and Castel, which together account for about 80 percent of the African market. SABMiller is operating in 37 African countries. Investment activity has been brisk in Kenya, Uganda, Tanzania, Nigeria, and Ethiopia. Part VII lists key cross border investments, duopolies in selected countries, and international activities of multinational beer companies. Investments (building new breweries or acquiring existing ones) and licensing agreements are the usual mode for expanding into other markets because of the high cost of shipping beer long distances. Exports and imports of beer are small relative to total world consumption, but are important for particular companies and markets. Appendix III provides detailed information on multinational beer companies and various country markets around the world.

PART VIII ("What's on Tap?") attempts to see into the future, commenting on the possibility of an "unthinkable" mega-merger and further movement toward a global beer monopoly. It reviews the public comments of beer industry advisors; most are skeptical, but some believe the transaction is doable and a "good fit." The recently announced purchase of Grupo Modelo by ABInBev, including the full acquisition of Crown Imports, the U.S. distributor of Corona beer, by Constellation Brands (currently half-owner of Crown Imports along with Grupo Modelo) can be seen as a test case for assessing how antitrust authorities in various countries might react to a mega-merger of ABInBev and SABMiller. Such a transaction raises questions of whether combination of the two multinational beer giants, despite eliminating rivalry between the two, would bring about cost savings and efficiencies sufficient to create a new, more highly competitive environment, without ultimately raising prices for consumers. The situation calls attention to the need for international cooperation to scrutinize transactions of a global nature and to enforce antitrust measures where company operations cross borders. In short, the paper suggests that the Department of Justice undertake a study of competition and pricing by the two leading beer companies, whose share prices, revenues, profits, and dividends have increased dramatically in the last five years, and it advocates modifications of state regulations that unduly raise costs and impede competition. In case of a jumbo merger of the world's top two multinational beer companies it stresses that any further consolidation in the U.S. beer industry would be subject to intense scrutiny, particularly to determine whether the merger will eliminate any meaningful competition and lead to higher prices.

PART IX ("Bottoms Up") lists selected books, studies, company annual reports, and press reports used in compiling the information for this paper.

A Note on Numbers

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[The job of collecting statistics on the beer industry] "is made difficult by the fact that the numbers brewers and importers report… every year are not always truthful and consistent: It should come as no great surprise to the business reader that some companies inflate their numbers by providing shipment figures (which include distributor inventory) rather than actual sales figures (what the distributor has actually sold to the trade.)… And, of course, sometimes companies simply fib…"
---Philip Van Munching, "Beer Blast: The Inside Story of the Brewing Industry's Bizarre Battles for Your Money," Times Books, a Division of Random House, New York, 1997

Beer statistics vary based on the associations and consultancies which collect the data and their sources of information. In this paper, the author has used a variety of sources, including official data of the U.S. Government (such as the Consumer Price Index), the Brewers Association (shipments), and several consulting firms (global data on shipment volume and value). In all cases, the author has used publicly available data and has tried to be as consistent as possible.

In most countries, beer production capacity and shipments are measured in millions of hectoliters, whereas in the United States, they are measured in millions of 31-gallon barrels. In some instances the author shows both units of measurement, but not in all. Therefore, the reader should bear in mind that one hectoliter equals 100 liters. (Sometimes the data are reported in kiloliters, 1000 liters; occasionally in megaliters, 1 million liters; and rarely in gigaliters, 1 billion liters.) The reader also should remember the following conversion factors:

3.7854 liters = 1 gallon
1 hectoliter = 26.417 gallons (actually 26.4172052 US gallons)
1.1734 hectoliters = 31 gallons = 1 barrel
1 million hectoliters = 0.8522 barrels
1 million barrels = 1.11 million hectoliters

More simply stated, it takes more than one hectoliter to make one barrel of beer, or one barrel is larger than one hectoliter.

PART I
"Here We Go"

INTRODUCTION

This is a story of transformation: how an industry of many small, local brewers became a large-scale and capital-intensive, national industry; how competition led to concentration of the industry into a few key players and, ultimately, into a national duopoly; how the implementation of U.S. antitrust policy helped shape the industry; how the industry was affected by significant social and political events (such as Prohibition); how government regulations influence the production and distribution of alcoholic beverages; how competition is affecting the entry of new producers to the business; how the U.S. duopoly was acquired by foreign-based, multinational corporations; and how the beer business has become global.

The story also addresses a possibility that the "unthinkable" could happen--- a merger of the world's top two beer companies into a gargantuan monopoly. If a mega-merger does materialize between the two giant multinational companies--- ABInBev (parent of Anheuser-Busch) and SABMiller Ltd. (parent of MillerCoors and MolsonCoors), will antitrust authorities allow it to happen? And if they do, under what conditions, and what are the likely consequences?

Will the story have a happy ending?

To answer these questions, this paper assembles information on the beer industry and examines the consequences of consolidation. With respect to U.S. regulation, it reflects on the state-administered three tier distribution system, which appears to conflict in some respects with federal laws and regulations on interstate commerce and antitrust. It discusses the degree of concentration in the industry and analyzes the effects of consolidation on competition in the U.S. and global markets. It assesses the possibility that the world is headed toward a global monopoly and comments on the potential for anticompetitive behavior.

Essentially, the social consequences, health, safety, environment, and corporate responsibility issues are beyond the scope of this paper, but they are touched upon because they represent substantial costs and public relations problems for the industry.

The remainder of this paper consists of eight parts and three appendices. Part II traces the background and history of the U.S. beer industry, showing the composition of the industry over time and how the industry evolved into a national duopoly. It includes a discussion of the roles of technological advancement and nationwide advertising in the industry's development. Part III examines U.S. antitrust law, regulations and enforcement and their effects on shaping the industry. Also included are examples of anticompetitive practices and allegations of such practices by beer companies at state level in the United States, at the national and regional levels in the European Union, in Mexico, and in South Africa. Part IV discusses marketing, pricing and competition in the industry, including the effect of competition on prices in general and the market entry and phenomenal growth of small craft beer companies. Part V provides information on regulation and taxation of beer in the United States. It describes the three-tier distribution system for beer and other alcoholic beverages and its restrictive effects on beer sales. Part VI addresses the concerns, costs, and consequences of the distribution system. Part VII turns to the international activities of the major beer companies and globalization of the market and Part VIII discusses the prospect of a global beer monopoly and the future of the beer industry. Part IX lists selected references used in writing the paper.

The three appendices contain detailed information on companies in the U.S. industry; general information on the industry as a whole; and information on various markets for beer around the world.

Beer is an alcoholic drink made mainly from malted barley, hops, yeast and water. Other ingredients may be added to create different styles and flavors. It is the world's most widely consumed alcoholic beverage and is the third most popular drink overall, after water and tea.[1] Beer is a highly visible product, seen regularly on television commercials, and sold extensively in bars, restaurants, and retail outlets. It comes in various styles, mainly lager and ale, and a variety of flavors, depending upon the ingredients. In the United States alone, beer is consumed by 90 million people.

As guidance for present and future antitrust surveillance efforts, the information, analysis, and observations in this paper

- call attention to the nature of competition in the beer industry;
- show how the industry has been affected by U.S. antitrust policy and enforcement;
- indicate that further changes in the three-tier distribution system could enhance competition;
- show how the beer industry is becoming more consolidated globally and moving toward a possible global monopoly; and
- point to the need for serious thought about avoiding adverse competitive effects that could accompany further consolidation in this industry.

[1] Nelson, Max, "The Barbarian's Beverage: A History of Beer In Ancient Europe," Routledge, January 2005

PART II
“This Bud’s for You” and “Miller Time”

THE U.S. BEER INDUSTRY

The U.S. beer industry has changed in size and shape over the years. Starting as a group of small local breweries in colonial days, the number of breweries grew modestly until the 1870s when industrial scale production was introduced. The number of breweries reached a record level in 1873, but then declined as production continued to expand through more efficient, large brewers, taking advantage of new technology. The number brewing alcoholic beer dropped practically to zero during the Prohibition years (1919-1933), but rose quickly after repeal. National mass-marketed beers became prominent in the 1950s and 1960s, while smaller, local brands closed down, and the number of breweries shrank. Consolidation of the industry accelerated in the 1970s and 80s, as smaller companies went out of business or were acquired by other firms which struggled to remain competitive. Television and national advertising enabled the larger, well financed companies (Anheuser-Busch, Miller, and Coors) to increase their market shares.

The most significant consolidation, however, took place in 2008 when two huge transactions were completed, which transformed the structure of the U.S. industry. In June of that year, in a deal originally announced in October 2007, SABMiller (headquartered in London) received clearance from U.S. antitrust authorities to form a joint venture with MolsonCoors, thus merging operations in a new company to be known as MillerCoors. (South African Breweries had originally acquired Miller Brewing in 2002 to form SABMiller.) Then, in November 2008, a $52-billion deal was completed, in which the largest U.S. brewer, Anheuser-Busch, was acquired by InBev, a Belgian company. As a result, the U.S. industry has become a duopoly with the two merged entities accounting for about 80 percent of total sales.

At that time, the largest supplier, Anheuser-Busch, alone accounted for about 50 percent of total U.S. beer sales. Anheuser-Busch makes more than 200 brands, including the world renowned Budweiser, Bud Light, Michelob, Rolling Rock, and other leading brands; InBev makes Stella Artois and Becks, among others. The other merged entity--- SABMillerCoors --- with 150 brands, including Miller Lite, Coors, and Molsons, accounted for an additional 30 percent of U.S. sales.

The third and fourth leading companies--- Modelo (Corona) and Heineken--- were brewers of imported beers. These multinationals produce and sell famous brands worldwide. Modelo (which brews Corona and about one dozen other brands) exports six of its brands to more than 170 countries, including the United States where it is distributed by Crown Imports; and Heineken (which brews 170 brands) has 125 breweries in 70 countries.

In the United States, the third- and fourth-ranking beers accounted for roughly ten percent of sales. Thus, the top four companies accounted for 90 percent of the total U.S. market. Moreover, ABInBev had a 50-percent non-controlling interest in Modelo.

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Box II-1

Leading Companies in the U.S Market, 1971, 2010
Market Share Percentage, By Volume

1971	%	2010	%
ABInBev	29	ABInBev	49.3
Schlitz	19	MillerCoors	30.2
Fallstaff	13	Crown Imports (e.g., Corona)	5.3
Schaefer	8	Heineken USA	4.0
		Pabst	2.7
		Diageo-Guinness	1.2
		Others	7.3

Sources: NBWA Industry Factsheet, citing Beer Marketer's Insights (1971) and Adams Beer Handbook (2010)

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Upon completion of ABInBev's $20 billion purchase of the balance of Grupo Modelo (pending approval of regulatory authorities), ABInBev's market share will jump to 55 percent and, therefore, the top three will account for 85 percent of the market. All four of the major companies currently in the U.S. market are now owned by foreign-based multinational corporations: ABInbev (Belgium); SABMillerCoors (UK); Modelo (currently Mexico; Belgium upon completion of the transaction); and Heineken (Netherlands).

In short, over a 200-year span, the industry evolved from a fragmented, local industry to a highly concentrated, national industry. To understand how and why this happened, a closer look is necessary.

History and Background[2]

In colonial days, beer was a local industry, sold and consumed in taverns, but much beer was brewed in homes. George Washington, Thomas Jefferson, and James Madison brewed beer at home. Taverns were popular as meeting places. George Washington delivered his farewell address at Fraunces Tavern in New York and Thomas Jefferson was said to have composed the first draft of the Declaration of Independence over a cold beer at the Indian Queen Tavern in Philadelphia.

Beginning in 1810, the number of breweries grew steadily from 132 to 430 in 1850 and to a record high of 4,131 in 1873. Production during that period increased from 185 thousand barrels to 9 million barrels per year. Large commercial brewing began after the Civil War. In the 1870s, Anheuser-Busch (originally established as the Bavarian Brewery in 1852) was the first company to begin brewing on a large industrial scale. A-B took advantage of railroad growth, the development

[2] This section was drawn from several sources, including websites of the American Homebrewers Association, the Beer Institute, U.S. Brewers Association Brewers Almanac, and BeerHistory.com

of Pasteurization, refrigerated rail cars, and ice houses at train stations that made it possible to ship beer over longer distances. Following the introduction of large scale manufacturing with fewer breweries producing more beer, the number of breweries in the United States declined from the record high of 4,131 in 1873 to 1,500 in 1910. Between 1865 and 1910, per capita consumption grew from 4 gallons to 21 gallons per year.

In the 1910s, 23 of the 48 states enacted prohibition laws and the federal government enacted a law (Webb-Kenyon bill of 1913), making it illegal to ship alcoholic beverages to dry states. Thus, commercial output of beer declined drastically and eventually fell to zero, following ratification of the 18th Amendment to the U.S. Constitution in 1919 and adoption of the Volstead Act, which established the enforcement apparatus for national Prohibition. During the Prohibition era, which ended in 1933 with the adoption of the 21st Amendment (repealing the 18th), a number of breweries remained in business by producing beer with low alcohol content, the so-called near-beers, as well as soft drinks, malted milk, ice cream, oleo margarine, and other products. In 1921, 300 million gallons of near beer were produced. By 1934, 756 breweries were back in operation. After the Prohibition years, household refrigeration improved and, a few years afterward, the American Can Company overcame technical problems and produced a durable can that would ship well and would not affect the taste of beer. By the end of 1935, no less than 37 US breweries were producing canned beer.

With the suburbanization of America after World War II, the introduction of refrigerated trucks, and the improvement of the road system, beer sales improved. In the 1960s and 1970s, beer was heavily advertised on television and sold nationally, taking advantage of economies of scale.[3] Many local and regional breweries were closed or bought out during this period. Intense competition in the 1970s led to mergers and acquisitions in the following decades. By 1975, the number of breweries dropped to 54, as the preference for national brands became clearer.[4] The shakeout of medium-sized and smaller breweries continued into the 80 and 90s in spite of many mergers between firms of this size. By 2002, the number of traditional breweries had dropped to 22 (from 421 in 1947, a 95 percent decline). According to the Brewers Association, as of April 30, 2012, there were 20 non-craft breweries and 31 "other" breweries in the United States.[5]

The growing concentration is also dramatic when viewed in terms of market share of the top five producers. Over the period 1947 to 2001, their market share shot up from 19 percent of the total volume to 87 percent.[6] As reflected in the HHI Index (Herfindahl–Hirschman Index), a measure of industry concentration, the growth jumped from 140 in 1947 to over 2900 in 2001. According to Tremblay and Tremblay (2005), the HHI index for the beer industry increased from 204 in 1950 to 3612 in 2000.[7] The FTC considers an HHI over 2500 as "highly concentrated" (between 1500 and 2500 is "moderately concentrated" and under 1500 is "unconcentrated"). [8]

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[3] Economies of scale are discussed further on page 14.
[4] Inc Magazine, Jan 1, 1983
[5] Brewers Association Press Release May 23, 2012
[6] Elzinga, Kenneth, "Beer" in The Structure of American Industry, eds. Walter Adams and James Brock, Prentice-Hall, 2004
[7] Tremblay, V. and Tremblay C., "The U.S. Brewing Industry: Data and Economic Analysis," MIT Press, 2005: 187
[8] DOJ-FTC 2010 Horizontal Merger Guidelines, available at doj/gov [accessed July 15, 2012]

The largest beer industry transactions, amounting to about $142 billion, occurred within the last five years, according to Bloomberg[9] It is significant that the purchase of Anheuser-Busch by InBev occurred in 2008, long after A-B had grown to reach a 50-percent market share *by itself with virtually no acquisitions*. SAB's purchase of Miller and its joint venture with MolsonCoors, however, resulted in consolidation of the second and third leading U.S. companies with a combined 30 percent market share.

Thus, in five decades, not only did the U.S. beer industry evolve from a fragmented industry to a highly concentrated one, it evolved into a duopoly, a most significant structural change.

Current Production, Sales and Revenue

Total annual U.S. beer production today amounts to somewhat less than 200 million barrels (6.2 billion gallons, or 222 million hectoliters), generating about $100 billion in revenue, according to trade data for 2011. ABInBev and SABMiller produce hundreds of brands. The most popular are Anheuser-Busch's Budweiser, Bud Light, and Michelob; and Miller-Coors' Miller Lite, Coors Light, and Molsons. These companies and their brands are discussed further in Appendix I-1.

In recent years, the volume of U.S. production has declined gradually from a peak of 203.7 million barrels in 1990 to 194.2 million in 2010 (the latest data available in the Brewers Almanac series), a decline of 4 percent. See Table II-1 below. While, total beer production is declining, the production of craft beers is increasing steadily and has begun to cut into the market share of the big brewers. In 2011, craft beers took a market share of six percent by volume and 9 percent by sales value.[10]

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Table II-1

Production in million barrels, 1990, and 2000-2010

1990 – 201.7	2002- 198.1	2005 - 197.3	2008 – 199.6
2000 - 199.2	2003 - 194.8	2006 - 197.7	2009 - 196.3
2001 - 199.3	2004 - 198.1	2007 - 198.5	2010 - 194.2

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As noted in Table II-2 below, the U.S. beer market essentially consists of three segments: craft beer, import beer, and non-craft or "traditional" beer. The craft breweries are by far the largest in number (about 2,000), but they are small and local and produce only about 5-6 percent of U.S. sales by volume. Craft brewers are a newer and faster growing segment of the industry. By value, their market share exceeds 5 percent because their products generally are priced higher than the traditional beers. A smaller number of traditional breweries (about 20) are far larger and produce the great majority of U.S. beer by quantity.

[9] Fletcher, Clementine, "SABMiller Chief Mackay Foresees More Consolidation in Global Beer Industry," Bloomberg, March 29, 2011

[10] Brewers Association, op. cit.

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Table II-2

U.S. BEER SALES BY SECTOR, 2007-2011
(in millions of 31-gallon barrels)

Sector	2007	2008	2009	2010	2011
Craft	7.8	8.2	8.9	10.0	11.5
Import	29.7	28.7	25.9	27.1	27.2
Traditional	172.0	173.7	170.9	166.5	161.2
Total	209.5	210.6	205.7	203.6	199.9

Source for Table II-1: Brewer's Almanac
[Note: This does not include flavored malt beverages (sometimes called "progressive adult beverages") even though TTB taxes these products as malt beverages; annual volume estimated at between 3.9 and 4.3 million barrels per year]

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Craft Beer

The overall U.S. market is mature and stagnant. The growth sector of the market is composed of a large number of small breweries that produce "craft beers" (cumulative output of around 10-11 million barrels annually). Although total volume of craft beer keeps increasing, it still amounts to only 5.7 percent of the total U.S. beer market by volume (2011). According to the Brewers Association, in 2011, total retail sales of craft beer amounted to $8.7 billion or just over 9 percent of total beer sales.

Over the years, many craft beer companies have entered the business and many have failed, but some have thrived and grown into larger entities. Prior to 1984, brewpubs were illegal in virtually all states. As of 1997, however, brewpubs became legal in all but eight states.[11] In 2011, only a few states ban brewpubs. In some states, although legal, brewpubs may be subject to strict regulation. As of April 30, 2012, the number of craft brewers in the United States reached 2,000.[12]
The American Brewers Association, a trade organization representing the craft segment, subdivides this segment into four types of operations (which sometimes overlap): microbreweries, brewpubs, contract brewing companies, and regional breweries. The Association defines these operations as follows:

- "Microbrewery: A brewery that produces less than 15,000 barrels (17,600 hectoliters) of beer per year with 75% or more of its beer sold off site."

- "Brewpub: A restaurant-brewery that sells 25% or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar." (Rock Bottom Brewery of Denver and

[11] Stanford University Graduate School of Business, "Note on the U.S. Craft Beer Industry," S-SM11, September 1994
[12] Brewers Association Press Release, May 23, 2012

Gordon Biersch of San Francisco are well known brewpubs, which have expanded into chains of restaurants, operating beyond their home cities.)

- "Contract Brewing Company: A business that hires another brewery to produce its beer." (Sierra Nevada is a contract brewer. Boston Beer (Sam Adams) originally was a contract brewer, but now owns its own breweries.)

- "Regional Brewery: A brewery with an annual beer production of between 15,000 and 6,000,000 barrels." (BothYuengling and Boston Beer shipped about 2.5 million barrels in 2010, reportedly tied in first place as the largest U.S.-owned beer companies.)[13]

The Association also defines a Regional Craft Brewery as "An independent regional brewery who has either an all malt flagship or has at least 50% of its volume in either all malt beers or in beers which use adjuncts to enhance rather than lighten flavor."

The large traditional brewers also are engaged in the craft beer segment through internal growth and acquisition. Anheuser-Busch, for example, brews its own craft beers, such as "Shock Top" and recently purchased Goose Island Beer (2010 output: 127,000 barrels) for $39 million.[14]

Consequences of Consolidation

Mergers and acquisitions afford an opportunity for the combined firm to take advantage of synergies, economies of scale, and increased market share. In fact, these opportunities are the very reasons why companies seek mergers and acquisitions in the first place. InBev's purchase of A-B was motivated at least partly by the opportunity for InBev to gain access the A-B's distribution network and to increase market share, but at the same time it provided an opportunity for cost savings. In the ABInBev transaction, the Parties expected savings of $1.5 billion annually by 2011, as specified in their joint public announcement;[15] and in the SABMiller transaction, the parties expected $500 million in future annual cost savings.[16]

As a result of these transactions, the combined new entities are forced to focus on reduction of distribution and overhead costs, as well as reduction of redundant employment. In the InBev acquisition of Anheuser-Busch, the new parent company ABInBev was able to shut down AB International (established in 1981) and transfer its responsibilities for foreign beer operations and investments to InBev. It forced what was essentially a family business to focus intently on cost-cutting and profit margins. It aimed to reduce the debt-to-income ratio by 50 percent in five years. Although the company said it would not shut down any breweries, it did lay off 1400 U.S. workers and 415 contractors. It revised the pay system, eliminated executive assistants and private secretaries for management. It ended contributions to the pension fund, and life insurance for retirees. It exercised its added market power by forming an alliance of Anheuser-Busch and InBev to purchase advertising; and by lengthening the time to pay suppliers to 120 days. ABInBev was expected to increase profits by $350-$370 million per year.[17]

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13 "A Tie for the Title of Largest American-Owned Brewer," CNBC, Feb. 28, 2012
14 Kesmodel, David, "Behind Anheuser's Goose Island Beer Acquisition," Wall Street Journal, March 28, 2011
15 "Creating the Global Leader in Beer," Anheuser-Busch InBev Joint Statement, July 14, 2008
16 "Savings from MillerCoors integration ahead of target," available online at sabmiller.com [accessed July 15, 2012]
17 Elance report, undated, available online at ws.elance.com, accessed July 15, 2012

To complete the deal, ABInBev incurred about $32 billion in debt. To repay the debt, ABInbev sold the Oriental Brewery of South Korea to KKR for $1.8 billion (with the right to reacquire it after five years in accordance with predetermined financial terms). In 2009, it sold its operations in Central Europe to CVC Capital for $2.2 billion; and sold the Busch Entertainment Corporation with its ten theme parks to Blackstone Group for $2.7 billion. The company also sold four canning plants in the United States to Ball Corporation for $577 million; sold billions of dollars worth of bonds maturing in future years; refinanced about $17.2 billion; and took a one-time mark-to-market drawdown.

SABMiller also benefitted from its transaction, according to its report for fourth quarter 2011. "[As of February 2012], cumulative cost savings have risen to $219 million, bringing the company's combined synergies and cost savings to $765 million, achieving the goal of $750 million in total savings a full year earlier than planned." [18]

In many respects, these deals resulted in more effective and efficient business entities. From a broader perspective, the ABInBev and the SABMiller transactions enabled both companies to strengthen their access to growing foreign markets and to increase their respective world market shares (see Part VII).

Prices and Profits

Since their acquisitions in 2008, ABInBev and SABMiller have raised prices on several occasions. The increases appear to be modest and selective. Information based on consolidated financial statements of the two corporations, although highly aggregated and covering all products and operations in all countries, clearly show significant increases in their share prices and substantial dividends paid to stockholders. (See Appendix I-6) The price increases are only partly justified by increased costs of ingredients (particularly barley) as well as in packaging and transportation. For the brewers, however, the increase in beer prices together with cost savings were more than adequate to cover increased dividend payments and the market has reflected the improved position of the corporations with higher stock values. Thus, while the corporations and their stockholders have benefitted, U.S. consumers have had to pay higher prices and have not benefitted from the new "competitive" situation.

Distributor Consolidation

Substantial consolidation has occurred at the distributor/wholesale level over the past three decades, as smaller multi-brand wholesalers have been bought out. From 1980 to 2010, the number of distributors in the United States declined from nearly 5,000 to somewhat more than 2,000, according to widely-used industry data, which may not be fully accurate (see Box II-2). Notwithstanding the questionable numbers, the trend of the data reflects the breadth of the decline.

Distributors of Anheuser-Busch, Miller and Coors now comprise roughly 60 percent of the number of distributors and 89 percent of the volume distributed. Generally, distributors handle either A-B or Miller/Coors, but not both. At one time A-B had contracts with 700 distributors, but they are currently down to about 500. A-B currently owns more than a dozen distributorships (called

[18] SAB Press Release and Financial Report, February 16, 2012

"branches"). In addition to the 13 cities listed on its website, A-B recently bought Premium Beers of Oklahoma for $182 million and bought back Western Brands from Major Brands in Oregon for an undisclosed amount; but sold Eagle Brands of Miami to Major Brands of St Louis for an undisclosed amount. A-B also has minority shares in other distributors (e.g., in Illinois, Washington and Oregon). (See Box II-3) The great majority of distributors in the A-B network are "tied houses," that is, they handle A-B brands exclusively. A-B had been moving toward an exclusive network, but in 2008 it began revising its equity agreements to allow its distributors to take on other clients, generally small craft brewers.[19]

Miller began to consolidate its network in 1994 and in 1999 Miller and Coors began to move toward "shared houses." By 2003, about half of Miller/Coors distributors were "shared houses" and they carried 52% of the brewers' volume: 239 distributors carried Miller only, while 237 distributors carried both Miller and Coors. Miller and Coors continue to consolidate. Miller owns only one U.S. distributorship (in Colorado). [20]

Many medium-sized "all-other" distributors have been purchased by the larger wholesalers and some of the smaller distributors have dropped out of the business. Thus, many small craft brewers struggled to gain access to the market. This may be changing, as the recent success of microbreweries and brewpubs appears to be catching the attention of independent distributors, who seek to participate in this hot market for high-margin products. Some distributors are moving toward multiple clients, including craft brewers.

As reported by Rabobank (a Dutch banking and investment firm), the decline in the number of beer wholesalers/retailers is explained by "[r]ising costs as well as the need for scale and for broad, well-balanced portfolios [which] have been the driving forces of consolidation among U.S. beer wholesalers.[21]

Craft brewers are attempting to establish distribution networks. More independent distributors are carrying products of microbreweries and brewpubs.

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[19] Benn, Evan S., "Anheuser-Busch distributors swap craft brands," St. Louis Post-Dispatch, February 9, 2012; and Benn Evan S., "Lohr's expanding into craft beer to supplement A-B lineup," St. Louis Post-Dispatch, March 11, 2012.
[20] SABMiller: Briefing, "Distribution," May 2003
[21] Rabobank Press Release, "Consolidation Continues Among Beer Distributors," April 15, 2008

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Box II-2

Number of U.S. Distributors, Selected Years

The National Beer Wholesaler's Association's Industry Fact Sheet shows the following:

Number of Distributors	
1980	4,595
1990	3,661
2000	3,180
2010	2,039
2011	3,333

Source: Brewers Almanac and Beer Serves America

Comment: The large increase in the number of distributors from 2010 to 2011 (64%) shown in the table does not necessarily represent an increase because of a change in methodology used for 2011. According to a NBWA spokesperson, the new methodology results in better reporting of data as the numbers for past years were "artificially low." Those figures did not include "the smaller distributors that don't carry major brands." The figures, however, do include non-member distributors as well as NBWA distributors. Under the new methodology, the "firms involved in wholesale supply" do NOT include wholesale operators directly owned and operated by the major brewers, which were included in the previous years. Direct effects of company-owned wholesaling operations have been shifted to the brewing sector. Moreover, what is referred to as "firms" in the new report are "physical locations," as explained in a footnote. Thus, the 3300 "firms" listed as distributors (or "firms involved in wholesale supply) include firms with multiple locations, such as warehouses. A company with eight warehouses, therefore, would be counted as eight "firms" in the new survey. The new methodology of data collection is described in beerservesamerica.com It is based on a report of June 2011 by John Dunham & Association of Brooklyn, NY, using data provided by Dun & Bradstreet as of September 2010. Data for years prior to 2011 based on the new methodology are not available. Data for 2011 based on the previous methodology also are not available.

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Retail Consolidation

State laws generally prohibit large brewers from owning retail outlets. Small craft brewers, however, are permitted to serve their products in brewpubs because their production is small. Exceptions may be made in special cases. A-B has licensed its name and brands to themed bars and restaurants, such as the one being built in Ballpark Village in St. Louis[22] and MolsonCoors Blue Moon operates a brewpub at Coors Field in Denver[23].

[22] "Anheuser-Busch to open restaurant in Ballpark Village," St. Louis Business Journal, June 26, 2012

[23] "Interview with Blue Moon Brewmaster John Legnard (2011), brewpublic.com, accessed Aug. 3, 2012

The retail market is consolidating in the sense that more beer is being sold for off-premises (household) consumption through national retail chains (supermarkets, drug stores, membership clubs and convenience stores). These retail outlets are taking a larger share of the total market, cutting into the shares of traditional liquor stores and mom-and-pop shops. Rather than declining in number, though, more retail outlets are obtaining licenses to sell beer in various states.[24] Three-quarters of U.S. beer consumption is sold off-premises (to households), but on-premises sales (bars, restaurants) account for half of all retail value.[25] Competition for beer sales at the retail level is discussed further in Part IV.

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Box II-3

Anheuser-Busch Distributors in the United States

Wholly Owned by A-B

In the following cities: Boston, MA; Canton, OH; Denver, CO; Eugene, OR; Los Angeles, CA; Louisville, KY; New York, NY; Oahu, HI; Oklahoma City, OK; Pomona, CA; Riverside, CA; San Diego, CA; and Tulsa, OK. (A-B recently purchased Goose Island Brewery in Chicago IL.)

Minority Owned by A-B

City Brewing, Chicago, IL; Widmer Bros. Brewing Co. (now called Craft Brewing Alliance), Portland, OR; Redhook Ale Brewery, Inc., Seattle, WA.

Through other wholly-owned subsidiaries, Anheuser-Busch shares equity positions with partners in several independent beer wholesalerships.

A-B also owns about 50 percent of Grupo Modelo, which owns 50 percent of Crown Imports, distributor of Modelo's Corona Beer. (In June 2012, A-B reached a deal to acquire all of Grupo Modelo. Separately Constellation Brands agreed to buy Modelo's 50 percent share of Crown Imports. These deals, pending regulatory approval, are expected to take effect in February 2013.)

Sources: Anheuser-Busch, SEC websites

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Past and Present

See Appendix I for thumbnail sketches of the major brewers, showing their current status as well as historical background. The company histories provide some perspective on the role of antitrust policy and enforcement in shaping the U.S. beer industry. Part III deals more directly with the influence of antitrust on the industry.

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[24] Chapter I Brewers Handbook, Apex Publishers, available online at beer-brewing.com

[25] "High Hopes for On-Premises," Kamali Wire, April 8, 2012, available online at tumblr.com [accessed July 15, 2012]

PART III
"More Taste. . . Less Filling"

ANTITRUST ENFORCEMENT

To what extent did antitrust policy and enforcement shape the beer industry in the United States? And how will antitrust authorities react if the industry's two leading companies decide to merge? These are difficult questions to answer. What is clear, however, is that the policy has changed considerably in the last half century, even though the laws have not changed. The beer industry serves as a classic example of how interpretations of antitrust laws have changed--- from zealous (or overzealous) enforcement to prevent concentration of market share to relaxed enforcement regardless of market share as long as the merger or acquisition is found to promote economic efficiency for the benefit of consumers.

Past experience illustrates significant concerns over the effects of mergers and acquisitions in the beer industry based on increased market share. In 1958, for example, a federal court ruled against the acquisition of American Beverage of Miami and ordered Anheuser-Busch to divest and to refrain from buying other beer companies without court approval for a 5-year period. The prevailing interpretation of the law at the time was that the acquisition of, or merger with, a rival increases the industry concentration and substantially lessens competition by eliminating a former rival. Purchase of the Miami Brewery would have reduced competition in Florida, thereby increasing A-B's share of that market.

As a result of A-B's experience in this case, the company refrained from using mergers and acquisitions as a growth strategy. Instead, the company began an extensive program of building large, efficient plants in Florida and at other locations around the United States. Except for the purchase of Schlitz's idle brewery in Baldwinsville, N.Y. in 1980, A-B grew to its present size without making any mergers or acquisitions in the last five decades. Thus, vigorous enforcement of federal antitrust law influenced the strategy by which the leading brewer grew over this period while the rest of the industry consolidated.

The Celler-Kefauver amendments of 1950 strengthened the Clayton Act and marked the continued determination of Congress to prevent the domination of American business by big companies. Strict enforcement continued into the 1960s. Gaining a larger market share through merger or acquisition was regarded as a violation of section 7 of the Clayton Act if it may substantially lessen competition or tend to create a monopoly." A populist interpretation is evident in the landmark 1962 Supreme Court case involving Brown Shoe Company, which greatly influenced antitrust policy. It is also reflected in the 1966 Supreme Court case, in which the Court overturned the acquisition of Blatz Beer by Pabst Beer and ordered divestiture. In that case, when Pabst acquired Blatz in 1957, the two companies had combined sales which accounted for 23.95% of the beer sales in Wisconsin, 11.32% of the sales in the three-state area of Wisconsin, Illinois, and Michigan, and 4.49% of the sales throughout the country. The court held that, in accord with prior cases, the evidence as to the probable effect of the merger on competition in Wisconsin, in the three-state area, and in the entire country was sufficient to show a violation of § 7of the Clayton Act in each and all of these three areas.[26]

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[26] Court ruling: UNITED STATES V. PABST BREWING CO., 384 U. S. 546 (1966); Elzinga, Kenneth, "The Supreme Court and Beer Mergers: From Pabst/Blatz to the DOJ-FTC Merger Guidelines," Springer, 2005

As part of the Supreme Court decision in the Pabst-Blatz case, Justice Hugo Black wrote a prophetic statement regarding concentration in the beer industry. "If not stopped, " he wrote "this decline in the number of separate competitors and this rise in the share of the market controlled by the larger beer manufacturers are bound to lead to greater and greater concentration of the beer industry into fewer and fewer hands." Of course, he was right. In 1964, concentration in the beer industry at the national level was 39 percent combined for the five largest brewers. Now--- nearly five decades later--- two companies account for 80 percent of the market. In 1965, Falstaff Brewing Co. (third largest brewing company in the nation at that time) acquired Narragansett Brewing Company of Rhode Island, which was the largest brewery in New England. The State of Rhode Island sued Falstaff to block the acquisition on antitrust grounds. Falstaff appealed and the case went to the Supreme Court, which decided in Falstaff's favor in 1973. However, the legal costs in pursuing the case became a financial drain on Falstaff from which it never quite recovered. Falstaff was purchased by S&P Company in 1975. Between 1975 and 1990, many of its plants closed. The brand name was licensed to Pabst, which continued to produce Falstaff until May 2005.

Another notable transaction took place in 1969--- Philip Morris' acquisition of Miller Brewing. It is notable for two reasons. First, the acquirer was not in the beer business. So the transaction had no immediate effect on the market shares of the beer industry. Secondly, Philip Morris brought into the beer business, the marketing techniques of the cigarette industry--- intensive advertising, product differentiation, and brand proliferation. Eventually, the use of this strategy by Miller and its main rival, Anheuser-Busch, contributed to the growth of both companies through national advertising. The cost of such advertising was bid up so high that only the two largest companies could readily afford it. Other competitors began planning an action to get DOJ to reopen the Philip Morris transaction, but it did not come to fruition.[27]

The 1970s and 80s were years of intense competition in which some of the medium-sized and smaller beer companies struggled, but lost market share. Some of these companies--- Schlitz, Stroh, Blatz, Heileman, Pabst and others sought to merge in order to remain competitive. Except for Pabst, all of these companies are now out of business (see Chronology of Selected Mergers and Acquisitions in Appendix I-4). Pabst itself no longer brews beer, but operates as a holding company for some two dozen brands, contracting with brewers for production of brands from defunct companies. Although numerous acquisitions took place throughout the 1970s, this could be regarded as a period of strict enforcement. As observed by Tremblay in "Games Firms Play": "Through the 1970s, Department of Justice and the federal courts made it almost impossible for the leading brewers to grow by merger. Thus, only the smaller, less efficient firms were able to purchase a failing brewer. As a result, most of the growth of the leading brewers came from building new brewing facilities." Mid-sized brewers, such as Heileman and Stroh, were able to purchase failing brewers at relatively low cost and "allowed the firms to cut prices and remain in business." See Chronology of Selected Mergers and Acquisitions, Appendix I-4.

Pre-Merger Notification

With enactment of the Hart-Scott-Rodino Antitrust Improvements Act in 1976, pre-merger notifications became the basis for reviewing proposed mergers and acquisitions. Notifications provide detailed information on transactions and allow time for antitrust authorities to decide

[27] E-mails from Robert Skitol, esq, December 12-13, 2011

whether or not to challenge the transaction. Companies involved in such transactions are required to observe a waiting period (usually 30 days) before closing the deal.

Guidelines for Review

Guidelines set by DOJ and FTC for reviewing mergers and acquisitions have changed several times since the 1960s. While there is still concern about the size of market shares and a decline in the number of companies selling nationally, regionally, and locally, the current guidelines also focus on "efficiency enhancing potential" to increase competitiveness and bring lower prices to consumers.

In the $52 billion acquisition of Anheuser-Busch by InBev in November 2008, the U.S. Department of Justice allowed consummation of the transaction on condition that InBev divest itself of Labatt Beer because of the competitive situation in Buffalo, Rochester and Syracuse, New York. The divestiture removed or alleviated the possibility of lessening competition. It was considered the only significant overlap in competition in the transaction.

In the joint venture between SAB Miller and Molson Coors in June 2008, however, the Justice Department did not address the possibility of lessening competition. It closed the case, stating that "the joint venture is likely to produce substantial and credible savings that will significantly reduce the companies' costs of producing and distributing beer. These savings meet the [Antitrust] Division's criteria of being verifiable and specifically related to the transaction and include large reductions in variable costs of the type that are likely to have a beneficial effect on prices. The large amount of these savings and other evidence obtained by the Division supported the parties' contention that the venture should make a lower-cost, and therefore more effective, beer competitor."

By allowing the SABMiller-MolsonCoors joint venture, the DOJ permitted the #2 and #3 market leaders to combine into one entity. Thus, it may be argued that this merger (unlike the ABInBev merger) reduced the number of top competitors in the national market from three to two.

Clearly, antitrust policy and implementation have changed over the last half century and interpretations have varied. Ironically, the extensive closings of breweries which were unable to compete against the largest companies during this period resulted in heavier consolidation of the industry and set the stage for the current duopoly in the U.S. industry. In the period 1950-83, 170 horizontal mergers occurred in the beer industry.[28] Many more took place thereafter. Yet, the most significant transactions occurred only in the last decade, particularly the mergers and acquisitions involving Anheuser-Busch, Millers, Coors, and Molsons. (With respect to the two big transactions, aggregate data indicate that consumer prices have increased in the post-merger period to the benefit of the corporations and their stockholders and *not* to the benefit of consumers, as shown in Part II and Appendix I-6 of this paper) Note that one of the recommendations of this paper is that DOJ-FTC should undertake a study of pricing by the Big Two from 2008 to present.

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[28] Elzinga, Kenneth, "Beer" in The Structure of American Industry, eds. Walter Adams and James Brock, Prentice-Hall, 2004, p.92

Exclusivity

Some maintain that anticompetitive practices, which existed before Prohibition, actually led to the passage of the 18th Amendment. Large breweries held ownership stakes in the bars. They provided the bars not only with beer, but also gave loans for furniture, beer equipment, and other bar needs. They required the bars to carry only the brewery's labels, and they applied pressure to the bars to continually increase beer sales. The pressure pushed their patrons to the point of constant overindulgence and added to the pressures for national Prohibition.[29]

In recent years, Anheuser-Busch embarked on a similar practice. In 1997, Anheuser-Busch had their distributors sign an "exclusivity incentive program," which didn't require that the distributor carry only A-B products, but gave huge benefits to them if they did drop all competitors. It even offered lines of credit and cash to those distributors joining the program --- exactly what the breweries were doing to bars before Prohibition. When the demand for craft beers took off, the distributors rebelled and A-B relented. The U.S. Justice department launched an antitrust investigation of these practices in 1998, but closed the investigation the same year without taking any action. Some fear that A-B might try again to impose such a program on their distributors. According to press reports, in November 2011, A-B "told more than 500 wholesalers who distribute its products across the U.S. that it wants them to sell fewer rival brews." [30] With some exceptions, state laws inhibit vertical integration by banning the ownership of wholesalers and distributors by brewers.[31]

Anticompetitive Practices

The beer industry is not immune from allegations of anticompetitive practices. As noted earlier, several complaints regarding competition in the beer industry have been filed with federal agencies. Complaints have also been raised at the state level. Following are two examples involving law suits filed in recent years in New York (for market allocation) and Texas (for price fixing).

New York

In 1986, New York State filed suit against several brewing companies and their distributors: Anheuser-Busch, Inc.; Miller Brewing Company; G. Heileman Brewing Company, Inc.; The Stroh Brewery Company; the New York State Beer Wholesalers Association, Inc.; Union Beer Distributors; Midway Beverage Corp.; Reiter's Beer Distributors Inc. The State alleged that on or about December of 1982 Anheuser-Busch and its franchised wholesalers entered into market allocation contracts where each franchised wholesaler was assigned a territory and forbidden from selling Anheuser-Bush beer to distributors outside its assigned area. Following the Anheuser-Bush agreements, Miller, Heileman, and Stroh allegedly entered into similar contracts with their distributors. The state alleged that these contracts eliminated competition among franchised wholesalers in the sale of beer made by these brewers. Various defendants, including Miller and Dana Distributing, entered into settlement agreements. In 1992, Miller settled for $275,000 and Dana Distributing for $21,000. Anheuser-Busch took the matter to trial and prevailed at trial. (Docket Number 86 CIV. 2345)

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[29] Mittelman, Amy, "Brewing Battles: A History of American Beer," Algora Publishing, New York, 2008
[30] Esterl, Mike, "How to Build Buzz for Bud: More Alcohol, Lime-a-Rita," Wall Street Journal, March 28, 2012
[31] See Part V on Regulation and Taxation.

Texas

In 1992, the State of Texas filed suit against three Coors beer distributors (Coors of Austin, Inc., d/b/a Capitol Beverage Company; Centex Beverage, Inc.; Brown Distributing Company; Hoyt Dell Boothe; James Cowan; and Paul Barney) for damages and injunction, alleging the defendants conspired to fix prices for the sale and distribution of beer in Texas. The case was settled in 1992 with defendants agreeing to injunctive relief and payment, collectively of $135,000 for investigative fees and costs. (Docket Number Cause No. 92-12386)

Private Lawsuits

The issue of anticompetitive behavior sometimes surfaces in private lawsuits. In one famous case, Maris Distributing Co. of Florida charged that Anheuser-Busch violated the Sherman Antitrust Act by restricting its distributors from being owned, in whole or in part, by public companies, thereby suppressing the price for equity ownership interests in beer distributorships. The case ultimately was settled in favor of A-B. See Box III-1.

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Box III-1

Maris Distributing v. Anheuser-Busch, Inc.

In 1997, Maris Distributing Company (owned by the family of the late Roger Maris, the famous New York Yankee outfielder) brought suit against Anheuser-Busch on grounds that restrictions in its Equity Agreement constituted a violation of Section 1 of the Sherman Antitrust Act.

Maris had been given the Gainesville distributorship by August Busch upon his retirement from the St. Louis Cardinals in 1968. As part of the Equity Agreement, Maris agreed that Anheuser-Busch had the right to approve any change in Maris's ownership; and in the following year, Maris agreed to an amendment, including a provision that precluded any public ownership (either through sale to a publicly-owned company or via a public offering of stock). Similar prohibitions against public ownership were included in two subsequent Equity Agreements in 1974 and 1982.

Under the agreement, distributors had the right to sell distributorships, including the right to distribute Anheuser-Busch products, to any non-public entities, provided that they seek and obtain Anheuser-Busch's approval. On August 25, 1996, about twelve years after the death of Roger Maris, Maris Distributors notified Anheuser-Busch of its intent to sell the distributorship. Under a contract provision allowing Anheuser-Busch an exclusive right to negotiate for the purchase of the distributorship for 45 days, Anheuser-Busch offered $20.4-$21.5 million, which was not acceptable to the Maris family. Maris later had discussions with at least six potential buyers, but never submitted a proposed purchaser to Anheuser-Busch. According to Anheuser-Busch, Maris was seeking an unreasonably high price --- $60 million.

Maris filed a lawsuit on January 22, 1997, challenging the Equity Agreement's public ownership provision. On March 20, 1997, Anheuser-Busch terminated the Equity Agreement with Maris. Anheuser-Busch ceased selling its products to Maris, and assigned Maris's territories to two other distributors. Maris. Maris asserted a Sherman Act §1 antitrust claim, alleging that the public ownership provision effected an unreasonable restraint in trade (in the form of a non-price, vertical restraint) by suppressing prices for equity ownership interests in beer distributorships,

In 2000, the district court directed a verdict in favor of Anheuser-Busch on the issue of market power after hearing evidence during the eight-week trial that Anheuser-Busch's market share in the relevant market and submarket ranged from 1% - 3%. The court allowed the jury to consider, however, the issue of whether Maris had shown actual anticompetitive effects. The jury found in favor of Anheuser-Busch on the issue of actual anticompetitive effects and accordingly, the district court entered judgment in Anheuser-Busch's favor.

Maris appealed, among other things, the district court's directed verdict with respect to market power. On August 19, 2002, the Eleventh Circuit affirmed the lower court's decision and held that Anheuser-Busch's market share in the market of equity ownership interests in beer distributorships and Anheuser-Busch's beer distributorships was too small, as a matter of law, to make the alleged restraint of trade unreasonable in violation of Section 1. See Maris Distributing Company v. Anheuser-Busch, Inc., 302 F.3d 1207 (11th Cir. 2002).

The court battles continued with a lawsuit against Anheuser-Busch for defamation of character, in which the Maris family won a $50 million jury award in 2001. As reported by the *Associated Press* in 2005, the two sides settled after a jury reached a decision in an appeals case that was immediately sealed. "The legal fight between Anheuser-Busch and the Maris family had consumed eight years, three trials and millions of dollars in legal fees." The sides did not disclose terms of the settlement.

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Other Countries

In the beer sector, complaints against anticompetitive practices have been pursued in various jurisdictions: for example, in Europe, Mexico, and South Africa.

Europe

Several instances of price-fixing occurred not too long ago in four European countries: Netherlands, Belgium, Luxembourg, and France. Some of these brewers are actively engaged in international operations.

In the case of the **Netherlands**, in the period 1996-99, four large beer companies were engaged in price fixing and market carve-ups in the Netherlands. Three of the companies were fined millions of euros: Heineken, €219 million; Grolsch, €31.7 million, and Bavarian, €22.9 million. The fourth company, InBev, was not fined because it was the whistle-blower in the case. (The fines, imposed by the EU in 2007 on Heineken and Bavaria, were reduced by 10% by the Luxembourg-based General Court in 2011. An appeal by Grolsch was still pending.) [32]

In the case of **Belgium** in 2001, fines were levied against Interbrew (more than €46 million) and Alken-Maes (more than €44 million) for a cartel involving price-fixing, market sharing and information exchange in the hotel, café, and restaurant sector and in the retail sector. A second

[32] Foo Yun Chee, "Heineken and Bavaria win cuts in EU cartel fines," Reuters, June 16, 2011

Belgian cartel concerned private label beers sold in Belgium. In addition to Interbrew and Alken-Maes, the small brewers Haacht and Martens were also found to be involved. In 2003, antitrust authorities settled an investigation of Interbrew SA (now known as InBev SA), allowing lease holders of the company's own pubs, or those that accept loans or equipment from the company, to offer competing beers. In June 2004, the European Commission held a conference in Brussels to inform national antitrust officials of how principles in the InBev case can be used to break up beer monopolies in their home countries.[33]

In the case of **Luxembourg**, three small brewers were fined a total of €448,000 for their participation in a market sharing cartel during October 1985 to February 2000: SA Brasserie Nationale-Bofferding (€400,000);Brasserie de Wiltz; (€ 24,000); and Brasserie Battin: (€ 24,000). A fourth company, Brasserie de Luxembourg (a subsidiary of Interbrew), escaped any fine because it disclosed the cartel to the European Commission.

In the case of **France** in 2004, Heineken and Danone were fined a total of €2.5 million for market sharing activities in 1996.

Mexico[34]

In Mexico, SABMiller filed a formal complaint with the Federal Competition Commission in 2010, charging that the country's beer duopoly--- Modelo (Corona) and FEMSA (Dos Equis) --- offer payments, loans, and refrigerators to restaurants and retailers that agree not to serve other brands. An investigation is underway. It is the second time that SABMiller has filed a complaint that such practices prevent Miller from selling to bars and restaurants that have exclusive contracts with one company or the other. SABMiller has been selling Miller Lite, MGD and Miller High Life in some cities near the US border and in retailers such as Walmart de Mexico. Anheuser-Busch InBev sells Budweiser in Mexico and has a 50%, noncontrolling stake in Modelo. (In June 2012, A-B entered into a transaction to gain full ownership and control of Modelo, pending clearance by regulatory authorities.) Since 2010, FEMSA is wholly owned by Heineken. Both Modelo and FEMSA own many subsidiary distributors, bottlers and malt producers. FEMSA owns the XXO convenience store chain with thousands of stores that sell only FEMSA beer brands; Modelo owns the Modelorama chain of convenience stores with hundreds of stores that sell only Modelo brands.

In 2003, the *Wall Street Journal* reported on a number of difficulties faced by competitors of Modelo and FEMSA, including a "non-stop audit" of Miller's Mexican distributor; a 1998 raid because of a missing comma on a label; a two-week delay of Miller deliveries (presumably because of tax problems) affecting Miller, Pabst and Coors; higher tax brackets for Mom & Pop stores selling competing brands in Nuevo Laredo; price-fixing by Modelo, FEMSA and restaurants in 2000; and a payment to one town in Nayant state by Modelo's distributor to ban stores from selling competing

[33] Kanter, James, "Europe Puts Consumers First; Market-Competition Rules At Odds With U.S. Approach," Wall Street Journal, February 11, 2005, p. A9

[34] Mexico reformed its antitrust law, effective May 2011, strengthening and broadening the powers of its Competition Commission with provisions for dawn raids, corporate fines, criminal offenses, injunctive authority, and class actions. See Gutierrez, Miguel Angel and Sarmiento, Tomas, "Mexican Senate Passes Antitrust Law," Reuters, April 28, 2011

brands in exchange for cash, school uniforms, lighting for public parks, and free beer at city parties.[35]

Based on an investigation opened in 2004, the antitrust agency in 2006 ordered Modelo to drop the exclusive contracts, but Modelo appealed the ruling, and regulators reversed course later that year. "Mexico's antitrust chief, said in a 2006 interview that while exclusive deals aren't prohibited by law, they're banned when 'done to displace competitors.'" In the ongoing case, independent brewers, led by Guadalajara's Minerva brewery, added their complaints to the federal anti-monopoly agency through the Mexican Beer Association (Acermex). Brewpubs and other independent brewers charge that Modelo and FEMSA have exclusivity deals with 95 percent of Mexican restaurants and bars, which leaves little chance for them to compete. "Authors of a 2009 World Bank report found that because of legal tactics favored by big companies in Mexico, 'the regulatory system is not a credible, independent threat to the behavior of large business interests.' The report specifically cited Grupo Modelo as an example."

South Africa

Another case involving charges of anticompetitive practices occurred recently in South Africa. In April 2011, the South African Competition Tribunal set aside a case against South African Breweries that had been pending since 2004. The case involved allegations that SAB and 13 of its distributors had engaged in market allocation and price fixing. If found guilty, SAB could have been fined 10 percent of its annual turnover. An alliance of independent liquor retailers and wholesalers ("Big Daddy" Group) had charged that SAB gave preferential discounts only to chosen distributors, thus carving up the market and curbing the ability of distributors to stock its rival's products. SAB maintained that exclusive territories are necessary to create investment incentives for distributors, and that the agreements are in place to control service levels and costs, keeping consumer prices low. The Competition Commission referred to the Competition Tribunal in 2007 after a three year investigation. In May 2011, SAB successfully applied to the Tribunal to separate the distribution matter from the Commission's finding that SAB had abused its dominance in the local market. The commission and SAB declined to comment on whether the current settlement discussions included the abuse of dominance allegations. SABMiller accounts for about 88 percent of the South African market for beer. [36]

As shown throughout this paper and in the Appendix, the markets in African countries generally are dominated by a single company, such as BGI Castel in French West Africa, Diageo in East Africa, and SABMiller in South Africa. In a number of those markets some of the multinational corporations form joint ventures or strategic alliances to challenge the leader. For many observers, this signifies attempts at increasing competition. For others, it may bolster the perception of market allocation through duopoly or oligopoly.

A more detailed and comprehensive study of beer company activities and practices in other countries probably would reveal additional incidence of anticompetitive behavior. For example, a microbrewer in Greece is experiencing difficulty entering the tap beer market due to exclusive

[35] Luhnow, David, "Why Corona Is Big in the U.S., And Miller Is Scarce in Mexico," Wall Street Journal, January 17, 2003

[36] Gedye, Lloyd, "No chance for independent distributors against SAB," Mail & Guardian Online, August 12, 2010

contracts with pubs by the dominant producer there; and in New Zealand, a new company is having difficulty competing with the two major brewing companies there. Further details are shown below.

- In Greece, for more than a dozen years, an enterprising entrepreneur has been having great difficulty in gaining market share for his microbrewery (Vergina Beer), according to a recent New York Times article.[37] With a 72 percent share, Heineken International is dominant in the Greek market, having taken over Athenian Brewery as part of its acquisition of Amstel Beer in 1968. Demetri Politopoulos, the entrepreneur, "says his problems began when distributors refused to take Vergina and the other brands that he produced…[I]n a complaint letter he filed with the European Union in 2006, [he contended that] things became worse: his car tires were slashed, threatening calls were received at the brewery, employees were offered money to resign, and trucks carrying his beer were tampered with. " To get a toehold in the market, he sold his beer at a 50 percent discount. Heineken has refuted the allegations. "In 2007, Mr. Politopoulos agreed to drop his [EU] complaint and to let the competition commission in Greece — which already had an open investigation into the local beer market — take the lead on the matter. The Greek competition authority has been investigating anti-business practices in the beer market since 2002, and a spokesman for the commission said that a decision should be forthcoming within the year."

- In New Zealand, Independent Liquor (recently purchased by Asahi of Japan for about $1.2 billion) is trying to sell its beer products in the tap beer market, but fears that New Zealand's dominant beer companies (DB Breweries and Lion Nathan) have negotiated exclusive contracts with pubs to sell only their beers. The two companies control about 70 percent of the volume sold through pubs and spent an estimated $70 million on contracts tying down operators. Much of the redevelopment of bars, pubs and restaurants have been funded by breweries. Independent Liquor has not ruled out going to the monopoly watchdog to open what it claims is an anti-competitive tap beer market, according to recent press reports.[38]

Return now to the questions posed in the opening paragraph of this section: To what extent did antitrust policy and enforcement shape the beer industry in the United States? And how will antitrust authorities react if the industry's two leading companies decide to merge?

With regard to the first question, it is clear that antitrust policy and enforcement (or lack of enforcement) played a role in shaping the U.S. beer industry. But the extent of its influence is not definitive. The facts show that industry concentration did occur. Some of the growth in concentration is not explained by M&A, particularly the growth of Anheuser-Busch which was almost entirely internal. But would Anheuser-Busch have engaged in mergers and acquisitions as a growth strategy if it had been able to consummate the purchase of the Florida brewery in 1958? A growth strategy based on M&A might have resulted in more extensive consolidation and more rapidly. In addition, mergers of the struggling firms in the industry failed to save them, and the weaker firms probably would not have survived even with more relaxed criteria. Some contend that

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[37] Thomas, Landon, Jr., "What's Broken in Greece? Ask an Entrepreneur," January 29, 2011

[38] Available online at stuff.co.nz [accessed Mar 2, 2012]; Rogers, Claire, "Pub counter the front line for battle of the beers ," March 23, 2012; Koons, Cynthia, and Fukase, Atsuko, "Asahi Group A Leading Candidate To Buy Independent Liquor - Sources," Wall Street Journal, August 3, 2011

the trend to concentration in brewing would have occurred even if all mergers had been prohibited.[39]

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Box III-2

ABInBevAcquisition of Modelo

In June 2012, ABInBev, parent company of Anheuser-Busch announced the acquisition of Mexico's largest brewer, Grupo Modelo for $20.1 billion. A-B already had owned a non-controlling 50-percent interest in Modelo. ABInBev expects the transaction to bring about annual cost-savings of at least $600 million through combined purchasing opportunities, sharing best practices and efficiencies in overhead and systems costs.

Upon completion of the deal, ABInBev will have a stronger foothold in the growing and profitable Mexican market. Modelo, which already exports to more than 170 countries, can serve as a platform for A-B to expand in Latin American markets, using ABInBev's marketing and distribution channels. ABInBev will add three more billion-dollar brands to its portfolio (Corona Extra, Modelo Especial, and Victoria). Modelo had been using rivals MolsonCoors and Carlsberg in overseas distribution.

In the U.S. market, the acquisition increases A-B's market share to about 55 percent from 50 percent. Together with SABMiller's 30 percent share, the transaction will raise the duopoly's concentration ratio to 85 percent of the market.

In a related transaction, Modelo is selling its 50 percent ownership of Crown Imports, the U.S. distributor of Corona and its other brands, to its joint venture partner, Constellation Brands, for $1.5 billion. Thus, distribution in the United States will be through Crown Imports, as before, rather than through the A-B distribution network.

The deal is expected to close in the first quarter of 2013, pending regulatory approvals in the United States and other countries.

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With regard to the second question, it remains difficult to second-guess the authorities on a hypothetical merger of the industry's two leading companies. However, under current DOJ-FTC merger guidelines (the same or similar guidelines used in reviewing the ABInBev and SABMiller transactions), some may conclude that further consolidation might not be barred by U.S. authorities, even if it involved the top two companies which already account for 80 percent of the U.S. market. Others may argue that the authorities actually might use the current guidelines to bar the Big Two merger, or impose conditions on the transaction (such as divestiture of certain brands) to avert a lessening of competition.

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[39] Elzinga, Kenneth, "Beer" in The Structure of American Industry, eds. Walter Adams and James Brock, Prentice-Hall, 2004

The recent acquisition of Grupo Modelo by ABInBev, parent company of Anheuser-Busch will provide an interesting test for U.S. antitrust authorities. (For details of the transaction see Box III-2 above.) The transaction combines the first- and third-leading suppliers of the U.S. market and raises A-B's market share from 50 to about 55 percent, thereby raising the duopoly share from 80 to 85 percent. Anticipating antitrust regulatory concerns, however, Modelo sold its 50 percent interest in Crown Imports (its U.S. distributor of Corona and other brands) to its joint venture partner, Constellation Brands. The ability of ABInBev to influence prices in its sales to Crown Imports (or Constellation Brands) is a factor that U.S. authorities will have to consider. Nevertheless, it is possible that the authorities would approve the transaction, but also would impose certain conditions on the transaction so as to moderate any potential antitrust effects.

Although decisions by regulatory authorities in the AB-Modelo transaction will provide some insight for a potential merger of the global leaders, it can be expected that the mega-merger would attract even greater scrutiny. (The prospects of a global beer monopoly are discussed further in Part VIII of this paper.)

PART IV
"The Market Is Flat, But Not the Beer"

MARKETING, COMPETITION, AND PRICES

Beer is the most popular alcoholic beverage in the United States--- far more than wine or distilled spirits.[40] The U.S. market for beer has been rather stable at least since the 1980s and, as shown in Appendix III-2, per capita consumption has stalled and even dropped somewhat in recent years. Wine and spirits have been slowly cutting into beer's market share.

Marketing

Beer marketing strategies can be elaborate, imaginative, and expensive. The product itself, its taste and alcoholic content, as well as its advertising, pricing, and packaging often are aimed at a particular demographical group (low calorie beers for weight-conscious consumers, pink packaging for females, strong beer for macho drinkers, Spanish name beers for Latinos). Large companies produce a full line of products and often introduce new brands with the objective of reaching new customers or attracting drinkers away from brands made by other companies.

The major companies brew hundreds of brands and the U.S. market is filled with a wide variety of different types and styles of beer. About 13,000 brands are available to U.S. consumers. From the standpoint of consumer choice, the market is highly fragmented. Some analysts assert that brand proliferation is part of a strategy by the leading brewers "to usurp market share from their smaller regional competitors."[41]

Categories

Beer brands are generally divided into categories and subcategories, each with particular price points. Manufacturers intend to maintain a range of prices for each category or subcategory. Branded beers in the same category or in different categories compete with each other around the various price points, even brands made by the same brewing company.

The category structure is generally based on three main categories: sub-premium, premium, and super-premium. Additional categories include ultra-premium, imports and craft beers. In its quarterly and annual statements, SABMiller, for instance, reports on its sales of regular premium, premium light, and below premium brands as well as its imports and craft beers.

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[40] Based on research of the World Health Organization (WHO) for the years 2000-2005, the UK's Daily Mail (February 17, 2011) reported that beer comprised 53 percent of the quantity of alcoholic beverages consumed in the United States, whereas spirits comprised 31 percent and wine 16 percent. Based on the value of sales, the gap is a bit narrower inasmuch as beer is less expensive than wine or spirits. According to the Distilled Spirits Council of the United States (DISCUS), in 2011 beer accounted for 49.3 percent of alcoholic beverage revenues; spirits 33 percent, and wine 17.1 percent.

[41] Tremblay, Victor J. and Carol Horton Tremblay, "Brewing: Games Firms Play," in Industry and Firm Studies 4th edition, ed. Tremblay and Tremblay, M.E. Sharpe, 2007

Pricing

Price is an important characteristic of the brands. To the consumer, higher prices generally signify better quality or status, while lower prices signify more affordable, mass-produced drinks. For example, domestic beers may be segmented according to price (e.g., popular or discount brands); imports and craft beers sold on the basis of prestige could be priced somewhat above the premiums and super-premiums. Because taste differences between beers may be indistinguishable to ordinary consumers, some traditional beers may be sold as "premium" at a higher price. Budweiser, sold in the premium category at premium price, is more profitable than some other brands, brewed at the same cost, but sold in a discount category at below premium price.[42] In fact, many brands may be designed to compete with Budweiser, but at a lower price.

Another example of the significance of pricing by category is Miller's introduction of Lowenbrau in 1974. It was a beer with foreign cache, but priced below the import category as a super-premium beer to compete with A-B's Michelob. In its advertising, Miller emphasized the brand's German name and heritage, giving the impression it was an import, although for the U.S. market it was brewed in the United States. Lowenbrau cut substantially into Michelob's market. However, A-B filed a 32-page complaint with the Federal Trade Commission, charging Miller with deceptive packaging and advertising. As a result of the FTC action, Miller had to change the beer's label to show that it was a product of the USA.[43] (See sections on "Other Forms of Competition" and "Arch Rivals," which follow.)

In fourth quarter 2011, A-B raised its price on sub-premium beers by about 3 percent with the aim of closing the price gap between premium and sub-premium as an incentive to get consumers to upgrade to premium. (The price gap was narrowed from 25 percent to 15 percent. At one time, the price gap was as much as 40 percent.) The move increased revenue and profit, which in turn raised the value of A-B shares. According to analyst Peter V.K. Reid of Modern Beverage Age, a trade publication, A-B targeted the sub-premium category to push smaller companies out of business.[44]

Discounting in the beer industry does not appear to be a good long-term strategy. Price cutting may gain sales, but (as the Heileman Brewing Company discovered in the 1980s) it loses revenue for the brewer and the distributor and, if lower prices are allowed to stand too long, it cheapens the image of the brand so that it becomes very difficult to return to the original prices.

Thus, both price and consumer-preference play important roles in the competition among brands. Within this framework of categories and price points, competition is based on a host of other factors as well, including the type of beer, the quality of beer, product differentiation, individual tastes and preferences, and brand loyalty. Advertising obviously plays a large role.

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[42] Scherer, F.M., "Beer" in "Industry Structure, Strategy, and Public Policy," HarperCollins, 1996, pp. 391-423

[43] Van Munching, Philip, "Beer Blast: The Inside Story of the Brewing Industry's Battles for Your Money," Times Business (Division of Random House), New York, 1997, pp 50-54

[44] Reid, Peter V.K., "The Death of Premium," Modern BreweryAge Editorial, p. 1 available online at breweryage.com [access July 19, 2012]

Other Forms of Competition

In addition to competition among the wide selection of brands available, competition in the beer industry takes many other forms. In the United States, competition is greatly affected by the three-tier distribution system, which has remained in effect since the end of Prohibition in 1933. Competition takes place in varying degrees across and within the three tiers: (1) brewers, (2) wholesalers and distributors, and (3) retailers.[45] Competition also occurs between beers from different sections of the country; between domestic and imported brands; and between large companies and small craft brewers. In the investment field, the larger companies compete against each other for acquisitions, mergers, and partnerships to increase market share. This competition also reaches into foreign markets, particularly China (see Part VII).

In a large sense, the thousands of brands on the market are offered to meet the wide variety of consumer demand. Consumer choice is enhanced, by competition. It is competition based as much on product differentiation, individual tastes and preferences, and brand loyalty as on the type of beer, the quality of beer, and the price.

Beer also competes with other beverages, particularly wine. In the United States, per capita consumption of wine is increasing, while per capita consumption of beer is declining (see Appendix II-6). Other competing beverages include distilled spirits, soft drinks, water, juice, milk, tea, and coffee. To some limited extent, availability of these alternative products tends to restrain price increases for beer.

U.S. competition has been marked by the dominance of large brewers selling nationally (particularly Anheuser-Busch, Miller, and Coors), which caused numerous local and regional brewers to close down during the 1970s and 1980s, a period referred to as "the beer wars." In 1969, the industry was not yet highly concentrated. The five largest companies accounted for less than 48 percent of total U.S. sales, but smaller companies were beginning to find it more difficult to compete with the large national brewers, mainly because they lacked economies of scale and the financial ability to advertise. The next two decades were marked by fierce competition. By 1989, the number of independent companies in the industry shrank from 124 with 153 separate plants in 1967 to 29 with 61 plants. At present, aside from the multitude of small, independent craft breweries, the number of mass-producing (or traditional) breweries has declined to about 20.[46]

Arch Rivals

Although the "beer war" days of intense competition are gone, a considerably high level of competition remains, particularly between the two U.S. market leaders. A-B and Miller were strong rivals even before the mergers and acquisitions of the last decade. The degree of their competition is reflected in the pervasive advertising of major brands. For example, when Miller Lite became successful in 1977 with the support of heavy "macho" advertising, featuring well known professional athletes, Anheuser-Busch followed with Bud Light in 1982. The two brands engaged in head-on comparisons in national TV commercials and online debates concerning which is the better

45 This is discussed in greater detail in Part V
46 The Brewers Association classifies 20 breweries as "non-craft" breweries and 31 as "other" than craft or non-craft breweries.

beer. This running battle is continuing. The heavy advertising expenses are difficult for smaller companies to match.

In advertising, Anheuser-Busch has outbid SABMiller to become the official sponsor of NFL football and Miller has challenged Bud in television commercials as being superior. The two also compete for the acquisition of properties in foreign markets. In bidding for Harbin Breweries of China, for example, Anheuser-Busch outbid SABMIller in the $720-million purchase. The competition in China continues through SABMiller's joint venture with China Resources Enterprise Snow Ltd. in CR Snow, whose sales of Snow brand beer are expanding. SABMiller through CR Snow is competing with A-B and others in bidding for China's Kingway Brewery.[47] In a general sense, as the industry leader, Anheuser-Busch is perhaps viewed by all other beer companies as the "common enemy"

Competition in the beer industry also is characterized by actions taken to disadvantage rivals. The beer industry has had its share of "dirty deeds," including advertising the alleged shortcomings of competitors' products; cornering advertising time and space by outbidding rivals; and filing complaints with regulatory agencies regarding each other's alleged misleading claims, mislabeling, noncompliance, and impurity of competitors' products.[48] Examples follow:

- In 1996, Anheuser-Busch filed a complaint with the Bureau of Alcohol, Tobacco and Firearms (BATF) against Boston Beer, Pete's Brewing Co. (makers of Pete's Wicked Ale). It accused the craft beer companies of false advertising in their reported claims to brew "in small batches" instead of through large-scale contracted breweries. A-B also requested that Miller's parentage of both Icehouse and Red Dog "be legitimized on the label rather than cloaked by its fictitious alter-ego, the Plank Road Brewery."[49]

- In retaliation, in March 1996 Boston Beer petitioned the BATF to request "full disclosure" on all beer labels, clearly showing freshness dates and brewery location.[50] Label information required by TTB (successor to BATF) includes only brand name, name and address of bottler, packer, and/or importer, alcohol content, and net content weight.[51]

Technology and Advertising

Technology has been instrumental in the growth of large scale beer manufacturing and marketing and has greatly affected competition in the industry. As described in detail in Part II, technological advances helped to transform the industry from a local to a national industry. Refrigerated railroad cars, and ice stations at rail yards, and pasteurization made it possible to ship longer distances. Large scale production reduced unit costs of transportation. Improvements in commercial and household refrigeration, bottling and canning machinery, as well as refrigerated trucks, and better

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47 SABMiller News: SABMiller Expands in China in $47 Million Move," August 6, 2011; Thomas, Denny and Kwok, Donny, "AB-InBev on Short List for China Brewery Deal," Reuters, March 2, 2012; Mercer, Chris, SABMiller, CR Snow to Get Second Bite at Kingway, just-drinks.com, posted January 27, 2012.
48 Van Munching, "Beer Blast," op. cit.
49 Modern Brewery Age, March 4, 1996

50 Available online at fundinguniverse.com, accessed April 8, 2012
51 Available online at TTB.gov, accessed April 8, 2012

highways all contributed to industry growth. Off-premises beer sales expanded greatly. By 1980, more than 85 percent of beer sales were packaged.

The advent of television and national broadcasting in the 1950s and 60s expanded the market for beer through extensive advertising. The big beer companies benefited most from national advertising as they could spread the cost over a larger volume of production and deliver nationwide. In addition to an advertising advantage, the larger, well financed beer companies also could more readily afford to invest in new bottling and canning machinery, which added to their production efficiency.

For mass production of the product, the beer industry is a capital intensive industry. The cost of constructing new, large scale breweries runs into the hundreds of millions of dollars. Even existing plants in Africa are being sold for similar amounts. (By contrast, small craft breweries in the United States can get started on as little as $150,000.) Not only is it costly to construct a new large-scale modern brewery, but its upkeep is expensive as well. ABInBev, for example, is investing more than $1 billion in 2012 to further modernize brewing processes, upgrade systems to reduce greenhouse gas emissions, and install equipment for new products and innovations.

Automation has speeded the bottling and canning processes and has reduced unit labor costs. Anheuser-Busch, which grew by building new facilities rather than through acquisition, benefited greatly from state-of-the-art equipment. A-B also located its plants in different regions of the country to minimize transportation costs. New plants of the traditional brewers are large, generally with yearly capacity of 7 million barrels or more.

Appendix I-2 lists breweries of the two largest U.S. companies along with their annual capacities. Based on information from company websites, A-B has 12 plants with an estimated total capacity of 80-88 million barrels; Miller has 8 plants with estimated total capacity of 74-86 million barrels. Total annual capacity of the duopoly, therefore, is at least 154 million barrels.

The influence of technology and television advertising on competition was highlighted in a beer industry study which concluded that "Market demand was insufficient to support more than a few firms of sufficient size to exploit national advertising and attain minimum efficient scale."[52]

Use of Information Technology

Some brewers use information technology systems to manage distribution. By getting information back quickly from wholesalers and retailers on what is selling, brewers can adjust their production to meet consumer needs, to make timely deliveries, and to keep inventories low. BudNET is the information channel for the Anheuser-Busch system called Wholesale Equity Agreement Reporting System (WEARS). Distributors can track a full range of A-B and competing products daily. The system enables A-B to detect loss of shelf space to competitors. A-B also can adjust its product assortment store by store, for example, where cans sell better than bottles. Distributors on the system are linked to A-B offices internationally.[53]

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[52] Tremblay & Tremblay Industry Studies, Op. cit.
[53] Seckman, Lamont, "The Anheuser-Busch distribution system: a strategic weapon?," Modern Brewery Age, July 14, 1997

Craft Beer

Perhaps the most significant area of competition in today's beer market is in the dynamic and growing sector for craft beers. The number of these small-scale brewers, who emphasize product quality, taste, and freshness, has grown to about 2,000. In the aggregate, this sector is relatively small, accounting for less than 6 percent of total market volume, although its share is somewhat larger in terms of value due to their higher prices. In this market, the small craft brewers compete with each other and with the traditional brands, as well as with the craft beers produced by the giant brewers. Small brewers are faced with difficulties of getting their products to retailers and consumers through distributors, who are generally more interested in moving larger volumes. State regulations usually require that beer producers must sell through distributors, underlining the competitive impact of the three-tier distribution system. Despite the relatively small market share of craft brewers, the big companies appear to be greatly concerned about the further growth of specialty brews, which are cutting into their market shares. Growth in this market segment is associated with the "millennial generation" (the 21-30 age group, about 70 million consumers), which is perceived to be interested in exploring new beer tastes and willing to pay higher prices.[54]

Distributors

The thousands of wholesale distributors in the United States employ 98,000 workers and maintain temperature-controlled warehouses and trucks. They perform an important role, not only in the timely delivery of products to retail outlets, but also in helping to warehouse the products and keep store inventories low. In addition, they help to build brands through advertising, promotions, and point-of-sale displays.

Some distributors are national in scope, but most are regional or local. Distribution is largely fragmented by state territories. Within state boundaries, brewers typically assign exclusive territories to distributors. Some distributors are known to poach occasionally on other distributors' territories.

Consolidation in the beer industry puts great pressure on the distributors who may be directly affected by companies that merge, thus forcing some distributors to also merge or to close down. Also, since one of the goals of M&A often is to reduce costs, the newly merged entity probably will seek to rationalize or downsize the distribution system. Drastic consolidation in this sector already has occurred in concurrence with consolidation of the brewing sector (see Part II)
.
In the past, distributors and wholesalers were almost absolutely dependent on a single brand. Now they are attempting to adjust to the market in the same way as the large brewing and importing companies: by broadening their portfolios. Many distributors now deal with more products and with multiple breweries, large and small, to supply a local market.[55] As stated by Craig Purser, President of the National Beer Wholesalers Association (NBWA), the distributors and wholesalers are "transitioning from being brand-dependent beer wholesalers to that of brand-building beverage distribution companies." [56]

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[54] Nielsen News Release, Millenial Consumers Seek New Tastes, Willing to Pay Premium for Alcoholic Beverages," November 27, 2007; Nielsen Wire "Millenials Redefine the Alcoholic Beverage Landscape, January 11, 2011

[55] This is discussed further in Part VI.

[56] Beverage Information Group: Johnson, Julie, "State-of-the-Industry-Report, September 16, 2011, available online at beveragedynamics.com, accessed July 19, 2012

Retailers

In 2011, retail beer sales rose more than 2 percent to $98 billion. With increases in higher-priced domestic and imported beers leading the way, on-premises sales in bars and restaurants rose 3 percent to exceed $55 billion. Off-premises sales grew by less than one percent to $43 billion, according to data released by the Beer Institute.[57]

In addition to state dispensaries, off-premises beer is sold through several channels in the United States: supermarkets, liquor stores, big-box stores, convenience stores, drug stores, and others. Retail competition is brisk within each channel and among the different channels.

Wherever possible, large grocery and drug chains, using their quantity buying power, seek to buy various brands at the lowest prices from various distributors. Discounting creates problems for small mom-and-pop outlets. Retail chain stores have considerable market power. For example, retail chains accounted for 40 percent of annual beer sales nationwide in 2007.[58] Also, in California an estimated 40 percent of beer is sold through national groceries and supermarkets. Convenience stores, which have been increasing their sales to consumers in the 25-34 age group, accounted for $16.7 billion or 17 percent of total beer sales in 2011. Food store sales of craft beer nationwide, amounting to about $8.4 billion annually, continue to rise.[59] Some retail chains, such as Costco and Trader Joe's, have created their own store brands (made by contract brewers), which they sell at discounted prices. (See Box IV-1 for additional information on store brands, including a list of retailers, suppliers, and indicative prices.)

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Box IV-1

STORE BRANDS

Store brands are a relatively new phenomenon in the beer business. Retailers place orders with contract brewers, which manufacture, package and sometimes promote, market and arrange deliveries. In many cases, the manufacturers are small craft brewers.

Although volumes are small relative to the large-scale brewers, store brands are doing well in the marketplace, mainly because large national chains and supermarkets save the costs of advertising and marketing, which enables them to price their product below the leading name brands. The economic recession has contributed to the success of the store brands inasmuch as customers are cutting back on restaurants and eating more at home. Younger consumers are looking for good quality beer at lower prices and are not brand loyal. Retailers are providing alternatives to national brands with inexpensive beers similar to Busch Light and Keystone Light. Store brands also compete with Bud Light, Coors Light and Miller Lite.

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[57] Beer Institute Press Release, February 13, 2012
[58] "Costco starts barroom brawl," Bloomberg Businessweek Magazine, December 20, 2007
[59] Angrisani, Carol, "Store-brand beer is on tap in all channels as retailers offer quality brews at below-premium prices," Supermarket News, April 25, 2011

While some of the beers are sold at low prices, such as Walgreens' Big Flats 1901 ($2.99/6-pack or $0.50/can), others are aimed at the higher-end private brand market with high margins. Store brands are available in a variety of beer styles and are generally $1 less than a typical national brand 6-pack; $2 less than premium brands.

Unlike the market for traditional beer in the United States, the craft beer segment is fragmented. The top 5 craft brewers account for 42% of the business, whereas the top 5 premium beers account for 95%. The size of private label production is comparable to the size of Sam Adams, as one analyst described it

The store brand market remains hampered by regulations. Stores, of course, can only sell beer, wine, and spirits in states and localities where it is permitted. Many states limit chain store and supermarket sales to protect small businesses. Sam's Club, for example has 600 stores nationwide, but can only sell alcoholic beverages in 241 stores.

A few states, like Texas, have specific regulations applicable to private labels. The name of the retailer may not be on the label and the product must be offered to all retailers within the market. This could be regarded as a restriction on the sale of private brands, but at the same time it is an anti-monopoly measure. Also, it could be a benefit for some brands: 26% of Big Flats is sold outside of the Walgreens network in Texas.

Assisting in the growth of store brand beers is a relatively new company, World Brew Division of Winery Exchange of Novato, California, founded in 1999. The company creates alcoholic beverage brands for leading retailers. Originally specializing in wines, World Brew launched its first domestic microbrew in 2006: RJ King Wingwalker for Supervalu. World Brew also markets store brands for Harris Teeter, Kroger, and Walgreens. See Appendix for list of store brand beers, suppliers and indicative prices. World Brew works through the 3-tier distribution system. In an interview with Beer Business Daily in July 2011, Peter Byck, a founder of Winery Exchange, stated that "90 to 95% of their beers go through the three-tier system, utilizing major brand beer distributors and wine and spirits distributors."

Sources: Beer Business Daily interview with Peter Byck 7/12/11; Angrisani, Carol, "Store-brand beer is on tap in all channels as retailers offer quality brews at below-premium prices," Supermarket News, April 25, 2011

BEER: STORE BRANDS, SUPPLIERS, PRICES (2011)

Retailer	Brand	Supplier*
Costco	Kirkland Signature 24 bottle variety pack lager and ale - $18.99 (top-selling brands - $35)	Gordon Biersch
Harris Teeter	Barrel Trolley 6-pack $7.99	World Brew
Kroger	Port Republic 30-pack $21.99; 24 oz. single $1.49	World Brew
Piggly Wiggly	Pig Tail, Pig Swig 6-pack $7.99	Thomas Creek
7-Eleven	Game Day 12-pack (12 oz. cans) $6.99-$8.99; Singles (24-oz.) $1.49-$1.89	City Brewing
Supervalu	Buck Range 12-pack $5.99 Also: San Lucas; Higher end: RJ King Wingwalker	World Brew
Trader Joe	Mission Street Also: Jumping Cow; Fat Weasel Ale	Firestone-Walker
Walgreens	Big Flats 1901 6-pack $2.99; can $0.50	World Brew

*Supplier Locations:
Gordon Biersch, San Francisco, CA
City Brewing, La Crosse, WI
World Brew, Div. of Winery Exchange, Novato, CA
Thomas Creek, Greenville, SC
Firestone-Walker, Paso Robles, CA

Compiled by the author from various sources

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Slotting Allowances

Like many other products sold at grocery stores, beers compete with other beer brands and other products for the most prominent and desirable shelf space. The process by which this is determined is called "category management." In some cases, one manufacturer or distributor may serve as the "category captain," determining the placement of many or all of the products within a category on store shelves and providing other stocking services.[60] Often manufacturers or their distributors will also pay "slotting allowances," i.e., fees to retailers to obtain the best placement for their products.

In addition to shelf space and product placement, "slotting allowances" encompass a variety of other practices, including paying the retailer for any advertising, display or distribution service, or paying any inducements to exclude competing products. The services associated with product placement are especially important for the introduction of new products.

Slotting fees "have proved to be a difficult issue for the Federal Trade Commission, the Department of Justice, and many state attorneys general offices." Although serious consideration has been given to the possibility that slotting fees may violate antitrust laws, "no enforcement actions have been taken so far."[61] The U.S. Treasury Department's Alcohol and Tobacco Tax and Trade Bureau (TTB), in administering the Federal Alcohol Administration Act (FAAA), treats slotting allowances as an unfair trade practice.[62]

The use of slotting fees provides a competitive advantage to large brewers and distributors with deep pockets. The practice can exclude or disadvantage smaller brewers who cannot afford it or whose scale of production does not justify the unit costs. Competitors can be excluded by bidding up the fees, by buying more shelf space than is needed, and by making slotting payments contingent on exclusionary outcomes. Shoppers, particularly those buying on impulse, are more apt to buy products that are prominently and attractively displayed.

Consumer Prices

A high level of industry concentration arouses concerns about market power of giant companies and their potential for reducing competition and raising prices. Indeed, the prospects for monopolistic or anticompetitive behavior are magnified by consolidation of the industry into a smaller number of large manufacturers. Beer prices, therefore, need to be regularly monitored.

As measured by the Consumer Price Index (CPI), beer prices have risen steadily since 1980, but generally not more than about 3 percent per year. A big exception was 1991 when the federal excise tax was increased by 100 percent to $18 per barrel and the CPI for beer jumped nearly five points. Beer prices were relatively stable for a number of years thereafter. (See Appendix II-1)

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[60] Anheuser-Busch was chosen as category captain of the year for beer in 2011 by Progressive Grocer Magazine. See McTaggart, Jenny, "Progressive Grocer Unveils 2011 Category Captains," November 18, 2011.

[61] Bloom, Paul N., Gundelach, Gregory T., and Cannon, Joseph P., "Slotting Allowances and Fees: Schools of Thought and the Views of Practicing Managers, Journal of Marketing, April 2000, pp. 92-108.

[62] See Appendix II-7 and Part V on federal regulation. For detailed discussion of slotting allowances, see Gundlach, Gregory T., and Bloom, Paul N., "Slotting allowances and the retail sale of alcohol beverages," *Journal of Public Policy & Marketing;* Fall 1998; 17, 2; pp. 173-184.

More recently, however, beer prices show signs of rising faster than the CPI and higher than prices for wine and other alcoholic beverages (see table). In three of the last four years for which data are available (2007, 2009, and 2010), price increases for beer at home and away exceeded increases of the CPI. CPI actually fell in 2009, while beer prices increased. Beer price increases in 2007-8-9 exceeded 3 percent, but remained below 4 percent. In 2010, the increase for beer at home was only 1.8 percent, but it exceeded the increases for the total CPI, for alcoholic beverages as a whole, and for wine.

The period 2007-2010 is particularly interesting in two respects. First, it was a period of economic decline in the United States with relatively high unemployment. Second, the purchase of the leading supplier, Anheuser-Busch, by InBev occurred in 2008. Stories appeared in the media around this time, reporting that Anheuser-Busch was raising prices in the face of a recession and relating it to the high level of concentration in the industry.[63] It is difficult to draw hard and fast conclusions at this point, however, because costs of ingredients (barley and malt in particular) and transportation increased for beer manufacturers and distributors during this period. Also, the rate of price increase in 2010 for beer at home was less than 2 percent, although it still was greater than the increase for the CPI and for alcoholic beverages and for wine in general.

In fourth quarter 2011 (as discussed earlier), Anheuser-Busch increased the price for sub-premium beers by about 3 percent. It remains to be seen how this might be reflected in the CPI for 2011.

The Past and the Present

The industry has passed through several different stages of competition over the years, including the heavy competition of the "beer wars" and the fittest survived at a time when the U.S. market was still growing. The market has now matured and is stagnant or slow-growing, while the industry has turned into a duopoly. Much of the competition now occurs on the fringes of the market: the new, small craft breweries and the retail discounters. New brewers enter the market, mainly at highest (or lowest) price points. Retailers have introduced new competitive models based on large volume and discounting. Parts V and VI discuss how state regulations affect competition in the beer market and Part VIII discusses what might happen if the U.S. duopoly becomes a monopoly.

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[63] Rosenbaum, Aliza, Cox, Rob and Briancon, Pierre, "Rising Beer Prices Hint at Oligopoly," New York Times, August 27, 2009,

PART V
"Put a Head on It"

REGULATION AND TAXATION OF BEER IN THE UNITED STATES

At 5:32 p.m. EST on December 5, 1933, Utah became the 36th state to ratify the 21st Amendment to the U.S. Constitution, achieving the requisite three-fourths majority of states' approval. Thus, the 18th Amendment was repealed, bringing an end to the era of national prohibition of alcoholic beverages in America.

The 21st Amendment explicitly confirms the right of states to restrict or ban the purchase or sale of alcoholic beverages within their jurisdictions. Nevertheless, the federal government continues to regulate various aspects of the alcoholic beverage industry, mainly from the standpoint of collecting taxes under the Internal Revenue Code.[64]

Federal Licensing and Taxation

The federal government licenses new brewers, importers, and exporters of beer through the Tobacco Tax and Trade Bureau (TTB), formerly the Bureau of Alcohol, Tobacco and Firearms (ATF). Federal regulations also apply to warning labels and the size of bottles for alcoholic beverages. Under the Federal Alcohol Administrative Act (FAAA), TTB has primary jurisdiction over all alcoholic beverages under the Internal Revenue Code (IRC), including production, distribution, qualification requirements for producers, packaging, labeling, advertising, and trade practices, in addition to taxation. TTB takes action against unfair trade practices, such as payment of illegal inducements to retailers in return for preferential shelf space for their products or exclusion of competing products.[65] FAAA does not require ingredient labeling, but does prohibit statements indicating curative or therapeutic effects. TTB consults regularly with the Food and Drug Administration (FDA) with respect to health and safety of alcoholic beverages. The Federal Trade Commission (FTC) also has jurisdiction over false and misleading advertising and, of course, FTC and Department of Justice (DOJ) share jurisdiction over antitrust.

Prior to institution of the income tax in 1913, the liquor industry provided more than 50 percent of the federal government's internal revenue. Without income tax revenue, it is questionable that the U.S. would have enacted prohibition.[66] From 1868 to 1913, almost 90 percent of all U.S. revenues were collected from liquor and tobacco taxes.[67] By contrast, U.S. revenue from all excise taxes in 2011 amounted to only 3.1 percent of total U.S. revenues.[68]

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64 In 1984, President Reagan signed the Minimum Legal Drinking Age Law, which was backed by Mothers Against Drunk Driving (MADD). The law standardized local laws nationwide to make it illegal for anyone under the age of 21 to purchase or to publicly possess alcoholic beverages.

65 For a report on recent action on illegal inducements involving six alcoholic beverage companies--- but not beer companies--- see Appendix II-7, which contains excerpts from TTB's 2011 Annual Report.

66 Mittelman, Amy, "Brewing Battles: A History of American Beer," Algora Publishing, New York, 2008

67 "History of U.S.Tax System," U.S. Department of the Treasury, Almanac of Policy Issues, access April 3, 2012, available online at policyalmanac.org

68 White House Historical Tables, Present Law and Background Information on Federal Excise Taxes, p. 7

In1991 the federal government increased the excise tax on beer by 100 percent to $18 per barrel. It was the first increase in 40 years and has not been increased again since then.[69] In 1990, the federal excise tax generated $1.7 billion; in 1991 it generated $3.55 billion. Of the $9.3 billion of federal alcohol excise tax collected in 2007, $3.7 billion was from beer.[70] [From time to time, legislation is introduced to roll back the tax to its pre-1991 level of $9 per barrel, most recently in May 2011 (S. 1111 and H.R. 1675). Proponents of a rollback (such as the Beer Institute) assert that the rollback would increase sales of beer and increase U.S. employment. If all the taxes levied on the production, distribution and retailing of beer are added together, they amount to more than 40% of the retail price, according to a 2005 study.[71] Taxes on beer at all levels add up to more than $36 billion, according to the Beer Institute. Note, however, that this estimate includes sales taxes, federal income and payroll taxes, as well as state and local income, payroll and other taxes.

Proposals to *increase* the tax on beer are also made from time to time by advocates of health-based temperance. In 2009, the Center for Science in the Public Interest (CSPI), in an open letter to Congress, urged that the excise tax on beer be increased. CSPI emphasized that inflation had "caused a 41 percent decline in their value since 1991, resulting in a loss of $24 billion in potential revenues that could have helped fund essential health and human needs programs or reduce the deficit. " The letter was co-signed by about 20 national organizations and two dozen state and local organizations concerned with public health and safety and alcohol abuse, including the American Public Health Association, the Marin Institute (recently renamed "Alcohol Justice"), and the National Council on Alcohol and Drug Dependence.[72] These organizations favor high taxes to discourage consumption of alcoholic beverages. According to Hope Networks, the federal excise tax amounts to "less than 7 percent of the average price of a 6-pack… about a nickel per drink."[73]

State and Municipal Taxes

States also levy beer taxes, ranging from $0.019 per gallon (Wyoming) to $1.07 per gallon (Alaska)(as of February 1, 2010 [74] The average rate of all states equals $0.26 per gallon, with 32 states falling below that level and 18 states above. The median rate is $0.185 per gallon. Many cities and municipalities levy taxes on the sale of beer as well. Each year U.S. brewers, importers and distributors pay over $3.5 billion in federal excise taxes and almost $1.7 billion in state excise taxes.[75]

Social and Environmental Regulations

Beer is a common household and restaurant product. It is ubiquitous. Even non-drinkers cannot avoid seeing beer commercials on television, touted as a social product, a reward, a relaxant to be

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69 In 1933 the barrel tax was $5. In 1940, it was raised to $6; in 1944, to $8; and in 1951, to $9. Beer Advocate Magazine, 2002

70 Center for Science in the Public Interest, February 2, 2009, available online at cspinet.org, accessed April 8, 2012

71 Beer Institute: "Cosponsor of HR 836 The Brewers Excise and Economic Relief Act of 2009," available online at beerinstitute.org, accessed October 9, 2011

72 Center for Science in the Public Interest, February 2, 2009, op. cit.

73 Federal Excise Tax Roll Back: "Beer taxes are popular and lifesaving --Reject calls for a beer tax repeal.Oppose H.R. 52!,"January 28, 2003, available online at hopenetworks.org, accessed April 8, 2012

74 "State Sales, Gasoline, Cigarette, and Alcohol Tax Rates By State, 2000-2010, April 1, 2010," available online at taxfoundation.org,, accessed April 8, 2012

75 Available online at beerservesamerica.org/taxes, accessed April 8, 2012

used responsibly. Beer is no ordinary product. If used in excess it can be an intoxicant. It may be addictive to some. For those concerned with harmful effects of drinking, promotion of the product may arouse passionate opposition because advertising is aimed at increasing consumption.

Public rowdiness, traffic accidents, deaths, alcoholism and other health problems are associated with liquor sales. Prohibition is gone, but active temperance advocacy groups remain. Unlike most economists who judge markets on the basis of free enterprise with competitive prices and benefits to consumers in terms of adequate choices and low prices, advocates of health and safety seek *higher* prices and other means to discourage consumption.

To many economists, a monopoly poses problems of prices controlled by a single, large company, with the possibility of low prices in the short term to drive out of business any remaining competitors or to discourage newcomers from entering the market, followed by increased prices for consumers. Advocates of temperance, on the other hand, fear that a monopoly will *lower* prices to increase consumption and thereby increasing profits of the manufacturer, while producing physical and social harm and leaving taxpayers with the bill to deal with problems. The cost of social harm has been estimated in the billions of dollars.[76] Thus, both anti-monopolist and temperance groups are concerned about a potential beer monopoly, but for diametrically opposite reasons.

The major brewers have initiated programs to address problems of underage drinking, alcohol abuse, as well as other social and environmental issues. The costs of these programs, of course, are financed by the revenues generated by the product. The companies advocate and advertise the need for responsible drinking, using designated drivers, and withholding sales to underage drinkers. In addition, to deal with environmental problems, brewers have undertaken expenditures to install equipment to reduce pollutants in smokestack emissions and to reduce the amount of water used in beer production.[77] Brewers also manage programs for recycling beer bottles and cans to avoid inner city and roadside litter. These programs are not necessarily altruistic; they respond to pressures by non-governmental organizations as well as members of Congress.

The economic effects of health, safety and environmental costs are beyond the scope of this paper. Nevertheless, it should be recognized that they represent substantial costs, which are factors in competition and may even contribute to keeping new, large-scale brewers out of particular markets.

Taxes in Other Countries

Multinational beer companies need to be keenly aware that countries in which they operate expect them to be good corporate citizens and to pay taxes. Good government relations and public image are important for their businesses globally. Problems do arise, however, as in the following example.

In a report published in November 2010, ActionAid (a non-governmental international development organization based in Johannesburg) accused SABMiller of avoiding millions of

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[76] In 2006 the cost was estimated at $223.5 billion. Bouchery, E.E.; Harwood, H.J.; and Brewer R.D. Economic costs of excessive alcohol consumption in the U.S., 2006. American Journal of Preventive Medicine 41(5);516–524, 2011. cited in National Institute on Alcohol Abuse and Alcoholism, Alcohol Alert No. 83, available online at pubs.niaaa.nih.gov, accessed April 8, 2012

[77] Water conservation is important in beer production, especially in areas like Kenya where, in 2003, Kenya Breweries consumed almost six percent of the Nairobi water supply. Cited in Wikipedia, available online at en.wikipedia.org/wiki/East_African_Breweries, accessed April 8, 2012

pounds of tax in India and the African countries where it makes and sells beer by routing profits through a web of tax-haven subsidiaries. ActionAid said SABMiller was siphoning profits out of developing countries and parking them offshore. The organization estimated that SABMiller "may have reduced its African corporation tax bill by as much as a fifth last year [2009], depriving poorer countries of up to £20m in tax."[78]

SABMiller "completely rejected ActionAid's interpretation of its business structures," asserting that its companies pay a significant level of tax." It added that "SABMiller was a major direct investor, employer and taxpayer in Africa and other developing countries, making a substantial economic contribution to the continent and elsewhere. The company said there were sound commercial reasons for the location of its subsidiaries and that those offshore were fully taxed in the UK as controlled foreign companies (CFCs)."[79]

According to ActionAid's website, SABMiller "has more tax haven companies – a massive 65 – than it has breweries and bottling plants in Africa."[80]

As reported in the Financial Times, in first quarter 2012, ABInBev "paid a lower effective rate of tax, at 17.3 percent against 23.9 percent in the same period [the previous year]. This was attributed to shifting profit mixes to countries with lower marginal tax rates, as well as incremental tax benefits in Brazil."[81]

Three-Tier Distribution System

The 21st Amendment led to passage of a variety of laws. Many states permitted sales of alcoholic beverages throughout the entire state, while some permitted sales, but not in all towns or counties. Some states continued to enforce prohibition laws. Mississippi, which had made alcohol illegal in 1907, was the last state to repeal Prohibition in 1966. Kansas did not allow sale of liquor "by the drink" (on-premises) until 1987. To the present day, there are still numerous "dry" counties and towns in America that restrict or prohibit liquor sales.

As a continuance of temperance, the intent of many state laws and regulations is to discourage overconsumption. Although regulations vary widely from state to state, they basically mandate the use of wholesalers and distributors as the middle tier of a three-tier distribution system. No longer can brewers own saloons and sell directly to consumers, a practice which led to overconsumption and alcohol abuse and produced conditions that brought on the movement for Prohibition. Now, brewers cannot sell directly to retailers or consumers, but are required to sell to bars, restaurants, and retail outlets only through middlemen. Exceptions adopted by some states allow small craft brewers to sell directly to retailers, provided their annual output does not exceed stated limits. Distributors may not manufacture their own beer and may not sell directly to consumers. Retailers generally are prohibited from buying directly from brewers, although some states have enacted exceptions.

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78 Lawrence, Felicity, "Brewer accused of depriving poor countries of millions in revenue; UK-listed drinks firm denies claims it diverted up to £20m through havens," The Guardian, November 28, 2010; "Tanzania: New Moves to Rein in Multinationals," The Citizen, Dar es Salaam, July 31, 2011

79 Ibid.

80 Available online at actionaid.co.uk, accessed December 25, 2011

81 Lucas, Louise, "Lower tax rate helps boost ABI profits," Financial Times, April 30, 2012

In general, the states may be divided into two distinct groups: (1) the "control" or "monopoly" states; and (2) the "license" states. Actually these terms are misnomers inasmuch as *all* states license businesses engaged in the distribution and sale of alcoholic beverages. The distinction basically is that the "control" states are directly engaged in wholesale and/or retail operations, whereas the "license" states do not participate in the distribution and sale of alcoholic beverages and regulate through the issuance of licenses to private sector companies that do business within their states. About one-quarter of the U.S. population lives in control or monopoly states.[82]

At present, 18 states are "control" or "monopoly" states, as follows:

- Alabama, Idaho, Iowa,, Maine, Maryland, Michigan, Mississippi, Montana, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, West Virginia, and Wyoming. Washington became a non-control state on June 1, 2012.

- Of the 18 states, only eight run liquor retail establishments: Alabama, Idaho, New Hampshire, North Carolina, Oregon, Pennsylvania, Virginia, and Utah. Others allow sales of beer and wine through a limited number of supermarkets and convenience stores.

The basic concept behind the three-tier system in the "license" states is that manufacturers, wholesalers/distributors, and retailers are to be regarded as separate entities and are not to engage in businesses of the other tiers. All entities must be licensed in the state(s) in which they are located. However, many of the states differ on various aspects of distribution. For example, 27 states mandate the use of exclusive territories under distributors' contracts with brewers, while 23 others are neutral or allow their use. Indiana, which was the only state to prohibit exclusive territories during the period 1980 to 2001, allowed the applicable regulations to expire on December 31, 2001.[83]

Exclusive Territories

State laws governing the beer industry generally protect distributors and wholesalers by prohibiting brewers' ownership of wholesalers; by requiring that brewers grant wholesalers exclusive territories; and by restricting brewers' ability to terminate wholesalers. The purpose of such legislation is to offset the greater bargaining power of the franchisor (beer manufacturer) with that of the franchisee (wholesaler or distributor).[84] In at least one state (Texas), however, the beer manufacturer appears to be favored. The Texas Alcoholic Beverage Code *requires* distributors to sign exclusive territorial agreements with brewers and specifies that such an agreement may:

- require the distributor to aggressively sell or promote the brewer's products over others
- require the manager of the distributorship to own a percentage of equity in the business and require brewer's approval for changes in management
- provide the brewer with an option to purchase the distributorship and require brewer's approval for sale of the business or any transfer of interest in the business

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[82] Sources for this section include National Alcoholic Beverage Control Association (NABCA), the Brewers Association, the Beer Institute, legalbeer.com, and Wikipedia.

[83] Minnesota Office of the Legislative Auditor, "Evaluation Report: Liquor Regulation," March 2006, available online at www.state.mn.us, accessed July 20, 2012

[84] Madigan, Mike, "Why Should the Public Care About Franchise Laws," Alcohol Law Review, February 6, 2012 available online at alcohollawreview.com, accessed July 20, 2012

Unlike the provision for beer brewers, Texas does not require liquor and wine manufacturers and distributors to have similar exclusive territorial contracts. In fact, Governor Bush vetoed such a bill in 1995.[85]

Self-Distribution

Another area in which states differ is self-distribution. About four-fifths of the states permit craft brewers to sell directly to licensed wholesalers or retailers, provided their annual production capacity is below a specified limit or (for some states) provided that they do not sell more than a specified amount. Generally, the limits (expressed in terms of barrels or gallons per year) are intended to apply to brewpubs, microbreweries and other craft brewers, not to the large manufacturers. Examples: [86]

- In New York, those licensed as a microbrewer can apply for a distributors permit and self distribute up to 60,000 barrels per year; those licensed as a restaurant/brewer can distribute off-premises, but only up to 3,000 barrels per year (8,000 in the aggregate if the brewpub is licensed to operate up to three brewpubs in New York State).
- In New Hampshire, only brewers who make less than 15,000 barrels and sell less than 5,000 barrels in-state per year can qualify for self-distribution; and only brewpubs, producing less than 2,500 can qualify.
- In Colorado and New Jersey, brewers producing no more than 300,000 barrels per year qualify for self-distribution.
- In California, however, brewpubs may only distribute to licensed wholesalers.
- Alaska and Washington have unlimited self-distribution to licensed wholesalers and retailers.

In addition to Alaska, states in which large brewers may self-distribute include: Connecticut, Iowa, Massachusetts, Ohio, Oklahoma, Oregon and Pennsylvania (territories not assigned by the brewer to a wholesaler).

The following states do *not* explicitly allow self-distribution: Alabama, Delaware, District of Columbia, Florida, Kansas, Kentucky, Louisiana, Maryland, Michigan, Mississippi, Missouri, Nebraska, Nevada, North Dakota, South Carolina, and South Dakota.

In all cases, of course, taxes must be paid and license fees apply to each license.

Controversy

The three-tier system, in operation for about eight decades, is highly controversial. Critics of the system contend that it is outmoded; that it raises costs to consumers; that the "control" states monopolize sales to the exclusion or detriment of private businesses; that giant brewers and their distributors are favored over smaller companies; that small, independent craft brewers are required to sell through distributors who are prone to favor the larger companies; and that the system restricts interstate commerce by discriminating against out-of-state shipments. Critics of the system,

[85] Texas Alcoholic Beverage Commission, Sunset Staff Report, Appendix A, "Three-Tier System Requirements in Texas," October 2004, available online at www.state.tx.us, accessed July 20, 2012
[86] The Brewers Association maintains a list of State Self-Distribution Laws available at www.brewersassociation.org, accessed July 20, 2012

such as the Specialty Wine Retailers Association, assert that states rights to regulate the distribution and sale of alcoholic beverages must be balanced with the Commerce Clause of the U.S. Constitution and the Sherman and Clayton Antitrust Acts.

Supporters of the system (mainly distributors and wholesalers) assert that the original goals of the three-tiered system to provide temperance, ensure orderly market conditions, and raise revenue have been met. Supporters also contend that the system is needed to provide transparency for taxation; that the government can easily determine the quantity and destination of alcohol shipments through the records of wholesalers and distributors. This also protects against "gray market" sales (purchases from unauthorized sources), which seek to escape taxation. Distributors often are responsible for collecting taxes because they can accurately monitor the shipments. Supporters maintain that the states need immunity from antitrust laws and exceptions from the Commerce Clause for regulation of alcoholic beverages. States have been burdened with costly and time-consuming law suits filed by powerful national and multinational retailers. Those who defend the system assert that court decisions are threatening states' ability to regulate. Efforts to deregulate tend to undermine the system, they say, create uncertainties for the industry, and problems for the states.

Proposed Legislation

Driven by wholesale distributors who are concerned about weakening of the three-tier system by court decisions allowing Internet sales directly to consumers and direct sales by brewers to big-box stores, the controversy is continuing with the introduction of legislation in the U.S. Congress. H.R. 1161, The Community Alcohol Regulatory Effectiveness Act of 2011, or "CARE" Act, was introduced in the U.S. House of Representatives on March 17, 2011 by a bipartisan group of eight members of Congress. The goal of the CARE Act of 2011 is to recognize and reaffirm that sale and distribution of alcoholic beverages should continue to be regulated by the states. Five associations (Brewers Association, representing craft beer breweries, WineAmerica, Distilled Spirits Council of the United States, Wine Institute, Beer Institute, and National Association of Beverage Importers) issued a joint letter to Congress, requesting rejection of the proposed legislation.[87] The legislation is backed by the wholesale tier of the alcoholic beverage industry, represented by The National Beer Wholesalers Association (NBWA). The Beer Institute, representing traditional brewers, did not support the legislation.

The bill would authorize enactment of state laws that could override the dormant Commerce Clause, so that states could enact regulations that deny equal treatment for beer produced in another state as compared to beer produced in the home state. Thus, for example, a state could allow in-state shipments from small breweries directly to retailers and consumers, while banning such shipments from out-of-state breweries.[88] The controversy is addressed further in Part VI of this paper.

[87] Joint letter, dated June 23, 2010 available on websites of each of the five associations

[88] "America's Beer Distributors Applaud Introduction of Legislation to Reaffirm States' Authority to Regulate Alcohol, National Beer Wholesalers Association, Press Release, March 17, 2011; Logomasini, Angela, "A CARE-less Rush to Regulate Alcohol: Wholesalers Attempt to Secure Regulatory Fiefdoms," Competitive Enterprise Institute (cei.org), July 25, 2011; Brewers Association, Position on HR 1161, March 2011.

PART VI
"Egg in Your Beer"

CONCERNS, COSTS, AND CONSEQUENCES

Considering the heavy concentration in the beer industry and the status of competition under current state laws and regulations, brewers, distributors, retailers and consumers face a number of concerns. Regulatory authorities need to be vigilant about operation of the current industry duopoly and will face additional problems if the two main producers decide to merge.

Industry Concentration

The U.S. beer industry has evolved into a national duopoly and, at times, antitrust enforcement policy has seemed to become indifferent to levels of industry concentration at least in cases where mergers and acquisitions would result in economic efficiencies which reduce costs. This, of course, is subject to change as Administrations and policies change.

From the standpoint of consumers, there is a basic concern that the giant beer companies would reduce competition and raise prices. This could be done without actual collusion as the second largest company simply watches and follows the leader. The two major producers did raise prices in 2009 after their mergers,[89] but these were not overly large increases and at least partly reflected rising costs of ingredients and transportation.

From the standpoint of other manufacturers and the craft beer brewers, there is concern that, in the short run, the duopoly might *cut* prices to drive smaller competitors out of business. Once this is accomplished, higher prices would return.

Meanwhile, distributors and wholesalers already are threatened by previous mergers which have resulted in consolidation of delivery routes and territories, mergers of distributorships, and closings. Although protected to some extent by state distribution and franchise laws, distributors will face difficulties in the event of a mega-merger of the two giant brewers.

Small craft brewers face difficulties competing with large brewers who produce competitive specialty beers and who hold significant financial resources to buy out other craft brewers. The problem would be magnified if the two giant companies merge and bolster their existing market power.

New Entrants

Virtually no new brewers have entered the U.S. market in years with the important exception of craft beer makers. For large-scale brewers, the cost of building new plants or acquiring existing plants is quite expensive. The small craft brewers, however, have been highly successful and their numbers have grown phenomenally over the last decade. Although they still account for a small share of the total market, their products have gained prestige and are considered high in quality and taste, and generally are sold at higher prices than traditional beers. This segment of the market is highly

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[89]Rosenbaum, Eliza, and Cox, Rob, "Big Money: Is Big Beer Begging for an Antitrust Probe?, Washington Post, September 6, 2009

competitive, has higher margins, and has attracted attention of the larger companies, who have introduced specialty products of their own and have acquired some of the small companies.

Three-Tier System

The three-tier distribution system for alcoholic beverages profoundly affects the manner in which beer is marketed in the United States. The licensing and control laws and regulations of the state governments determine who can manufacture and sell beer, how they can sell, and to whom they can sell. By controlling the locations of sale and the number of outlets, the states also limit the amounts that are sold. The system was never intended to promote efficiency and low-cost delivery to retailers and consumers. Quite the opposite: it is intended to discourage consumption (or, at least, overconsumption) and thereby reduce health and safety costs associated with alcohol abuse and drunk driving.

From an economic standpoint, however, it has created groups of middlemen, who are guaranteed business through government mandate. All sales of alcoholic beverages generally must go through them to retailers and ultimate consumers, thus increasing costs and prices. With exceptions in some states, brewers and retailers cannot own and operate distributorships, retailers cannot buy directly from manufacturers and obtain quantity discounts; and consumers cannot buy directly from brewers.

Under this system, together with concentration of production in the hands of a duopoly, few other breweries can compete effectively in the capital-intensive, mass-produced U.S. market for traditional beers. In recent years, this has enabled the industry to raise beer prices (although modestly) in the face of an economic recession.[90] To a large extent, consumers have cut back on purchases at bars and restaurants and have purchased more for home consumption, and/or have switched to cheaper brands. Consequently, sales volume in the United States has languished and the giant companies are seeking growth through investments in other countries around the world.

Distributors are concerned about weakening the three-tier system which protects them in many states. They are concerned about the prospect of further consolidation, including wholesaler closings, which could result from a merger of the Big 2.

Self Distribution

As indicated in Part V, about four-fifths of the states permit small craft brewers to self distribute their products. Usually these rights apply only to craft brewers with limited capacity and output, but in several states, it applies to large producers as well. Beer distributors across the country perceive a threat from the large brewers and want to limit or take away brewery self-distribution rights. They fear that big brewers could take over the beer distribution system in the USA and that they will lose their businesses.[91] There is real and perceived pressure for distribution companies to consolidate and some are consolidating within their own ranks Also, they are seeking state legislation to repeal

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90 Ibid.

91 Papazian, Charlie, "Small brewers battle for self-distribution rights – getting beer to you, Beer Examiner, February 7, 2011

self distribution rights.[92] Small craft brewers who rely heavily on self distribution are concerned about fighting such legislative efforts and the potential of losing their self distribution rights.

The craft brewers also are important because, along with wineries and national retailers, they are challenging the rigidities of the three-tier distribution system in court actions. In many states, small brewers have gained the right to self-distribute to retailers and brewpubs have gained the right to conduct off-premises sales to consumers. Some states now allow home delivery of wine and beer from out-of-state wineries and breweries. Some volume specialty retailers, big box stores, and national chains have obtained permission to use their own warehouses and trucks to supply retail outlets in some states.[93]

Direct Shipping

Computer technology now enables consumers to buy products online. Consumers also may visit breweries or wineries and place orders for home delivery. Because of concerns about loss of tax revenue and sales to minors, some states enacted laws to prevent out-of-state purchases. However, in a U.S. Supreme Court case in 2005 involving wine sales (Granholm v.Heald), by 5-4 decision, the Court ruled that state laws which discriminate against out-of-state producers are violations of the federal commerce clause. The case set a significant precedent, ruling that state laws on alcoholic beverages do not override federal laws on interstate commerce. Many states have now adopted laws providing equal treatment of out-of-state producers and in-state producers. Such laws allow consumers to buy beer as well as wine from out-of-state producers, either online or in person. Roughly one dozen states prohibit direct sales of alcoholic beverages to consumers, whether in-state or out-of-state.

Concerned about erosion of the three-tier distribution system, distributors and wholesalers are seeking legislative action to give precedence to state alcoholic beverage laws. A staff study by the Federal Trade Commission in 2003 found that state restrictions of online sales of wine resulted in higher prices and reduced choice for consumers; and that states which had adopted non-discriminatory laws had found alternative means to avoid tax losses and sales to minors.[94]

Privatization

To the alarm of wholesalers and distributors, the three-tier system is changing and appears to be crumbling. In fact, based on a referendum vote, one state (Washington) has gone out of the alcoholic beverage business, selling its stores and distribution centers to private companies. The state will continue to issue licenses and collect taxes, but the businesses are now all privately owned. Retailers in the state may purchase beer and other alcoholic beverages directly from producers, may negotiate volume discounts, and may store inventories in their own warehouses. Several other states

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92 Ibid.

93 Oller, Samantha, "Night Moves," CSP Magazine (Convenience Store Petroleum), September 2010, available online at cspnet.com, accessed August 13, 2012

94 Federal Trade Commission: "Possible Anticompetitive Barriers to E- Commerce: Wine, A Report from the Staff of the Federal Trade Commission," July 2003

(e.g., Pennsylvania, Virginia, Oregon) are considering privatization and others may consider it as well in view of the growing financial needs of state governments to cut costs and generate revenues.[95]

The time is ripe for state governments to review their laws and regulations on beer sale and distribution. In many cases, laws need to be modified to accommodate changes taking place in the marketplace. Social and environmental conditions continue to need attention, but perhaps regulations can be shaped in a way that minimizes the restrictive effects on businesses.

Protecting Wholesale Distributors

As indicated in Part V, state laws governing the beer industry generally protect distributors and wholesalers by prohibiting brewers' ownership of wholesalers; by requiring that brewers grant wholesalers exclusive territories; and by restricting brewers' ability to terminate wholesalers. The purpose of such legislation is to offset the greater bargaining power of the franchisor (beer manufacturer) with that of the franchisee (wholesaler or distributor).

As indicated by an Op-Ed article in the New York Times: "Today, wholesaling is big business. Together, the nation's two largest wholesalers — Southern Wine & Spirits and Republic National Distributing Company — have revenues of about $13 billion. A chunk of that cash is funneled to lawmakers. The National Beer Wholesalers Association maintains the nation's third-largest political action committee, and since 2000, it has donated $15.4 million to candidates for federal office — about $5 million more than the A.F.L.-C.I.O donated in that time. In the past decade, it spent $5.6 million on lobbying Congress; the Wine and Spirit Wholesalers of America spent $9.3 million."[96]

"The expenditures make sense. As seen by some, the alcoholic beverage wholesale industry's survival depends on maintaining today's highly regulated system. It is estimated that because of wholesalers, consumers pay 18 percent to 25 percent more at retail than they otherwise would." [97]

Brewer-Distributor Relations

Relations between brewers and distributors are a complex mixture of conflict, cooperation, competition, and change. Although there are many exceptions, brewers in the United States generally are prohibited from owning distributors and are required to sell beer to bars, restaurants, and retail outlets through presumably independent distributors/wholesalers. As indicated in Part II, major brewers such as Anheuser-Busch, Millers, and Coors refer to their "network of distributors." Distributors and wholesalers also identify themselves as distributors for the major brewers. They are connected to each other by contractual agreements.

Wholesale distributors serve in a privileged position in delivering beer to bars, restaurants and retail outlets. They depend on brewers to manufacture the product and to price the product in a way that enables the distributor to earn a profitable margin. The various promotional, advertising and other functions of distributors is described in Part II. Distributors in the middle tier of the three-tier

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[95] Allison, Melissa, "Liquor board, retailers gear up to implement I-1183, Seattle Times, November 11, 2011; Baker, Mike, "Washington state approves liquor law," Associated Press, November 8, 2011
[96] White, David, "Wholesale Robbery in Liquor Sales," New York Times Op-ed, April 3, 2011.
[97] Ibid.

system are guaranteed business by State laws which for the most part require that brewers and importers sell through wholesalers and/or distributors and not directly to retailers.

Wholesalers are in a strong, yet vulnerable, position. Supported by alcohol beverage and franchise laws, they are also powerful and influential in state politics. Some observers believe the very survival of wholesale distributors depends on the three-tier system. Franchise laws make it difficult for beer manufacturers to terminate contracts with distributors, at least partly because they have to show "good cause." At the same time, wholesalers are targets for consolidation and cost savings by both brewers and retailers.

Relations between Anheuser-Busch and its distributors are particularly strained due to pressure by A-B to encourage more loyalty and efficiency (see Box VI-1). In equity agreements (contracts) with distributors, A-B designates exclusive territories and specifies required minimum delivery capacity and frequency of service to retailers. Any change in management of the distributorship or any sale of the distributorship must be approved in advance by A-B (which has first right to negotiate for purchase of the business).[98] Some contracts provide incentives to drop rival company products. A-B is moving toward exclusive distributorships, but has relaxed its contracts somewhat to allow distributors to carry small quantities of craft beer. New equity agreements increase the minimum service frequencies required of distributors in order to take advantage of larger economies of scale. This will increase the costs of market development and cause some wholesale distributors to sell their businesses.

Relations and practices may be changing, however, as distributors are expanding their client portfolios to participate in the booming craft beer business. In addition, independent non-exclusive distributors are aggressively seeking distribution business with Sam Adams and Yuengling beers, both of which have craft beer images and are growing in popularity. (Sam Adams has about 400 distributors nationwide.)

Miller/Coors has less friction with its distributors. Some deliver only Millers, but they are moving toward "shared houses" of Miller, Coors and Molsons. Miller/Coors is stressing interdependence with its wholesale distributors and apparently are not pushing exclusivity.

Craft beer producers are developing relations with independent distributors and are starting to build their own combined networks. A sign of increased cooperation is the annual award for "Craft Beer Distributor of the Year," awarded jointly by the National Beer Wholesale Association and the Craft Brewers Association.

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[98] Technically, this would be contrary to the intent of the three-tier system to separate brewers and distributors, but presumably under this provision of the contract, the brewer (A-B) would buy back the distributorship and award it to a more acceptable wholesale or distribution company.

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Box VI-1

Anheuser-Busch Relations with Distributors

For many years Anheuser-Busch has been trying to structure its network of distributors into a smaller number of large-scale, more efficient, more loyal firms. In 1997, the big brewer had its distributors sign an "exclusivity incentive program," which didn't require the distributor to carry only A-B products, but gave benefits if they did drop all competitors' products. It even offered lines of credit and cash to those distributors joining the program. In prior years, it had also pressured the distributors to focus entirely on A-B products. This is the type of practice that breweries were engaged in with bars before Prohibition. When the demand for craft beers took off, the distributors rebelled and A-B relented.

In June 2009, Melissa Earlam, a London-based analyst with investment bank UBS, met with A-B InBev chief executive Carlos Brito, Chief Financial Officer Felipe Dutra and Chief Marketing Officer Chris Burggraeve. Earlam reported that the executives believe A-B InBev could sell half of its beer in the U.S. directly to retailers. A-B spokeswoman Marianne Amssoms responded immediately in an e-mail, stating that there was no change in its U.S. strategy. The company "has no plans to force consolidation," "Consolidation has been occurring for many years, and we believe it will and should continue," Amssoms wrote. "We believe this should happen voluntarily over time."

Days later, citing the UBS analyst as its source, a Wall Street Journal article reported that ABInBev, which sells about 7 percent of its production through its own distributors in the United States, was considering streamlining its distribution to sell as much as 50 percent directly to retailers, a move toward vertical integration. This alarmed independent distributors, many of them third-generation family businesses, a segment of the industry which had already shrunk from about 5,000 to 2,000 over a recent period of years.

Analysts have been speculating for some time that A-B InBev will seek to gain cost savings by encouraging the least efficient wholesalers to sell out. The potential savings from consolidating A-B's fragmented network of wholesalers could run into hundreds of millions of dollars. The issue surfaced again in November 2011, when A-B told more than 500 wholesalers who distribute its products across the U.S. that it wants them to sell fewer rival brews. The company warned that wholesalers who aren't tightly "aligned" with A-B might be prevented from acquiring other wholesalers through equity agreements.

In a presentation to wholesalers in March 2012, Credit Suisse analyst Carlos Laboy was quoted as "wondering whether distributors were in denial about InBev's traditional "culture of dominance" over retailers, suppliers, employees and distributors.

Sources: Various trade press reports

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State Laws and Regulations

Some state distribution and franchise laws and regulations may conflict with federal antitrust laws. Retailers are concerned about restrictions in state laws that favor wholesalers and distributors.

Texas

In Texas, the Alcoholic Beverage Code restricts distributors from extending credit to retailers for purchase of beer. (Distributors of wine and liquor may extend credit for up to 25 days.) Retailers must pay by cash, check or electronic funds transfer on delivery. Distributors of beer must report bad checks to the TABC (and liquor and wine distributors must report retailers who do not pay in 25 days). This strengthens the distributors, denies credit to beer retailers, and forces the state to collect payments. Restaurants and bars in Texas must buy only from retail package stores rather than directly from distributors. Brewpubs may serve beer or sell it directly to the public for home consumption, but they are prohibited from selling through distributors or retailers[99] In effect, the package stores serve as additional middlemen, a fourth tier, raising costs to restaurants, bars, and consumers. Texas requires that alcoholic beverages be sold in separate stores, as separate companies, and with employees separate and apart from groceries or pharmacies.[100] There is a persistent rumor that the entire Encyclopedia Britannica is banned in Texas because it contains a recipe for making home-brewed beer, but it is probably untrue.[101]

In 2007, Texas Sunset Advisory Commission reported that the alcohol distribution system in Texas "is a corrupt system that no longer serves the public interest and protects the wholesale distributor"[102]

Washington State

In the state of Washington, at least until recently,[103] regulations banned quantity discounts, prohibited the use of retailers' warehousing, and banned purchase by retailers from another retailer.

A law suit filed by Costco in 2006 against the State of Washington identifies nine specific examples of restrictive state measures:[104]

(1) uniform pricing rule: brewers must charge the same price to every distributor;
(2) price posting: distributors must file price lists and make them publicly available after prices become effective;
(3) hold requirement: distributors must hold price for 30 days;

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[99] Sullum, Jacob, "The Beer Distribution Oligopoly Bravely Resists Competition That Could Lead to Monopoly," Reason Blog, February 22, 2011 available online at reason.com, accessed July 20, 2012
[100] TAB Code section 22.14
[101] Britannica.com, July 6, 2011, accessed July 20, 2012
[102] Minton, Michelle, "Alcohol Producers in Texas Must Unite For their Right to Produce," openmarket.org, May 25, 2011
[103] As noted on page 51, Washington privatized its alcoholic beverage operation effective June 1, 2012, following state voter passage of Initiative 1183 in November 2011.
[104] Costco Wholesale Corp. v Maleng and Hoen, U.S. Court of Appeals for the Ninth Circuit, No. 06-35538, DC No. CV-04-00360-MJP

(4) minimum markup: distributors mark up the acquisition price by no less than 10 percent;
(5) quantity discounts by distributors are prohibited;
(6) cash only requirement: sale of beer or wine on credit is prohibited;
(7) "delivered price" requirement: distributors must charge the same price to all retailers even if the retailers pay the freight and pick up the goods themselves;
(8) central warehouse ban: retailers may not hold beer at a central warehouse; and
(9) retailers cannot buy from another retailer: retailers must buy only from a licensed distributor.

These types of regulations prevent retailers from taking advantages of their own strengths in logistics and finance. Retailers' strategies seek to sell large quantities of beer with a small profit margin, especially on their own store brands. The ban on discounts and mandatory markups directly affect consumer interests. According to one estimate, the distribution system costs consumers 18 to 25 percent more than otherwise. In a study on wine, the FTC estimated the consumer cost at 21 percent.[105] These anticompetitive state regulations are another area of special concern.

Illinois[106]

Powerful distributors determine which beers make it to the shelves. For example, Bell's Brewery in Michigan gave up trying to penetrate the Chicago market and pulled out of Illinois completely.

A small brewery has almost no chance of reaching the Chicago market. In fact, while craft breweries flourish across America, very few craft breweries exist in Chicago. They just can't get their beer to market. Two Brothers, founded by Jim and Jason Ebel, split their efforts to save their brewery. Jim kept the brewery and Jason formed Windy City Distribution to distribute the beer. Even then it took many years for any retailer to take them seriously.

According to trade press reports, the smaller distributors (especially in Chicago) are getting squeezed out of the business, because the larger distributors are also offering illegal perks. It could be as simple as running an extra tap line "to try out a new beer" to installing entire tap systems costing thousands of dollars. Retailers in Chicago are even requesting freebies since the practice is so commonplace. It is illegal, but in most cases it is overlooked. The distributors are employing the same tactics the breweries used before Prohibition.

Montana

In 1947, Montana enacted a quota system allowing one tavern for every 1,500 residents of a city. Because of the limited number, the price of liquor licenses for resale has skyrocketed. Famous Dave's barbeque restaurant in Kalispell "paid $950,000 to the owners of the Bulldog Pub and

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105 Federal Trade Commission: "Possible Anticompetitive Barriers to E- Commerce: Wine, A Report from the Staff of the Federal Trade Commission," July 2003, op. cit.

106 This section in based on several sources: Spiess, D.J, "How the three-tiered beer distribution system works, February 22, 2009, available online at fermentarium.com, accessed July 20, 2012; Visela, James Jr., Sterrelt, David, and MacArthur, Kate, "Graft Beer: Pay to Play Infects Chicago Market," November 23, 2010; Griffin, Wesley, "Craft Beer Corruption in Chicago, November 30, 2010, available online at beer-universe.com, accessed July 20, 2012

Steakhouse for its liquor license. The new Blue Canyon restaurant in Kalispell bought its liquor license for $525,000 from a partnership of area businesspeople."[107]

Minnesota

In March 2006, a study by Minnesota's Office of the Legislative Auditor, found that Minnesota consumers would benefit from fewer restrictions on retail competition in alcoholic beverages. A retailer was able to purchase a manufacturer's brands from only one wholesaler. Prices for off-premises beer sales in Minnesota were 9 percent higher than in neighboring Wisconsin. Adopting less restrictive retail laws like those in Wisconsin could save Minnesota consumers about $100 million annually, but would jeopardize $16 million annual profits of municipal liquor stores (as of 2004). Most of the 226 cities in Minnesota with city-owned liquor stores had a monopoly on off-premises beer sales within the cities' boundaries. Minnesota had fewer off-premises outlets than 40 other states and the District of Columbia. The study also found that banning exclusive territories for beer and wine distribution "might limit product availability and reduce other consumer benefits." "Franchise protection together with Minnesota's requirement for exclusive territories may well make it difficult for brewers to terminate inefficient wholesalers." Minnesota, however, had lower prices than Wisconsin for hard liquor, which is attributed to Minnesota's ban on exclusive territories for hard liquor. Minnesota's franchise termination law protects the rights of beer distributors by requiring "good cause," 90-day advance notice and allowance for correction of deficiencies within the 90-day period. "Minnesota does not provide the same protections for wine and spirits wholesalers."[108]

Regulatory Authorities

From the standpoint of regulatory authorities at the federal level, the possibility of unfair and anticompetitive practices warrants close attention. It will be necessary to monitor the competition to assure that the duopoly companies are not engaging in predatory pricing aimed at driving their foremost small competitors out of business; and to prevent undue price increases that harm consumers.

Viewing the marketing of beer from the standpoint of the three-tier distribution system at state level, one could conclude the following:

(1) with duopoly structure in the manufacturing tier, there is not enough competition to bring prices down or keep them steady; concentration of ownership facilitates large advertising budgets that can shift the focus away from price via differentiation and create entry barriers;

(2) the retail tier is actively attacking barriers of the three-tier system through lawsuits and court actions with a large degree of success (internet sales, direct purchases from brewers at

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[107]Tesla, Dan "A License to Pour: The Strange World of Montana Alcohol Law," Flathead Beacon , August 8, 2007, available online at flatheadbeacon,com, accessed May 9, 2012

[108]Minnesota Office of the Legislative Auditor, "Evaluation Report: Liquor Regulation," March 2006, available online at www.state.mn.us, accessed July 20, 2012

discount prices, use of chain distribution logistics, store brands, and privatization at least in one former "control state"); and

(3) wholesale distributors remain protected by state alcoholic beverage laws and franchise laws, fortified by political influence at the state and local levels.

Many of the wholesale distributors operate in small fiefdoms, insulated from competition by contracts with the duopoly brewers for exclusive territories, virtually vertical integration, contrary to the original theory of three-tier separation. In effect, they operate as individual brand monopolies in certain localities. This layer of activity adds to costs which could be avoided by the use of more efficient means of bringing the products to market. A-B's tense relations with wholesale distributors stemming from their efforts to "streamline" the distribution network points to inefficiencies that they themselves recognize in the system.

At the state level, therefore, it will be incumbent upon legislators and regulatory agencies to deal with pressures from major brewers, craft brewers and retailers, seeking changes in the three-tier system of distribution. They need to be aware of new business practices and the manner in which other states are coping with problems and ways in which to reconcile the new practices with regulation of the distribution system. Taking into account local situations, state governments need to consider proposed changes in laws and regulations to reduce or eliminate restrictions which impede business and raise costs for consumers.

In sum, competition in the beer industry takes place within the framework of the three-tier state distribution system--- a system which adds costs that are passed on to the ultimate consumer. The possibility of a mega-merger of the leading companies presents another threat to competing companies as well as to consumers. The increased market power of a massive manufacturer, together with state-administered regulations that protect wholesalers and ban discount pricing, multiply the burdens of small brewers and retailers, who seek more open competition.

Next, the paper turns to the world market to examine how the beer industry has become more globalized, more privatized, and more consolidated.

PART VII
"The World Is Flat, But Not the Beer"

GLOBAL BEER INDUSTRY

Beer has been international for centuries. Archaeologists have found evidence that beer-like brews were made in Babylonia, China, Egypt and Iran in ancient times (as far back as 7000 BC).[109]. The art of making beer has been spread internationally through conquests, colonization, commercial ventures, and individual travel.

Examples of the spread of beer internationally are easily found. In colonial days, beer was brewed aboard British naval vessels. It was safer to drink the ship's beer than the ship's water. Beer came to America with the Mayflower in 1620. British sailors reportedly would not allow the settlers to take beer ashore for fear that there would not be enough for the return trip to England. In the17th century, the Dutch opened beer halls for sailors working the trade route between Japan and the Dutch Empire. Modern beer came to China more recently. For example, in 1900, a Russian citizen of Polish origin founded a brewery in Northeast China to supply Russians working on the Trans-Manchurian Railway Project. This facility, now known as the Harbin Brewery, is the oldest operating brewery in China and has a leading position in the country's beer industry. Also, German settlers brought beer to Qingdao, China in 1903 and founded the Tsingtao Brewery.

In the past two decades beer has become globalized in the same sense as other familiar branded products which originate in one country and later are manufactured and consumed throughout the world. The pace of globalization for beer has greatly accelerated over this period with the increased activity of multinational beer enterprises acquiring existing breweries and constructing new facilities in emerging markets, as well as licensing production of their brands outside their home countries. As incomes rise and living styles change in developing countries, demand for such products is growing.

World Production

Total world beer production was about 180 billion liters (1.53 billion barrels) in 2010. China has become the world's largest producing and consuming country, surpassing the United States in 2002, where the market has been slow-growing or stagnant since the 1980s. China's consumption has increased to over one-fifth of the world total from less than one percent in 1961 (and as recently as 1980). During that same period, the share of U.S. companies has declined from 26 percent to 17 percent. The market in China had been fragmented until the recent trend toward consolidation, but the combined market share of China's top three producers is much below that of most other countries, signifying that there is considerable room for further consolidation. [110]

[109] Bar-Yosef, Ofer, "Fermented Beverages of Pre- and Proto-historic China," Proceedings of the National Academy of Sciences of the United States of America, PNAS Magazine, cited in Wikipedia, retrieved September21, 2010; Wine, Li, "The Beer or Ancient China – China Beer Festivals, 2009" echinacities.com, July 15, 2009, cited in Wikipedia, retrieved September 21, 2010.

[110] China's top three producers' market share was 43%, compared to 70% in the world's largest beer markets. See "Heineken Should Target China, Not Latin America," April 8, 2011 available online at seekingalpha.com accessed July 20, 2012. The number of beer companies in China fell from 474 in 1999 to 249 in 2008 and the combined market share of the top four increased from 19% to 54% in 2009. See "Beer in China," My Decker Capital, December 2010 available online at mydeckercapital.com, accessed July 20, 2012.

Consolidation

Through mergers, acquisitions and subsequent growth, the world beer industry has become increasingly more concentrated since 2000. The four leading companies increased their combined world market share from about 25 percent to more than 45 percent since then. In 2010, ABInBev, the largest, accounted for 18 percent; SABMiller accounted for 14 percent; Heineken, 9 percent; and Carlsberg 5 percent, according to Canadean, a UK research, analysis and consulting firm.[111] Three large and growing Chinese companies are among the world leaders: China Resources (4.5%), Tsingtao (3.1%) and Beijing Yanjing (2.5%). All four major Japanese brewers are internationally active, especially Asahi and Kirin.

As displayed in Box VII-1, data for 2011 from Euromonitor International, another UK research and analysis firm, show similar results with the top four at about 45 percent (with Molson Coors added to SABMiller).

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Box VII-1

Beer: Global Market Shares, Top Ten Companies, 2011

Rank	Company	Percentage Share
1	ABInBev	18.3
2	SABMiller	9.8
3	Heineken	8.8
4	Carlsberg	5.6
5	China Resources Enterprise	5.4
6	Tsingtao	3.6
7	Modelo	2.9
8	Beijing Yanjing	2.9
9	Molson Coors	2.7
10	Kirin Holdings	2.6

Source: Euromonitor International

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Many of the world's beer markets are duopolies. In addition to the United States, Australia, Canada, Mexico, Brazil and others essentially are duopolies. Except for China (which has not yet reached the same stage of consolidation), the chart below (Box VII-2) illustrates in detail the beer duopolies in major markets. Viewed from another perspective, out of the world's top 40 beer markets that represent 93 percent of beer production, there are few markets where the top three brewers have less than a 70 percent share in their home markets. According to the Barth/Hansmaennel Report of

[111] Canadean News, Amsterdam, May 27, 2010. Another beer research and consulting firm, Plato Logic, reported that the combined market share of the top four exceeded 50 percent. See Jones, David, "Top four brewers account for over half world's beer," Reuters, February 8, 2010.

2007[112], these included: Germany (33%), the United Kingdom (64%), Romania (69%), France (67%), Italy (66%), Austria (63%), China (55%) and Vietnam (62%). Among the numerous countries in Africa, concentration is even more apparent.

Until recently, some African markets have been served by a single supplier, some state owned. With privatization, however, the situation is changing. Some observers have suggested that corporate brewers may be reluctant to enter duopoly markets, fearing that earnings are likely to be small and that it would be difficult to justify the action to stockholders, but the search for growth and profits by beer companies, together with more receptive attitudes of developing country governments toward foreign investments and privatization have led to substantial global consolidation.

Investments in Foreign Markets - Global Giants and Others

The global giants and other large brewers were especially active in international mergers and acquisitions in the past decade, as shown in Box VII-2 below. The total cost of acquisitions in the last decade amounted to $195 billion, according to Bloomberg[113] In addition, multinational beer companies invested in building new plants in various countries, mostly in China and Africa.
Like other large corporations, the beer conglomerates are expanding beyond their national borders to operate in faster-growing overseas markets. As a result, consolidation of beer markets is occurring worldwide. World market share of the top four conglomerates --- ABInBev, SABMiller, Carlsberg, and Heineken--- grew from 22 percent in 1998 to nearly 50 percent by volume in 2010.

The "Four Giants" earned about 70 percent of the world's beer revenues.[114] The Financial Times reports that the top seven beer companies accounted for 50 percent of the market by volume in 2010, citing Thomson Reuters and Euromonitor as sources: ABInbev 18 percent; SABMiller 9 percent; Heineken 8 percent; Carlsberg 6 percent; China Resources Enterprises 5 percent; Tsingtao 4 percent; and Modelo 3 percent).[115]

In addition to the ABInBev and SABMiller transactions, Heineken (#3) and Carlsberg (#4), engaged in another big acquisition in 2008, jointly taking over Scottish & Newcastle in the UK and dividing between them its businesses. Heineken got increased access to the British market and India, while Carlsberg expanded in Eastern Europe and in China. Of the two, Heineken is more global. Carlsberg does not include Africa or the Americas in its strategy.

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112 Cited in "International Reports: Why Not?," posted July 2009, available online at beermonopoly.net, accessed July 21, 2012

113 Fletcher, Clementine, "No Deals Brewing After $195 Billion Buying Spree," Bloomberg BusinessWeek, January 26, 2012, available online at businessweek.com, accessed July 21, 2012

114 JPMorgan Cazenove report European Beverages, 21 July 2010, as cited by SABMiller.

115 Jones, David, "Top four brewers account for over half world's beer," Reuters, February 8, 2010.

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Box VII-2

BEER DUOPOLIES

Country	Company	Market Share	Year and Notes	
USA	ABInBev	50%	2010	
	SABMiller	30%	2010	
Mexico	Modelo	55.7%	2005	50% owned by ABInBev
	FEMSA	43.4%	2005	owned by Heineken
Canada	Molson	45%	2001	Molsons is part of MolsonCoors
	Labatt	45%	2001	owned by ABInBev
Australia	Foster's	48%	Duopoly Retailers: Woolworth	
	Lion Nathan	44%	and Coles cutting prices	
New Zealand	Lion Nathan	51.72%	2007	
	DB	36.31%	2007	
Brazil	AmBev	70%	2009	owned by ABInBev
	Schincariol	12%	2009	owned by Kirin
India	UB (United)	57%	2011	
	SABMiller	24%	2011	
Japan	Asahi	37.4%	2011	Asahi/Kirin agreed to joint
	Kirin	36.3%	2011	deliveries July 2011 to cut costs
Korea	HITE	50%		
	OB	50%		
Russia	Baltika	37.4%	2011	owned by Carlsberg
	SABMiller-Efes	18%	2010	SUN InBev close third 15.8%
South Africa	SABMiller	78% 2011	(Euromonitor)	
	United National	10%	2011	Brandhouse close third
	Brandhouse (Amstel)	9%	2011	JV
Heineken/Diageo/Namibia				
Turkey	Efes	89%		

Source: compiled by the Author from various sources

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As a result of these investments, ownership of some of the best-selling and widely known brands around the world has changed. In the United States, the industry is now dominated by the same four top beer conglomerates, which now account for close to 90 percent of total U.S. sales by volume.[116] The table below (Box VII-3) lists key cross-border mergers and acquisitions during the period 2002-2012.

[116]"The global beer industry: Sell foam like soap," The Economist, May 5, 2011;

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Box VII-3

CROSS-BORDER MERGERS AND ACQUISITIONS, 2002-12

Yea r	Purchaser or Merger Partner	Acquisition or Partner	Cost (in billions)
2002	SAB	Miller (US)	$5.6
2004	Interbrew	Ambev (Brazil)	$11.0
2004	Anheuser-Busch	Harbin (China)	$0.72
2005	SABMiller	Bavaria SA (Colombia)	$7.8
2005	Molson	Coors (US)	$3.4
2006	InBev	Sedrin (China)	$0.74
2007	SAB	MolsonCoors (US)	---
2008	InBev	Anheuser-Busch (US)	$52
2008	Heineken+Carlsberg	Scottish & Newcastle (UK)	£7.6
2009	Asahi	Tsingtao (19.9%) (China)	$0.7
2009	Kirin	Lion Nathan (53.87%) (Au)	$3.7
2009	Kirin	San Miguel (48.3%) (Ph)	$1.4
2010	Kirin	F&N (14,7%) (Singapore)	$1.0
2010	Heineken	FEMSA (Mexico)	$5.5
2011	Kirin	Schincariol (Brazil)	$2.5
2011	Asahi	Independent Liquor (NZ)	$1.3
2011	SABMiller	Foster's(Australia)	$10.2
2011	SABMiller	Efes (Russia, Ukraine)	$1.9
2012	ABInBev	CND (Dominican Rep.)	$1.24
2012	Molson	Starbev (Czech Rep.)	$3.5
2012	ABInBev	Modelo (Mexico)	$20.0

Source: Compiled by the Author from various sources

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Despite their increased investment and their increased shares of foreign markets, sales of the four leading companies remain heaviest in their more traditional markets. Table VII-1 below illustrates the geographic differences in sales by the four giants in 2009. SABMiller is the most diversified internationally and is strong in Africa and Latin America. ABInBev is strong in North and South America. Carlsberg and Heineken are strong in West and Central Europe. Sales of the four in China, although increasing, are still small relative to sales in other major markets.

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Table VII-1

**PERCENT OF TOTAL SALES BY REGION
MAJOR BREWING COMPANIES, 2009**

Region	ABI	SABM	CARL	HEIN
North America	42	23		10a
Latin America	26b	20		
Europe		22		
West	12		61	65
Central & East	7		32	21
Asia Pacific	5	6	7	2
Other	8	29c		12d
Total	100	100	100	100

ABI=ABInBev; SABM=SABMiller; CARL=Carlsberg; HEIN=Heineken (2009 sales, except SABM, 2010)
Notes:
a= all of the Americas
b=North America 21; South America 5
c=South Africa 19; Other Africa 10
d=Middle East and Africa

Source: Hoover's

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Per Capita Consumption

The "beer belt" is the territory covered by countries in Europe where beer is historically the most popular alcoholic beverage. The beer belt is located to the southwest of the "vodka belt" and to the northeast of the "wine belt." The beer belt includes Belgium, Ireland, the United Kingdom, Netherlands, Denmark, Germany, Austria, Luxembourg, Czech Republic, Slovakia, Poland, the northern and eastern cantons of Switzerland and the French regions of Alsace, Lorraine and the Nord-Pas-de-Calais and the department of Ardennes. There is quite a bit of overlap in these French regions, as well as in southwestern Germany and parts of Austria, due to the considerable consumption and/or cultivation of wine there, and Poland is also a part of the Vodka belt. Historically, beer became the main alcoholic beverage in regions with a smaller Roman Empire influence and with cooler climates where cereals are the main agricultural product.

In wealthier countries with ageing populations, per capita consumption of beer is stagnant or declining, whereas emerging countries with growing middle income populations, per capita consumption is increasing. In China, for example, per capita consumption has grown from 17 liters in 2000 to 36.5 in 2009.

According to data for 2010, Czech Republic is the world's leading country in per capita consumption, followed by Germany and Austria. Ireland, Estonia, Lithuania, Poland and Finland were among the top ten.

The highest consumption in non-European countries was in Australia, New Zealand, Venezuela and Panama. In the United States, which was ranked twelfth, consumption per capita remained relatively steady (at roughly 80 liters per year), but declined in 2010 (to 78 liters). Consumption in Canada has held relatively steady at about 68 liters. Growth of per capita consumption is notable in Russia and Brazil (at 65-66 liters in 2010) and Mexico (approaching 60 liters).

In Asia, per capita consumption in Japan and South Korea ranged between 38 and 45 liters. China, the world's largest beer market in terms of total volume, consumed only 31 liters on a per capita basis, despite its phenomenal growth mentioned above. In highly-populated India, consumption is below 3 liters per person. See Appendix III-2

International Trade

Because of the high cost of shipping beer long distances, trade is limited mostly to high-quality, high-value products and mostly to nearby countries. Market access for international companies occurs mostly through mergers, acquisitions, joint ventures, and licensing arrangements. World trade in beer is therefore small in relation to world production (around 5 percent).

The United States is the world's largest beer importer. U.S. imports of alcoholic beverages require a permit issued by the Alcohol and Tobacco Tax Bureau (TTB). Import duties and taxes apply. (Imports of beer from Mexico and Canada are duty-free, pursuant to the North American Free Trade Agreement (NAFTA)). If the importer intends to distribute the beer, a separate distributor license is required by TTB. Otherwise, the imported product needs access to a U.S. distribution company. At least one analyst believes that imports are not constrained by production capacity, but rather by distribution capacity.[117]

Imports were small in the early post-World War II period, but they grew steadily to reach one million barrels in 1972. With recovery of the European economy, U.S. imports climbed to 10 million barrels by 1988. Imports such as Guinness Stout are in direct competition with domestic specialty beers, some of which have offshore cachet. U.S. imports reached a peak of 29.7 million barrels in 2007, but leveled off to about 27 million barrels in 2010. (See Table VII-2 below.) Mexico supplied roughly half the imports, Netherlands, 22 percent, and Canada, 9 percent. Corona was the leading imported brand and the sixth leading brand in U.S. sales. U.S. beer imports from Mexico jumped exponentially following implementation of the North American Free Trade Agreement (NAFTA).

[117] Reid, Peter V.K., "A Brief History of Imported Beer" (based on analysis by Analyst Robert Weinberg), Modern Brewery Age, June 2004, available online at www.breweryage.com, accessed December 26, 2011.

Heineken imports are highly competitive. Meanwhile, U.S. exports in 2010 were far smaller than imports, about 2.7 million barrels.

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Table VII-2

U.S. IMPORTS, SELECTED YEARS
In Millions of 31-Gallon Barrels

Country	2002	2006	2007	2008	2009	2010
Mexico	9.8	14.0	14.0	13.6	13.1	13.7
Canada	3.4	3.3	3.4	3.2	2.4	2.7
Netherlands	5.9	7.1	6.8	6.6	5.7	5.6
Germany	1.2	1.3	1.4	1.2	1.1	1.2
U. K.	1.0	1.0	1.0	1.0	0.8	0.8
Belgium	0.1	0.6	1.0	1.0	0.9	1.1
All Other	1.7	2.0	2.1	2.1	1.9	2.0
Total	23.1	29.3	29.7	28.7	25.9	27.1

Source: Brewer's Almanac

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The Four Global Beer Giants[118]

As mentioned earlier, the four leading companies supplied more than 45 percent of the world's beer in 2010. ABInBev, the largest, accounted for 18 percent; SABMiller accounted for 14 percent; Heineken, 9 percent; and Carlsberg 5 percent, according to Canadean, a UK research, analysis and consulting firm.

ABInBev

Based on 2010 revenues, ABInBev is the world's leading brewer with a presence in 30 countries and employment of 116,000. As a result of the acquisition of Anheuser- Busch by InBev, the company is well diversified geographically, with leading positions in the world's top five markets--- China, U.S., Russia, Brazil and Germany--- and more balanced exposure to developed and developing markets. At least half of its sales are outside North America. The corporation benefits from a combined brand portfolio of 200 brands, including Budweiser and Bud Light (the world's best-selling brands) and other leading brands, such as Stella Artois and Beck's. In contrast to SABMiller, its largest global competitor, ABInBev follows a strategy of introducing and promoting global flagship brands rather than focusing mainly on local brands. Despite its growing international markets, 90 percent of ABInBev revenues come from America. Anheuser-Busch recently acquired the 50 percent ownership of Mexico's Grupo Modelo SA, which it had not already owned.

[118] Most of the information in this section is drawn from websites of the major brewers

ABInBev supplies roughly19 percent of the market in China; 80 percent in Argentina; 55 percent in Belgium; and 36 percent in Ukraine. See Appendix III for further details of ABInBev's activities in global markets.

SABMiller

SABMiller (originally South African Breweries) is now headquartered in London and is, arguably, the most international of the beer conglomerates and the world's second largest brewer. With more than 200 beer brands and nearly 70,000 employees, it operates in over 75 countries. According to analysts, it currently generates 80 percent of its sales and profits from developing and emerging markets. The company utilizes a multi-domestic strategy--- that is, it promotes mostly local brands rather than a global brand. This approach appeals to locals and builds on existing brand awareness and loyalty. The company is organized along international and regional lines and is basically decentralized. SABMiller's production and distribution are particularly strong in Africa, Asia, and Latin America. In Latin America, SAB Miller increased its presence in Colombia, Peru, Ecuador, and Panama through its purchase of Bavaria SA in 2005. In Africa, SABMiller is the largest supplier of beer, at one time having supplied 98 percent of South Africa's beer sales, and about 40 percent of consumption in all of Africa. The company is present in many African countries, including Uganda, Angola, Ghana, Mozambique, Tanzania and Zambia. Also, SABMiller plans to build a $100 million plant in Nigeria. SABMiller has invested $1.75 billion in Africa over the last four years. In China, SABMiller (through its joint venture with Chinese Resources Enterprise) is a leading brewer by sales volume in the world's largest beer market. It also holds the top position in South Africa (88 percent market share) and second position in India. In addition, during the period of privatization in Central and Eastern Europe in the 1990s, SAB was the first to buy into breweries in the Czech Republic, Hungary, Poland, and Romania. Through a merger deal in 2011 with Turkey's largest brewer (Andolu Efes), SABMiller is now participating in Russia's market as the country's second-biggest brewer. With its recent purchase of Foster's, the company now serves roughly half the Australian market. Following InBev's purchase of Anheuser-Busch, SABMiller is striving to regain the top position in global sales from its archrival. See Appendix III for further details of SABMiller's activities in global markets.

Heineken

With annual beer production on the order of 200 million hectoliters, Heineken ranks as the third largest brewer in the world after Anheuser-Busch InBev and SABMiller, based on volume. Headquartered in Amsterdam, Netherlands, Heineken owns a worldwide portfolio of over 170 beer brands, mainly pale lager. Heineken is organized in five territories, subdivided according to regional operations, as follows: Western Europe, Central and Eastern Europe, The Americas, Africa and the Middle East, and Asia Pacific. The two largest brands are Heineken and Amstel (which Heineken bought in 1968). These regions contain 115 brewing plants in more than 65 countries, brewing local brands in addition to the Heineken brand. Since 2007, Heineken (through its joint venture with Carlsberg) owns the former Scottish & Newcastle international brands, such as Strongbow and Bulmers Ciders and John Smith's and Newcastle Brown Ale. It expanded its portfolio of brands and global reach further in 2010 with the acquisition of Mexico's FEMSA Cerveza, comprising 100% of FEMSA's Mexican beer operations (including its US and other export business and its massive distribution network) and the remaining 83% of FEMSA's Brazilian beer business that Heineken did not already own. In July 2012, Heineken offered to buy Asia Pacific Breweries from its joint venture partner, Fraser & Neave for US$4 billion. See Appendix III for further details of Heineken's activities in global markets.

Carlsberg

Carlsberg Breweries is the fourth largest brewery group in the world, producing 7.9 billion liters of beer per year (equivalent to about 65 million 33cl bottles a day) in more than 140 markets. Founded in 1847 and headquartered in Copenhagen, Denmark, it owns a portfolio of 500 brands (most notably Carlsberg and Tuborg), which are brewed at 90 locations in 45 countries. Over 75 percent of its beer sales are outside Denmark. Through its brewing facilities and distribution agreements, Carlsberg and Tuborg can be found in 150 countries around the world. Four brands in Carlsberg's portfolio are among the top ten in Europe: Carlsberg, Tuborg, Baltika (Russian), and 1664 (French). Carlsberg has eleven breweries in Russia, its largest market. It holds a market share of around 40% in Russia through its ownership of the Baltika Brewery, Russia's largest beer producer. Carlsberg Light brands have been brewed in Canada under license since 1988. Carlsberg holds a small share of the U.S. market. In 2008, together with Heineken, Carlsberg acquired Scottish & Newcastle for close to £8 billion. Most of Scottish & Newcastle operations in China, Vietnam, France and Russia and Eastern Europe were transferred to Carlsberg, including Scottish & Newcastle's share of Baltic Beverages Holding, a significant operator in the brewing industry in Russia, Ukraine, the Baltic countries and Kazakhstan. Since 2005, Carlsberg has operated in a 50-50 joint venture with the Government of Laos, producing Beer Lao, the country's leading brand. [In 1997, Carlsberg entered into a joint venture with the Coca-Cola Company to bottle, sell and distribute Coca-Cola soft drink products in Denmark and Sweden (later expanded to include Norway and Finland) under the name, Coca-Cola Nordic Beverages. To obtain European Union Commission approval for the joint venture, Carlsberg was ordered to sell off its interests in two companies: a Danish bottler of PepsiCo soft drink brands and the Danish maker of Jolly Cola.]

Other International Beer Companies

Modelo, Diageo (Guinness), Castel, and Efes are among the other internationally-active beer corporations.

Modelo

Grupo Modelo, founded in 1925, is Mexico's largest brewer. Although it is not one of the "Big Four Global Giants," Modelo is one of the world's leading exporters. Its Corona brand is available in more than150 countries around the world. It is the best-selling import beer in the United States with a 5-percent market share. It is the third-ranking supplier to the U.S. market, behind ABInBev and SABMiller, but ahead of Heineken, which is fourth. The company's policy is to brew Corona only in Mexico. It has eight breweries in Mexico, including one across the border from Texas, which is expected to be the largest in the world (when completed) and is dedicated solely for export to North America and Europe. In June 2012, ABInBev announced its acquisition of Modelo for $20 billion.

Diageo

Diageo was formed in 1997 from the merger of Guinness and Grand Metropolitan. In 2002, Diageo sold the Burger King fast food restaurant chain to a consortium led by US firm Texas Pacific

$1.5 billion. Diageo also owned Pillsbury until 2000 when it was sold to General Mills. Headquartered in the United Kingdom, Diageo is a world leader in the production and marketing of alcoholic beverages, including Johnnie Walker, Crown Royal, J&B, Windsor, Buchanan's and Bushmills whiskies, Smirnoff, Ciroc and Ketel One vodkas, Baileys, Captain Morgan, Jose Cuervo, Tanqueray and Guinness beer. The company operates in 180 markets and employs about 20,000 people around the world. The company has begun to shift its emphasis to sales in emerging markets. In beer, Diageo brews the well known Guinness brand. Diageo is particularly strong in the East African beer market. According to Diageo Africa's President, over the past five years, Diageo has invested more than £1 billion in building businesses in Africa. In volume terms, the Middle East and Africa accounted for 60 percent of Diageo's 1.9 billion liter global total in 2010. Diageo's operations in Africa are primarily focused on East Africa, particularly Kenya. Diageo dominates the market in Kenya, bottling 'Tusker' and 'White Cap' brands. Through its subsidiary, East African Breweries Limited ("EABL"), Diageo recently opened a $55 million state-of-the-art brewery in Tanzania with initial annual capacity of 500,000 hectoliters. The facility will produce its flagship brands Tusker lager and Premium Serengeti Lager. In 2011, the company spent US $368 million to expand its Nigerian brewing capacity and US $225 million to acquire the Meta Abo brewery in Ethiopia, formerly a government-owned brewery.

Efes

The foundation of the Anadolu Group, one of Turkey's largest conglomerates, was laid in the early 1950's by the Özilhan and Yazici families. Anadolu Group has principal interests in the beverage, automotive, finance, food, writing instruments and office supply sectors. In addition, energy has recently become an operating area for the Anadolu Group. Anadolu Efes is the beverage division of Anadolu Endüstri Holding A.S. (AEH or Anadolu Group), one of Turkey's leading conglomerates. Commencing operations in 1969 with two breweries in Turkey, Anadolu Efes is now the leader in the domestic beer market. Additionally Anadolu Efes is a holding company, which is the majority shareholder of Efes Breweries International N.V. (EBI), headquartered in the Netherlands, conducting international beer operations as well as the largest shareholder of Coca-Cola Içecek A.S. (CCI), conducting Coca-Cola operations in both Turkey and international markets. Together with its subsidiaries and affiliates, Efes produces and markets beer, malt and soft drinks in Turkey, Russia, Kazakhstan, Belarus, Moldova, Georgia and Serbia and the Middle East. Anadolu Efes currently operates 16 breweries, 6 malteries and 20 Coca-Cola bottling plants in 16 countries. As of end of 2009 Anadolu Efes had annual total brewing capacity of approximately 35.0 million hectoliters and total malt capacity of approximately 267,000 tons. Anadolu Efes' flagship brand, "Efes", is exported to more than 60 countries and widely consumed. A merger deal in 2011, combining SABMiller's 7 percent market share and Anadolu Efes ' (Turkey's largest brewer) 11 percent share, created Russia's second-biggest brewer. In a strategic alliance with SABMiller in October 2011, Efes gained ownership of breweries in Russia and Ukraine and SABMiller acquired 24 percent of Efes' stock. Anadolu Efes will be the vehicle for both groups' investments in Turkey, Russia, the Commonwealth of Independent States (CIS), Central Asia and the Middle East.

Castel

The Castel Group was founded in Bordeaux, France in 1949 by a family of 9 brothers and sisters. The Group is established in over 130 countries and has become the largest wine producer in France and Europe, and the second largest beer and soft drinks business in Africa, particularly in French-speaking Africa. The company became one of this area's key players when it acquired BGI (Brasseries et Glacières Internationales) in 1990.

See Appendix III for further information on investments in beer production in global markets.

Next

Continuation of the trend toward further consolidation of the global market for beer is likely. However, one is tempted to ask how long this will continue and whether it will result in a global monopoly. The next section discusses the possibility of a global monopoly.

PART VIII
"What's On Tap?"

MEGA-MERGER AND MORE

So far, the story has taken us through the growth and consolidation of the U.S. industry--- despite antitrust policy--- to become a foreign-owned duopoly, subject to many laws and regulations, including an antiquated and onerous three-tier distribution system. The U.S. beer market is stagnant with few, if any, new large-scale entrants, but with a large number of new, small craft brewers and brewpubs. The duopoly and several other giant multinational beer companies are moving into faster-growing, emerging markets around the world, leading toward heavier global concentration of the beer industry. Rumors are now circulating about the ultimate combination of the world's two leading companies into a global beer monopoly.

Mexican Beer

A funny thing happened while this story was unfolding. ABInBev decided to buy all the shares it did not already own in Grupo Modelo, Mexico's largest brewer. Now this is not quite the same as a merger of the world's two top beer companies, but it does combine the #1 and #6 world beer suppliers. It is not quite as large in value as a mega-merger of ABInBev with SABMiller, estimated at $80 billion, but at $20 billion, the purchase of Modelo is sizeable.

From the standpoint of the U.S. market, it combines the #1 and #3 suppliers --- not the #1 and #2 suppliers--- and all the breweries acquired are outside the United States. However, when the deal is completed, it will raise ABInBev's share of the market from 50 percent to 55 percent; and it will raise the ABInBev-SABMiller duopoly share to 85 percent (assuming that SABMiller retains its 30-percent share). So this may prove to be a good test case to see how regulatory authorities in the United States, Mexico, and the European Union might react, not only to this transaction, but to a larger one as well. Thus, the paper now turns to an examination of the ABInBev-Modelo transaction before returning to the possibility of the ultimate mega-merger or acquisition.

Competition in the U.S. Market

The U.S. Department of Justice (DOJ) is already hard at work, trying to determine the probable economic effects of this acquisition on competition in the U.S. market.[119] On the face of the transaction, it might appear that there is little or no change in competition in the U.S. market since the breweries acquired by ABInBev are all outside the United States. There are apparently no public complaints from rival companies, employees, communities or politicians.

Foreseeing a potential issue in the deal, Modelo is selling its 50-percent interest in Crown Imports, its U.S. distributor of Corona and other Modelo Brands, to its joint venture partner, Constellation Brands. As a result, Modelo's wholesale distribution operations will remain outside ABInBev's network, just as it was prior to the transaction. The separation gives the appearance that Corona and other Modelo brands will continue to compete with ABInBev brands (Budweiser, Michelob, etc.) as before. Perhaps U.S. regulatory authorities will see it this way, but they will have to take into account that pricing, marketing and other policy decisions for Modelo brands will now be made by

[119] Logan, Tim, "Justice Dept. Asks for More Info on A-B/Modelo Deal, St. Louis Post-Dispatch, August 17, 2012

ABInBev. With control of Modelo, is ABInBev likely to raise the prices of Corona and other brands sold to Constellation Brands, thereby forcing Constellation either to absorb the higher prices or pass them along to consumers? This will be among the many questions facing the DOJ as it reviews the case.

DOJ will also need to determine whether the acquisition would adversely affect competition in particular regions of the country, such as the southwestern states. As a result of the acquisition, would ABInBev be in a position to dominate or monopolize any regional market so that beer prices inevitably would increase in those markets? If so, would DOJ require ABInBev to divest certain assets or brands, as a condition for approving the transaction?

A major consideration for DOJ is the effect of the acquisition on U.S. beer industry concentration. Although Modelo no longer would be a separate entity from an ownership standpoint, is it also to be considered separate from the standpoint of distribution channels and, therefore, not an addition to ABInBev's 50 percent market share? More specifically, will DOJ conclude that the separation of distributors simply maintains the pre-existing competitive situation? Will DOJ disregard the concentration level in the U.S. market or will DOJ object to one company having more than a 50-percent share of the U.S. market?

From another perspective, with full ownership and new management authority, ABInBev in effect is eliminating a former rival and preventing another brewing rival from acquiring Modelo, thus solidifying to some extent its current leading position in the U.S. market. As a condition for approving the transaction, would DOJ require divestiture of particular assets or brands to offset the gain in market share?

Another factor for consideration is the potential cost savings and synergies to be attained from the transaction. In examining ABInBev's claim that the transaction will create $600 million per year in synergies, will DOJ reach the conclusion that such synergies (along with cost savings) will make the company more efficient and help to avoid raising consumer prices?

Modelo's Gigantic Brewery

A further complication is Modelo's construction of a huge brewery in Piedras Negras across the border from Texas. The first phase of construction was completed in 2010 and is in production. When fully completed (expected in 2013), the plant will be the largest and most modern brewery in the world. As originally planned, the output of the plant is destined entirely for the North American and European markets. At present, only Modelo brands are being produced at the plant. Under new management, however, it is conceivable that ABInBev could produce other brands there, possibly A-B brands. If so, this could displace some production at U.S. breweries. In labor negotiations, A-B has agreed not to close any U.S. plants, an agreement which has been honored by ABInBev (although it has reduced employment in recent years).[120] Strangely, this aspect of the transaction has attracted no attention in the trade press. Yet this could be a key factor in ABInBev's decision to spend $20 billion for the remaining shares of Modelo. Depending upon the composition of Modelo's new board of directors, A-B could gain control of the big brewery and decide what to brew, how and where to sell its products, and how much to charge. One wonders whether antitrust

[120] ABInBev agreed not to close any A-B U.S. plants and to stay committed to the A-B sales and distribution system. See MacIntosh, Julie, "Dethroning the King,", op.cit., p. 307

authorities will give any weight to the impact of the full output of this plant on competition in the U.S. market. In any event, DOJ's review of the ABInBev purchase of Modelo will serve as a good test case for assessing the prospects of a future merger of the ABInBev and SABMiller.

Competition in the Mexican and European Markets

Under the transaction, Grupo Modelo's name and headquarters in Mexico City will be maintained, and the company will continue to have a local board. Carlos Fernandez, Maria Asuncion Aramburuzabala and Valentin Diez Morodo will continue to play an important role on Modelo's Board of Directors. Two Modelo board members will join ABInBev's Board of Directors.

One of the reasons (and perhaps the main reason) for ABInBev's purchase of Modelo is to gain better access to the Mexican market for its own brands. Modelo already holds more than 55 percent of the Mexican market (63 percent according to some estimates),[121] and FEMSA, recently acquired by Heineken, holds nearly all of the rest. Acquisition of Modelo would help ABInBev compete more effectively against Heineken in the Mexican market. An antitrust investigation has been underway regarding alleged monopolization of beer sales at certain retail outlets by both Modelo and FEMSA.[122]

Under a previous arrangement, Modelo and A-B agreed not to establish breweries in each other's countries. [123] Also, for the U.S. market, Modelo's policy is to brew Corona and other brands only in Mexico. [124] Presumably, there are no immediate plans to change these policies, but with new management at Modelo, changes could be possible. How this might affect competition in the U.S. and Mexican markets is unclear.

Taking these factors into account, Mexico's antitrust authorities have to determine the competitive effects of the transaction. Under Mexican law, transactions over a certain threshold must be reported to the Federal Antitrust Commission. The Commission has 45 calendar days to issue a decision. If the 45-day period elapses without a decision, it is understood that the Commission has no objection to the transaction.[125]

As a Belgian corporation, ABInBev's transaction will also be reviewed by European Union authorities. The Belgian conglomerate is the world's leading brewer, producing roughly 400 million hectoliters of beer annually across 24 countries. ABInBev can be expected to sell more of its European brands (e.g., Stella Artois, Becks) in Mexico and to import more Corona and other Modelo brands in European countries. ABInBev's share of the EU market can be expected to increase. Also, Denmark's Carlsberg beer currently distributes Corona Beer in some countries and may lose the distribution rights to ABInBev.

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[121] E.g., Hoover's

[122] For further discussion of the allegations, see Part III

[123] "Modelo S.A. de C.V." available online at fundinguniverse.com, accessed August 11, 2012

[124] Ibid.

[125] At the time of this writing, it is not known whether a notification of the transaction has been made to the Mexican authorities.

The Ultimate Merger or Acquisition

Return now to the prospect of a mega-merger between ABInBev and SABMiller, bearing in mind that the manner in which DOJ treats the ABInBev-Modelo transaction will provide clues to how it might treat a merger of the two leading suppliers of the U.S. market and the world market.

Conceivable

Is it possible that the unthinkable could happen--- a merger of the world's two top brewing companies into a global monopoly (or at least a virtual monopoly)? Why would anyone give credence to speculative reports that two apparently bitter rivals could come together and blend into a single entity? As noted by a TV reporter in St. Louis, a combination of Anheuser-Busch InBev and SABMiller would be like a merger of Catholics and Protestants.[126] Nevertheless, based on discussions with beer industry analysts, *Reuters, The Financial Times* and others speculate about a possible $70-80 billion acquisition of SABMiller by ABInBev, currently the two top brewers in the world, controlling about one-third of the global market.[127]

Reasons given for consummation of such a transaction include the following.

- It affords an opportunity for future efficiencies and cost reductions. (Apparently, the financial analysts have already conducted studies along these lines. Credit Suisse estimates $2.1 billion in savings, JPMorgan, $1.3 billion;[128]
- It makes sense internationally with SABMiller's strength in markets where ABI has limited or no presence: Africa, South America, Eastern Europe[129] and (more recently) Australia;
- ABInBev's biggest shareholders come from the investment banking business. It is run by "very good financial engineers" and executives stand to make big gains from the transaction (Ann Crotty reports in South African Business Review that executives would earn a total of $1 billion from options) A-B distributed 28 million stock options to 40 executives in the InBev takeover as an incentive to reduce debt by 50 percent over five years;[130]
- ABInBev is reducing its debt and probably can finance a deal entirely or largely in cash (even though SABMiller's $11 billion purchase of Australia's Foster has increased the cost and delayed any prospective deal by at least six months. ABInBev's CEO said that the company's "debt would fall during 2012 to levels which made further acquisitions possible." Some industry observers expect that A-B will be in good position to enter a major transaction in 2013.);[131]
- As stated by Eddy Hargreaves of Collins Stewart, a wealth management firm, "an acquisition of SABMiller…which we have long seen as the logical end game for ABInBev now looks to be

[126] George Sell, Fox News, April 5, 2012 available online at fix2now.com, accessed May 9, 2012. Despite their rivalry over the years, A-B's CEO (August Busch III) met with SAB's CEO (Graham Mackay) on a few occasions. In the late 1990s A-B was "loosely considering SAB as a takeover target." See MacIntosh, Julie, "Dethroning the King," John Wiley& Sons, Inc., 2010, p. 115.

[127] Jones, David, "Dealtalk: ABInBev seen brewing up final mega deal," Reuters, September 26, 2011; Lucas, Louise, "Brewing industry thirsty for crowning deal, May 10, 2011; Forbes, "Is Anheuser-Busch-InBev About to Buy SABMiller for $80 Billion? They Could, But Won't," October 7, 2011; "A-B InBev and SABMiller Rumors Swirl, Convenience Store News, October 17, 2011.

[128] "AB InBev, SABMiller merger talks heat up," beerpulse.com, February 2, 2011.

[129] Jones, David, "Dealtalk: ABInBev seen brewing up final mega deal," Reuters, September 26, 2011

[130] Kesmodel, David and Vranica, Suzanne, "Unease Brewing at Anheuser As New Owners Slash Costs," April 29, 2009

[131] "ABI to acquire SABMiller in 2013?," Beer Business Daily, September 27, 2011

feasible."[132] (Even some skeptics, such as the editor of Beer Business Daily are beginning to believe that the mega-transaction is inevitable);[133]

- Hargreaves also believes that antitrust is not a big concern because SAB can sell its 58% stake in Miller Coors to its joint venture partner, Molson Coors;
- According to Credit Suisse, a "deleveraging ABI, an increasingly disadvantaged SABMiller footprint and business rationality at both firms are ripe to produce more consolidation in the global beer industry";[134] and
- SABMiller may be vulnerable to sale because two key executives are likely to retire soon (CFO Malcolm Wyman, and CEO Graham Mackay).[135]

Many analysts, however, are skeptical and believe that such a transaction will never occur for a variety of reasons, including the following.

- The high cost of acquisition ($80 billion) is a factor, possibly the largest such transaction in history. Some analysts believe that SAB's recent purchase of Foster's Beer of Australia actually was designed to make SAB unaffordable for acquisition by ABInBev, its arch rival;
- The companies have already achieved large cost savings and synergies from previous mergers. One analyst (Trevor Sterling of Sanford C. Bernstein, an investment banker) estimates that the deal would result in no more than 5 percent cost savings, mainly from headquarters and procurement synergies;
- The companies have different cultures and market strategies. A-B promotes its flagship brands Budweiser and Bud Light in foreign markets, whereas SABMiller follows a multi-domestic strategy, supporting local brands in each country (although reportedly it is now trying to introduce its MGD as a global brand);
- According to ABInBev's CEO, the company is now at the right size and will aim for organic growth rather than acquisitions;[136] and
- One analyst points out that SABMiller's net debt after acquiring Foster's is about $18 billion and that its leverage is higher than ABInBev's. Acquisition, therefore, would involve considerable execution risks, that is, it may be difficult to consummate the deal within a specified range of recent market prices.[137]

The acquisition of full ownership of Modelo by Anheuser-Busch for $20 billion (yet to be completed and approved) will delay any acquisition of SABMiller in the next year and may even diminish the likelihood of such a mega-transaction due to the need for additional financing.

Consultants, law firms, banks and other financial institutions may see the potential acquisition of SABMiller as a means of earning large fees for themselves for advising, arranging and consummating such a transaction. Executives of the beer companies with substantial stock holdings also would benefit, as stated above. Mere rumors of the deal already have affected stock prices.[138]

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132 Lucas, Louise, "Brewing industry thirsty for crowning deal," Financial Times, May 10, 2011

133 "ABI to acquire SABMiller in 2013?," Beer Business Daily, September 27, 2011

134Lucas, Louise, "Brewing industry thirsty for crowning deal," Financial Times, May 10, 2011

135 "Analysts continue to discuss potential ABI/SAB merger, Modern Brewery Age, May 13.

136 Schultz EJ, "What a SABMiller-ABInBev merger would mean," Advertising Age, October 6, 2011

137 Fletcher, Clementine, Burger King Sale Could Aid AB InBev Bid for SABMiller, KBC Says," Bloomberg BusinessWeek, April 5, 2012

138 Fletcher, Clementine, and Marotto, Telma, "SABMiller Shares Surge on Report of ABInBev Takeover Talks," Bloomberg Business Week, October 6, 2011

Moreover, it is becoming more difficult for beer companies to expand their businesses without entering new markets and absorbing existing facilities. Some analysts see this as a good geographic match for the two companies. A-B is strong in North America and China. SABMiller has greater international presence, particularly in high-growth emerging markets in Latin America and Africa. With respect to the increased cost of SABMiller due to the purchase of Foster's, access to the high-margin Australian market and the wider global spread is an attractive feature for acquisition. In this light, rather than discouraging a takeover by ABInBev, the acquisition of Foster's may make SABMiller an even more tempting takeover target.[139]

Thus, rumors continue to fly about a potential deal and speculation has reached the stage where bankers and analysts are reported to have considered some possible divestitures that would have to be made to satisfy antitrust authorities. Quoting "one banker who has worked for one of the big brewers," *Reuters* reports that "At least $13 billion of disposals to get around anti-trust issues in the U.S. and China, but annual cost savings could potentially top $1 billion. Disposals would likely include the sale of SABMiller's 58 percent stake in U.S. brewer MillerCoors, probably to 42 percent co-owner Molson Coors for around $9 billion as MillerCoor's near-30 percent U.S. market share added to ABInBev's 50 percent would be too much for U.S. authorities. A further move would likely be the sale of SABMiller's 49 percent share in leading Chinese brewer CR Snow, to appease Chinese authorities as ABInBev already has a significant Chinese presence."[140] The companies have declined to comment.

Antitrust

If this acquisition were to happen, how would U.S. antitrust authorities react? Under current DOJ-FTC merger guidelines, would U.S. government antitrust authorities challenge the transaction in its entirety? Or would the authorities view the deal as a way of bringing about cost efficiencies that could be passed along to consumers, thus satisfying the DOJ-FTC merger guidelines? Alternatively, would they require divestiture of some beer holdings (such as those shown in the above press report), as was the case in the purchase of Anheuser-Busch by InBev in 2008. And how would authorities in China or Britain or the European Union react?

Evidently, "the banker who worked for one of the big brewers" believes that ABInBev (or SABMiller) would have to divest $13 billion of holdings "to get around antitrust issues in the U.S. and China," a rather precise calculation. To satisfy U.S. authorities, the banker further concludes that this would involve a spin-off of MillerCoors, probably to MolsonCoors. Has the banker conferred with U.S. antitrust officials? Why is there another assumption that Chinese officials will require some divestiture? Has the banker met with Chinese antitrust officials? There is more here than meets the eye.

These calculations suggest that there is a limit to the market share that U.S. antitrust officials permit for a single company. Presumably, the "banker" believes that authorities can tolerate an 80 percent market share for a duopoly, but perhaps not for a single entity. Is there an implicit limit based on market share? Would this be a departure from the current DOJ-FTC merger guidelines? Could the contemplated transaction bring about "economic efficiencies" that will meet requirements of the current guidelines--- regardless of the level of industry concentration?

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139 "The global beer industry: sell foam like soap,: Economist, May 5, 2011

140 Jones, David, "ABInBev Seen Brewing Up Final Mega Deal," Reuters, September 28, 2011

Moreover, the practical effect of a spinoff of MillerCoors to MolsonCoors would be to maintain a U.S. duopoly. In this case, the ABI acquisition then would be a much smaller deal with respect to the U.S. market, but much more significant in its international aspects.

With respect to "economic efficiencies" that would justify clearance of an otherwise presumptively unlawful merger, it is reasonable to expect that such a decision would take place only in rare cases. Conceivably this could occur only where the efficiencies are sufficient to overcome and prevent anticompetitive effects, conditions which generally are not present in a case for monopoly or near-monopoly status.

If the two giant companies are talking to each other and seriously planning a deal, they obviously will try to construct the transaction in a way that minimizes any antitrust issues. A transaction of this magnitude will have to be weighed very carefully. Certainly, any further consolidation in the U.S. beer industry would be subject to intense scrutiny, particularly to determine whether the merger will eliminate any meaningful competition and lead to higher prices.[141]

The Future

If world consolidation in the beer industry is a ten-year process, as maintained by the CEO of SABMiller,[142] the ongoing process would appear to be at its mid-point and should continue until 2017. The SABMiller executive's statements, however, may refer more so to takeovers in other countries rather than in the United States. Barring any government antitrust actions, one can expect the takeovers of local breweries in emerging markets by large multinational companies to continue, particularly in China, Africa, and Eastern Europe. The global consolidation process, on the other hand, could be much longer, continuous, and open-ended than the ten-year process envisioned by SABMiller's CEO.

Further acquisitions of breweries in the United States by larger companies also can be expected, particularly the acquisition of craft breweries. Consolidation, however, will slow down, unless the "unthinkable" merger of the Big 2 occurs. Most analysts believe that such a merger will not occur, probably because it will be difficult to find enough savings and synergies to justify the cost of the transaction. Also, the two giant firms are keen rivals with different strategies and business cultures. Both firms, however, are publicly owned and need to show profits and growth to their stockholders at a time when it has become more difficult to grow without mergers and acquisitions.

Notably, all of the financial analysts commenting on the prospective deal, including those who believe it is a real possibility, indicate that the combined new entity would have to divest some of its holdings (perhaps the MolsonCoors partner in SAB's U.S. joint venture). This, of course, would change the composition and structure of the two leading companies in the U.S. market, but would

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141 Interestingly, there are additional antitrust factors to consider. For example, the antitrust authorities may also need to consider whether the merger will also create a monopsony for the purchase of imported brands and for the procurement of ingredients in the manufacture of brewery products. Also, in the soft drinks industry, ABInBev is the biggest bottler outside the United States for Pepsico and SABMiller is a big bottler of Coca Cola. "The combined group might have to decide between the two soft drink giants." See Blenkinsop, Philip and Jones, David "AB InBev thirsty for a deal? Could be SAB Miller," Reuters, March 18, 2011.

142 Fletcher, Clementine, "SABMiller Chief Mackay Foresees More Consolidation in Global Beer Industry," Bloomberg Businessweek, March 29, 2011

not bring about a monopoly or near-monopoly. There is an implicit presumption that the regulatory authorities will not allow market concentration beyond a certain percentage for a single company. ABInBev is already close to a 50 percent market share and, perhaps, the analysts feel that is the limit. None have even hinted that the transaction could be justified by economic efficiencies which would enhance competition and satisfy the current DOJ-FTC guidelines without any divestiture. However, it is probably more realistic to expect that the antitrust authorities *will* require that the new entity shed some of its manufacturing capacity as a condition for the transaction. Thus, the resulting new entity may be more powerful than A-B or ABInBev, but it would fall short of monopoly or near-monopoly status.

Given the high capitalization required, it will remain difficult for new, large-scale brewers to enter the U.S. market, unless large non-beer companies seek to acquire existing breweries or build new ones. This has happened before, notably with W.R. Grace and later Philip Morris buying Millers. Philip Morris still holds about 25 percent of SABMiller voting stock. Many corporations are known to have vast amounts of dollars waiting for improvement of economic conditions before committing to new investment.

In the event of a big merger or acquisition, it is likely that the new giant brewer would not pass along any cost savings to consumers. It is more likely that it would raise prices, especially when costs of ingredients rise. Consumers will face higher prices. As noted in Part II of this paper, since the mergers of 2008, both ABInBev and SABMiller have benefitted from higher beer prices with revenues more than needed to cover increased costs of inputs. Increases in profits, dividend payouts, and the image of greater market power have rewarded the corporations with higher stock values (see Appendix I-6). From a consumer standpoint, however, the transactions have resulted in no benefits, but rather in higher prices.

In any case, further consolidation at the manufacturing level is bound to intensify the pressure on U.S. wholesalers and distributors. Depending upon the nature of the transactions, some distributors may be forced to close or merge where territories are duplicated, and some distributors may be forced to seek new accounts to remain in business. As indicated earlier in this paper, wholesaler distributors' profit margins already are under attack by major brewers and national retail chains, and will be squeezed even further to enhance the profit of the newly merged, more powerful brewer(s).

It is generally believed within the industry that craft beer is not just a fad. Small craft beer makers will continue to thrive and cut into the market shares of traditional brewers. New brewpubs and microbreweries will continue to open, but will remain small. Fears of the craft brewers will intensify over competition with, and takeovers by, the giant firms. Craft brewers will continue to seek improvements in distribution, including deliveries direct to consumers and retailers.

State governments will encounter more pressure to modify their three-tier distribution systems. At some point, large brewers might seek greater freedom to own distributorships and perhaps retail outlets, which would provide market growth opportunities and more profit for shareholders. Some states may privatize their government-run distribution centers and retail outlets to reduce government costs, while generating income from sales taxes and license fees (as done recently by Washington State). Consumers should benefit from a more competitive environment, as long as cost savings from streamlined distribution and retailing operations are passed along to them in the form of lower prices.

Retailers with national supply chains will continue to press for quantity discounts and to buy directly from brewers, using their own warehousing and logistics, and some will seek licenses for big box stores to sell large volumes at low margins. Mom and Pop shops are endangered species, unless they have special locations and loyal customers. Consumers can only hope that increased prices by the brewers will be counterbalanced somewhat by discount pricing of national chains and big box retailers and that further increases will be constrained by competition from wine and other beverages, and moral pressure against the use of monopolistic power.

International Aspects

Turn briefly now to the international implications for antitrust, tax revenues, health, safety and the environment.

Antitrust

In addition to the questions raised earlier concerning approval of transactions at national level when international scrutiny may be appropriate, further consolidation of the global beer industry, particularly a mega-merger, raises additional questions regarding antitrust in a multinational context.

More than 90 countries now have antitrust laws and about 20 other countries are in the process of drafting such laws.[143] However, enforcement is uneven because some countries (particularly small countries) lack adequate resources and expertise. Even in countries where enforcement is carried out effectively, problems arise when antitrust issues cross borders inasmuch as laws differ from country to country. Large companies operating in a somewhat borderless context may seek to take advantage of these differences by the manner in which they structure their organizations, manage their operations, and conduct their market strategies.

Now that the beer industry is more global in character, a mega-deal involving the world's two leading companies and their foreign subsidiaries raises questions regarding international scrutiny. Should antitrust authorities be reviewing such a transaction only at national levels, or is international consideration equally appropriate? How is this to be done in the absence of a universally recognized international antitrust organization?

Regulatory authorities may need to deal with such issues as collusion in pricing, market allocation, and exclusive contracts in a broader geographic context. Where cartel-like activities take place outside the borders of a country, antitrust authorities in that country will need cooperation of authorities in another country (or countries) in order to investigate and take appropriate action.

A network for international antitrust cooperation does exist. The International Competition Network brings together antitrust officials from various countries to exchange information, to develop common understanding of competition principles, and to seek convergence towards sound competition policy and law. While these experts in antitrust law may make recommendations to

[143] James, Charles A., Assistant Attorney General, Antitrust Division, U.S. Department of Justice before the OECD Global Forum on Competition, "International Antitrust in the 21st Century: Cooperation and Convergence," Paris, France, October 17, 2001

their respective governments, actions must be taken by individual nations.[144] On a multilateral level, the Competition Committee of the Organization for Economic Cooperation and Development (OECD) also has been studying possible harmonization of national antitrust laws.[145]

Aside from the European Union, there is no full-time inter-governmental organization with authority to take action on international antitrust matters. Thus, a mega-merger of global beer giants, even if approved in one or more countries, could present unforeseen competitive problems and enforcement issues in other countries. These weaknesses make it easier for multinational corporations to tailor their transactions in a way that limits or minimizes actions that otherwise could be taken against potential anticompetitive practices.

Tax Revenues

Large multinational business organizations use many devices to minimize their taxes. As indicated in Part V, SABMiller has been accused of transferring funds to countries with low tax rates to escape taxes in countries where the money is earned. SABMiller rejects these charges. Tax havens constitute a major problem, not only because of tax avoidance, but because of money laundering and terrorist financing. Such issues have not been specifically linked to the beer industry. To deal with tax havens in a multinational context, the Financial Action Task Force of the Organization of Economic Cooperation and Development (OECD) has developed a blacklist of offshore financial centers (tax havens). To get off the list, the tax havens are required to cooperate with officials from OECD countries. While the issue of tax dodging goes beyond the scope of this paper, it should be recognized that money management is a factor in competition between large companies and small companies. It is a device more readily used by companies with extensive international operations.

Health, Safety and Environment

Regulations concerning health, safety and the environment also mentioned in Part V are factors affecting the sale and the cost of alcoholic beverages. Regulations substantially affect the structure of the industry and the type and level of competition. The chosen method of regulation in the United States has created and maintained a rigid and costly patchwork of middlemen and has added to the price of beer, thus reducing demand.

Health-related temperance advocates and environmental groups in various countries can be expected to continue their opposition to high levels of alcohol consumption and to get beer companies to act as responsible corporate citizens in reducing air pollution and litter, and in promoting more efficient use of water and water conservation. Both ABInBev and SABMiller have extensive programs to accomplish these goals. It would not be surprising to see increases in

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144 "More than 70 jurisdictions have adopted merger control regulations. In addition, many countries have pre-merger or post-merger reporting schemes that are not specifically linked to their competition law." Cooley LLP, "Foreign Merger Control Laws" available online at cooley.com, accessed August 15, 2012. As part of antitrust reform, Brazil recently changed from a post-merger notification system to a pre-merger system. See The Economist, "Antitrust law in Brazil: A champion for choice?" August 25, 2012.

145 See Rosenthal, Douglas E, Nicolaides, Phedon, "Harmonizing Antitrust: The Less Effective Way to Promote International Competition," in "Global Competition," eds Graham, Edward M., and Richardson, J. David, International Institute of Economics, 1997, pp. 355-383 and Foer, Albert A., "Cross-border Antitrust Enforcement: The Backdrop," prepared for Cross-Border Antitrust Enforcement Teleconference and Webinar, September 23, 2008, sponsored by Knowledge Congress.

government regulations in these social areas in the coming years. The costs of these programs bear much more heavily on the large brewers than on smaller brewers.

Happy Ending

The introduction to this paper posed the question of whether this story will have a happy ending. Unfortunately, the paper has no ending. In the United States and worldwide, industry concentration is an issue that merits our attention. Industry consolidation is ongoing, especially in fast-growing emerging countries, and problems for antitrust regulators can be compounded if the "unthinkable" deal materializes. Readers may need to be patient and wait for the sequel to see the happy ending.

From the standpoint of this paper, a happy ending would include:

- boosting economic activity in industrialized countries (to accompany growth in emerging country markets) with resumption of growth in beer production (a mainstay of manufacturing activity and employment in many areas);
- avoiding a mega-deal in beer and promoting more vigorous competition among large and small companies in all beer industry segments in all markets;
- reducing and removing impediments to competition imposed by state laws and regulations in the United States;
- continuing efforts by craft brewers and retailers to maximize their marketing and logistical resources to bring high quality, reasonably-priced beers to consumers; and
- strengthening the ability of governments to oversee mergers and acquisitions in the beer industry and other industries from a global perspective through improved international mechanisms for surveillance and concerted action.

Specifically, this paper

- suggests that, because of the substantial increase in share prices, revenues, profits and dividends of the two leading U.S. beer companies since their big consolidations in 2008, the Department of Justice undertake a study of their pricing practices from 2008 to the present;
- advocates modifications of state regulations that unduly raise costs and impede competition; and
- encourages increased international cooperation among antitrust authorities in the various countries.

The Future Again

Visions of the future are clouded. Despite the doubts and concerns, however, one thing is certain: in addition to the work of regulatory authorities, the beer industry will be under close scrutiny by the vast virtual army of financial analysts, market research and public relations firms, beer experts, and the media in a manner befitting such a product that is constantly in the public eye.

PART IX
"Bottoms Up"
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GLOBAL BEER: THE ROAD TO MONOPOLY

Appendix I-1
MAJOR BREWERS AND THEIR STRATEGIES

Appendix I-1 provides thumbnail sketches of the major brewers in the United States, including their historical background and current status. Company websites are the major source of information. Descriptions of their international activities are shown in Appendix III-1

ABInBev

ABInBev is the world's leading brewer with revenues of $36.3 billion in 2010 and with employment of 114,300 worldwide. It is one of the world's top-5 consumer products companies, selling more than 200 beer brands, and holding the No. 1 or No. 2 market position in 19 countries. Anheuser-Busch, the largest beer producer in the United States, is now a subsidiary of ABInBev, as the result of a $52 billion buyout in 2008. Anheuser-Busch's Budweiser, Bud Light, Busch, and Busch Light are among the country's top ten best-selling brands. Anheuser-Busch is the largest Super Bowl television advertiser with expenditures of $235 million in the period 2001-2010.

InBev , now also a subsidiary of ABInBev, was created in 2004 from the merger of the Belgian company Interbrew and the Brazilian company, AmBev. InBev has over 200 beer brands produced and sold throughout the world, including Stella Artois, Beck's and Leffe. InBev has operations in over 30 countries and sales in over 130 countries, amounting to about $18.6 billion (2006).

Before the merger, Interbrew (a company with history dating back to 1366) was the third largest brewing company in the world by volume. Anheuser-Busch was the largest, followed by SABMiller in second place. Heineken International was in fourth place and AmBev was the world's fifth largest brewer. AmBev itself was a Brazilian beer company (with a dominant position in South America) formed by a merger in 1999 between the Brahma and Antarctica breweries.

Anheuser Busch brews beer at 12 plants in the United States, most with annual capacity of 7 million barrels or more. See list of breweries in Appendix I-2. A-B owns facilities to process agricultural ingredients (rice, barley, hops) as well as packaging facilities to produce, label, recycle and ship aluminum can and glass bottle products. These vertically integrated processes give A-B a competitive advantage through self-sufficiency within the domestic market.

In June 2012, ABInBev, which had owned 50 percent of the stock in Grupo Modelo, announced the purchase of the remaining stock, thus acquiring full ownership of the Mexican company, pending approval by regulatory authorities.

SABMiller and MolsonCoors

SABMiller plc, headquartered in London, is the world's second largest brewer, with more than 200 beer brands and nearly 70,000 employees operating in over 75 countries. Its international brands include Grolsch, Miller Genuine Draft, Peroni, Nastro Azzurro and Pilsner Urquell; its local brands include Aguila, Castle, Miller Lite, Snow and Tyskie. It is also a major bottler of Coca-Cola. Worldwide revenues for fiscal year ending in 2010 reached $26.35 billion.

Miller Brewing Company (founded in 1855) was once owned by the conglomerate W.R. Grace and later by Philip Morris (Altria). It was acquired by South African Breweries (SAB) from Philip Morris in 2002 for $3.6 billion worth of stock and US$2 billion in debt to form SABMiller,with Philip Morris retaining a 36% ownership share with about 25% voting rights.
Coors Brewing Company (founded in 1873) completed a merger with Canadian brewer Molson in 2005 to form MolsonCoors Brewing Company. In 2007, SABMiller and Molson Coors Brewing Company announced a joint venture (to be known as MillerCoors) for their U.S. operations. SABMiller owns 58% of the unit, which operates in the United States but not in Canada. Molson Coors owns 42% of the joint venture. However, the companies have equal voting power. In addition to Miller brands (Miller Lite, Miller Genuine Draft (MGD), Miller High Life, Milwaukee's Best), the joint venture markets Coors, Killian's, Caffrey's and Blue Moon.

Through its craft-and-import company, Tenth and Blake, MillerCoors imports Peroni Nastro Azzurro, Pilsner Urquell, Grolsch and Molson Canadian and features craft brews from the Jacob Leinenkugel Brewing Company, Blue Moon Brewing Company and the Blitz-Weinhard Brewing Company. MillerCoors operates eight major breweries in the U.S., as well as the Leinenkugel's craft brewery in Chippewa Falls, Wisconsin, and two microbreweries, the 10th Street Brewery in Milwaukee and the Blue Moon Brewing Company at Coors Field in Denver

SABMiller brews beer in 9 plants, most with annual capacity of 9 million barrels or more. See list of breweries in Appendix I-2.

Heineken

Heineken N.V., headquartered in Amsterdam, Netherlands, is one of the world's leading brewers. Through its USA headquarters in White Plains, New York, Heineken imports, markets and distributes Heineken's brands (Heineken and Amstel Light) along with the brands of Mexico's Fomento Económico Mexicano, S.A.B. de C.V. ("FEMSA"Cerveza), which Heineken acquired in 2010. Earlier (in 2000), Heineken had initiated a supply chain system based on ten demand centers around the USA. The system enabled Heineken to reduce its inventory and to fulfill orders on ten-day lead time. The company offered mini kegs for home use and a kegerator. This also improved product freshness. Heineken USA is the sole and exclusive importer, marketer and seller of FEMSA's brands (Tecate, Dos Equis, Sol, Carta Blanca and Bohemia) in the United States. Thus, Heineken USA is able to market the two most complementary imported beer brand portfolios in the United States.

Amstel Light was first introduced to the United Sates in 1980, and was the first light import, leading the American light beer revolution. Since 1870 Amstel Light has been an Amsterdam tradition and has been exported to over 120 countries. Today Amstel Light is the #1 imported light draught beer and the #16 imported beer overall in the U.S.

Carlsberg

Carlsberg Breweries, the fourth largest brewery group in the world, headquartered in Copenhagen, Denmark, owns a portfolio of brands (most notably Carlsberg and Tuborg), which are brewed at 90 locations in 45 countries. Over 75 percent of its beer sales are outside Denmark. Carlsberg does not brew beer in the United States, but supplies its product through Labatt USA. In 1985, under the name United Breweries, Carlsberg entered into a distribution agreement with American brewer Anheuser-Busch to sell its Budweiser brand in Denmark. Anheuser-Busch also began to import the Carlsberg brand into the United States as the sole U.S. distributor. The relationship ended in 1997, however, and Carlsberg later turned over U.S. distribution rights to Labatt USA, a subsidiary of Labatt Breweries of Canada, where Carlsberg is brewed for the North American market.

Boston

Boston Beer Company, founded in 1984, brews about 30 varieties of Samuel Adams beer. It is the largest U.S. craft brewer. The company takes pride in the quality of its fresh-brewed, full-flavored products. Originally, the beer was produced under contract by various breweries, including Pittsburgh Brewing Company (producer of Iron City brand), Stroh breweries, Portland's Blitz-Weinhard brewery, Cincinnati's Hudepohl-Schoenling brewery, Genesee Brewing Company of Rochester, NY, and industry giant SABMiller. To reduce its dependence on contract breweries and to increase production capacity, Boston Beer acquired Cincinnati's Hudepohl-Schoenling brewery in 1997, and bought a Pennsylvania brewery from Diageo North America Inc. for $55 million in 2008. Currently, Boston Beer produces about 1.36 million barrels a year, 95 percent of it in company-owned facilities. It is marketed through 400 distributors. Boston Beer's profits in 2010 amounted to some $50 million on revenue of $464 million. Sam Adams and Yuengling tied for #1 in U.S. sales by American-owned brewers in 2011.

Yuengling

D. G. Yuengling & Son, established in 1829, is the oldest operating brewing company in the United States. It is one of the largest breweries by volume in the country, and is the second largest American-owned brewery after the Boston Beer Company, makers of Sam Adams beer. A six-generation family business, its headquarters are in Pottsville, Pennsylvania. Despite a stagnant U.S market, Yuengling has responded to increased demand for its product and has tripled its production capacity, building a new $50-million brewery in Pennsylvania and purchasing the former Stroh's brewery in Tampa, Florida. Its three plants produce about 3.6 million barrels annually, which places it among America's top ten commercial breweries. Yuengling, a moderately priced popular beer, serves the east coast from New York to Florida, Alabama, Tennessee, as well as Ohio and West Virginia. Yuengling and Sam Adams tied for #1 in U.S. sales by American-owned brewers in 2011.

Pabst

Pabst Brewing Company, founded in Milwaukee in 1844, closed its last brewery in 1996. It is a low-priced beer now brewed under contract with other breweries, including MillerCoors. At the height of its popularity in 1977, Pabst Blue Ribbon sold 18 million barrels of beer. (pabstbrewingco.com) Its sales surged recently — from 800,000 barrels shipped in 2000 to nearly 2.2 million in 2010, according to Beer Marketer's Insights. It is currently the holding company contracting for the brewing of over two dozen brands of beer and malt liquor from defunct companies including G.

Heileman Brewing Company, Lone Star Brewing Company, Pearl Brewing Company, Piels Bros., National Brewing Company, Primo Brewing & Malting Company, Rainier Brewing Company, F & M Schaefer Brewing Company, Joseph Schlitz Brewing Company, and Stroh Brewery Company.

Stroh

The Stroh Brewery Company was established in 1850 in Detroit, Michigan. In 1964 Stroh acquired the Goebel Brewing Company, a rival across the street. A statewide strike in 1958 shut down Michigan beer production and allowed national brands to gain a foothold. In the 1960s Stroh began an advertising campaign aimed at a national market. Stroh's became the 8th leading beer company in the nation in 1973. By 1978, Stroh's served 17 states and produced 6.4 million barrels of beer. The original Detroit facility was aging and had a capacity of seven million barrels annually. To serve new markets in the East more efficiently, the company acquired The F&M Schaefer Brewing Company. Stroh used Schaefer's distributors to reach northeastern markets. It also acquired three new brands: In addition, Stroh was able to take advantage of Schaefer's distributors in the northeastern part of the country. The acquisition also brought Stroh three new brands: Schaefer and Piels beers, and Schaefer's Cream Ale. In 1981, the combined breweries ranked seventh in U.S. beer sales. The company then had a volume of over 40,000,000 barrels per year and 400 distributors in 28 states, Washington D.C., Puerto Rico, and other Caribbean islands.

In 1982, Stroh bought Schlitz Brewing Company, making Stroh's the third largest brewery in America. During the takeover, Schlitz fought a fierce battle in the courts trying to remain independent. Schlitz finally accepted the takeover when Stroh raised its offer from an initial $16 per share to $17. The U.S. Justice Department approved the acquisition once Stroh agreed to sell either Schlitz's Memphis or Winston-Salem breweries. Stroh closed its outdated brewery in Detroit in 1985. Heavy debt, over $500 million the brewer took on to finance its acquisition of Schlitz, drained Stroh's ability to compete. Declining sales and severe financial problems ended Stroh's success. A deal to sell most of the beer operations to Coors Brewing Company fell through. In the late 80's Stroh raised money through property development and sales and adopted a three-pronged strategy to revitalize the company: developing new products, brewing beer under contract for other brewers, and expanding overseas. The new product area was critical because the explosion in beer brand and types of beer in the 1990s undermined the market share for all established brands. Stroh also entered the hot craft beer market by purchasing the Augsburger brand in 1989 and over the next several years developed and introduced both specialty and seasonal brews under the Augsburger name. In 1994, Stroh launched Red River Valley Select Red Lager, a regional premium specialty beer produced by a division of the company's St. Paul, Minnesota, brewery called Northern Plains Brewing Company. Two years later, Red River Honey Brown Ale was introduced.
Meanwhile, Stroh International, Inc., created in 1986 to tap into foreign markets, targeted Canada, India, Japan, Mexico, and Russia as the main export markets. From 1992 through 1995, Stroh's international sales grew each year at rates exceeding 50 percent. In 1994, the company entered into a licensing agreement with Rajastan Breweries, Ltd. in India to produce, distribute, and market Stroh's and Stroh's Super Strong beers. Stroh's was the first foreign beer brand to be launched in India, and the first to be sold in cans. A similar agreement was reached with Sapporo Breweries Ltd. of Tokyo in 1995. By 1995, exports comprised more than 10 percent of overall Stroh sales.

In 1996, Stroh acquired Heileman Brewing for about $290 million. The purchase brought more than 30 brands to the Stroh family, many of which Heileman had itself acquired since its founding in LaCrosse, Wisconsin in 1858. Among the more important brands were Colt 45 malt liquor, which when combined with Schlitz Malt Liquor, gave Stroh more than half of the malt liquor market. Stroh itself was acquired by Miller Brewing in 1999. After its dissolution in 2000, some Stroh brands were discontinued, while others were purchased by other breweries. The Pabst Brewing Company acquired the most Stroh/Heileman brands. Miller Brewing Company bought Mickey's Malt Liquor and Henry Weinhard's; Pabst bought the rest of Stroh's brands as well as its brewery near Allentown, Pa. Although terms were not disclosed, the Milwaukee Journal Sentinel said the deals could be worth $400 million. Most other Stroh/Heileman brands disappeared after 2000. Stroh's beer is currently made by the Pabst Brewing Company, along with Colt 45 malt liquor, Lone Star, Schaefer, Schlitz, Schmidt's, Old Milwaukee, Old Style, and St. Ides.

Heileman

The G. Heileman Brewing Company of La Crosse, Wisconsin, operated from 1858 to 1996. The company established a network of regional brewers through acquisitions in the 1970s and early 80s--- roughly 17 horizontal acquisitions. During this period well known brands were consolidated by Heileman, including Blatz, Schmidt, Blitz-Weinhard, Drewry's, Falls City, Grain Belt, National Bohemian, Olympia, and Rainier. At its height Heileman's was the third largest brewer in the United States, behind Anheuser-Busch and Miller. In 1987, Heileman itself was purchased by Alan Bond of Australia for $1.3 billion in junk bonds. Bond, who controlled the Tooheys name and beer interests in Australia, attempted to build a worldwide brewing combine, but it collapsed financially, and led to Heileman's bankruptcy in 1991. Heileman's ceased its existence as an independent brewer at that time. In 1993, the private equity firm Hicks, Muse bought G. Heileman (the nation's fifth leading brewer) for $390 million, and sold the company to competitor Stroh Brewery Company two years later. Heileman's had about 5 percent of the national market, with annual sales of $900 million. Its largest brands included: Old Style (with 14 percent market share in the Chicago area); Colt 45 malt liquor (second largest); and Rainier (with 17 percent market share in the Northwest). In no other region did the brewer's market share exceed 4 percent. The company operated five breweries -- in La Crosse, Baltimore, San Antonio, Seattle and Portland, Ore. -- and employed 2,200 people. In 1999, Stroh's sold the Henry Weinhard's and Mickey's brands to Miller (a unit of the Philip Morris Companies). Pabst currently oversees the brewing of several well-known Heileman brands, including Old Style and Special Export, under the G. Heileman name. The former Heileman's flagship brewery in La Crosse is currently owned and operated by the City Brewing Company, which brews beer and packages bottled tea, soft drinks, and energy drinks. It does not have the right to use any of the intellectual property, including beer brand names, associated with the G. Heileman Brewing Company.

Schlitz

The Joseph Schlitz Brewing Company, founded in 1849 in Milwaukee, Wisconsin, was acquired by Joseph Schlitz in 1858. When Great Chicago Fire destroyed most of that city's breweries in 1871, Schlitz donated thousands of barrels of beer and opened a distribution point there. This was the beginning of Schlitz's strategy for nationwide distribution. In 1902, with production of one million barrels, Schlitz arguably was the largest brewer in the world. During Prohibition, Schlitz suspended alcoholic brewing and renamed the company, "Schlitz Beverage Company," After Prohibition, Schlitz remained popular and introduced Old Milwaukee in 1955. It was known as "The beer that made Milwaukee famous" and advertised the slogan "When you're out of Schlitz, you're out of beer." In the 1970s, however, as part of a cost-cutting program, Schlitz changed its brewing process and substituted less expensive ingredients. As a result, the beer lost its original taste and consistency, and spoiled more quickly. Although it tried to restore its traditional beer, Schlitz was unable to recover its reputation and popularity after it sold a poor quality product. Schlitz also faced labor problems (a debilitating strike in 1981) and competitive problems when other brewers began successfully marketing light beers. The company was acquired by Stroh Brewery Company in 1982 after a legal battle. Stroh's went heavily into debt when it acquired Schlitz and up selling its assets to Pabst Brewing Co. in 1999. In 2008, Schlitz was relaunched in several U.S. and Canadian cities, using the1960 formula. Pabst contracts with other companies to brew certain beers, including Schlitz. In Canada, Schlitz is brewed by Stroh's Brewing, a subsidiary of Sleeman Breweries. Four malt liquors—Schlitz Malt Liquor, Schlitz Red Bull, Schlitz Bull Ice and Schlitz Very Smooth Lager—are also produced.

Blatz

The Blatz Brewery was established in 1850 in Milwaukee, Wisconsin next door to City Brewery. The two were merged in 1852. The brewery produced Milwaukee's first individually bottled beer in 1874. It incorporated as the Valentin Blatz Brewing Company in 1889, and by the 1900s was the city's third-largest brewer. During Prohibition, Blatz produced non-alcoholic beverages. In 1933, Blatz resumed brewing beer. In 1958, Pabst Brewing Company, then the nation's tenth largest brewer, acquired Blatz, the eighteenth largest, from Schenley Industries. In 1959, the federal government brought an action charging that the acquisition violated Section 7 of the Clayton Act as amended by the Celler-Kefauver Anti-Merger amendment. The sale was voided in 1959 and Blatz closed that same year. In 1960, the assets of Blatz, including its labels, were sold to Pabst. In 1969, Blatz was acquired from Pabst by the G. Heileman Brewing Company. Heileman, in turn, was acquired by the Stroh Brewery Company in 1996. In 1999, prior to its dissolution in 2000, Stroh sold its labels to the Pabst Brewing Company and to the Miller Brewing Company. By 2007, Blatz was once again part of Pabst. Beer under the Blatz label currently is produced by the Miller Brewing Company of Milwaukee, under contract for Pabst Brewing Company.

Falstaff

Falstaff Brewing Corporation was an outgrowth of the old Lemp and Griesedieck Brewing Companies of St. Louis. In 1920, the Griesedieck company was renamed Falstaff. It survived Prohibition by producing near beer and soda. At the end of Prohibition in 1933, Falstaff was granted Federal Permit Number 1 to resume brewing beer. The company grew by acquisition. At its height in the 1960s, the company owned ten plants at various locations in St. Louis, as well as in Texas, Louisiana, Nebraska, and Indiana. It was the #1 best selling beer in St. Louis and the #3 best selling beer in the nation. Its peak sales occurred in 1966 at 7 million barrels with revenue of $250 million. In 1965, Falstaff Brewing Co. acquired Narragansett Brewing Company of Rhode Island, the largest brewery in New England (850 employees). The purchase price was $17 million in cash and $2 million in stock. The State of Rhode Island sued Falstaff to block the acquisition on antitrust grounds. Although Falstaff won its appeal of the Rhode Island decision in the U.S. Supreme Court in 1973, it never quite recovered from the legal costs of pursuing the case. In the 1970s, Falstaff had 3,000 employees and 6,000 shareholders. It sold at 232,000 retail outlets through 700 distributors. However, sales declined to 6 million barrels and Falstaff dropped to the #6 best-seller. Falstaff was purchased by S&P Company in 1975. The original St. Louis plant closed in 1975; the New Orleans plant closed in 1979; Cranston and Galveston in 1981; Omaha in 1987; and Ft. Wayne in 1990. The brand name was licensed to Pabst, which continued to produce Falstaff until May 2005.

North American Breweries

North American Breweries' website presents NAB as the largest independent-owned beer company in the United States, which is in reach of 35 percent of the total U.S. population within a 500-mile radius. The company brews Genesee brands; Magic Hat, Pyramid and other craft beers; and is a contract brewer for dozens of other companies, including Pabst Beer. It also has exclusive rights to import and market Labatt's beer from Canada. Headquartered in Rochester, NY, it was formed in 2009 by KPS Capital Partners LLP, a private equity fund. The company owns and operates five U.S. breweries and six retail locations in New York, Vermont, California, Oregon and Washington. The Genesee Brewing Company has a long history, dating back to 1819, when it was known at the Aqueduct Spring Brewery. The name changed several times along with changes in ownership until February 2009, when it was acquired by KPS and the Genesee name was restored.

Appendix I-2
BREWERIES IN THE UNITED STATES

ANHEUSER-BUSCH

Location	Year Opened	Capacity in Million Bbls/Yr	Number of Employees	Acres
St. Louis, MO	1852	7+ (1990)		119
Newark, NJ	1951	7+ (1990)		88
Van Nuys, CA	1954	12 (1990 + $400m improvements)		95
Tampa, FL	1958	-4 (1990) (closed 1995)		
Houston, TX	1965	7+ (1990)		136
Columbus, OH	1968	7+ (1990)		258
Jacksonville, FL	1969	9+ (2011)	600	205
Merrimack, NH	1970	-4 (1990)		
Williamsburg, VA	1971	7+ (1990)		144
Baldwinsville, NY	1983	7.2 (1987)	425	370
Fort Collins, CO	1988	8.2 (2004)		250
Fairfield, CA	1976	7+ (1990)		170
Cartersville, GA	1988	7+ (1990)		250

Notes: Jacksonville Brewery original capacity 1.7m bbls/yr., 9m (2011), produces 8.5m cans/day. AB also operates a farm at Jacksonville. Baldwinsville brewery built by Schlitz 1975, closed 1980, bought by A-B, renovated and re-opened in 1983, employment reduced from 900 to 425 through automation, loaded 230 trucks/day, production declined from 7.7m (2003) to 6.1m (2007), operating at 50% capacity (2011). A-B operated a theme park at Williamsburg. Van Nuys loads 320 trucks/day.

MILLER-COORS BREWING

Location	Year Opened	Capacity in Million Bbls/Yr	Number of Employees	Acres
Albany, GA	1979	10	600	
Eden, NC	1978	9	670	
Elkton, VA	2007	7	500	
Ft. Worth, TX	1966	9	650	
Golden, CO	1873	11*	1100	
Irwindale, CA	1980	7	600	
Trenton, OH	1991	11	560	
Milwaukee, WI	1855	10	720	

Notes: *Brewing capacity at Coors' Golden Colorado Brewery, one of the largest in the world, is listed at 22 million barrels (16 million for packaging) in SABMiller's annual report to the SEC, although listed only at 11 million on Miller's webpage. Chippewa Falls Leinenkugel Brewery bought by Miller in 1988 employs 100 and makes craft beer. Elkton Brewery constructed for $300 million. Oswego, NY plant employed 900, was closed in 1994. Miller has joint venture bottling plant with Owens-Illinois, Wheat Plains Co.; canning plant joint venture with Ball Corp. Golden, Co.
Source: Compiled by the author from various sources, mainly company websites

Appendix I-3
BIG FOUR FINANCIAL DATA (2010)

Company	Production Volume	Revenue	Profit	Breweries	Countries	Employees
ABInbev	352.9m hl	$36.3 bn	$4.026 bn	121	30	114,310
SABMiller	213m hl	$26.3 bn		125	40	70,000
Heineken	111.9m hl	£16.13 bn	£1.436 bn	154	70	65,730
Carlsberg	114m hl	DKK 60.1 bn	$1 bn	80	154	30,000

Source: Annual Reports

Appendix I-4
CHRONOLOGY OF SELECTED MERGERS AND ACQUISITIONS: U.S. BEER INDUSTRY

1889 - 18 St. Louis breweries combined to form the St. Louis Brewing Association

1906 - 9 St. Louis breweries combined to form the Independent Brewing Company

1922 - International Shoe Company bought Lemp Brewery (which had deteriorated)

1936 - Falstaff Beer acquired Krug Brewery of Omaha, NE

1937 - Falstaff Beer acquired National Brewery of New Orleans, LA

1950 - Celler-Kefauver amendment to Section 7 of Clayton Act strengthens antitrust law

1954 - Falstaff Beer acquired Berghoff Brewery of Ft. Wayne, IN

1956 - Falstaff Beer acquired Galveston-Houston Brewery of Galveston, TX

Falstaff Beer acquired Mitchell Brewery of El Paso, TX

1960 - Heileman (#5) acquired dozens of plants [had been #31 prior to acquisition strategy), including Wiedemann, Associated Brewing, the Blatz brand, Rainier, Carling and portions of Pabst.

1964 - Stroh acquired Goebel Brewing

1965 - Falstaff Beer acquired Naragansett Brewery of Naragansett, RI

1966 - Miller acquired TX and CA plants; the conglomerate W.R. Grace & Company bought 53% of Miller from Mrs. Lorraine John Mulberger (Frederick Miller's granddaughter and her family)

1970 - Philip Morris acquired Miller Brewing Co. for $130 million, outbidding PepsiCo

1973 - Supreme Court overturned Rhode Island antitrust ruling against Falstaff

1975 - S&P Co. (Kalmanovitz) acquired Falstaff, Pabst, Pearl, Olympia, and Stroh

1976 - Hart-Scott-Rodino Antitrust Improvements Act provides for pre-merger notifications

1979 - Heileman acquired Carling-National

1980 - Stroh (#7) acquired FM Schaefer Beer

Anheuser-Busch bought the idle Schlitz brewery in Baldwinsville, NY (reopened in 1983)

[DOJ resisted undoing Philip Morris-Miller deal]

1981 - Heileman announced deal to acquire Schlitz

DOJ announced its intention to challenge and enjoin proposed Heileman-Schlitz merger

Because of anticompetitive effects in the midwest

1982 - Stroh announced tender offer for all Schlitz stock

DOJ challenged deal as anticompetitive, but allowed deal to go forward subject only to divestiture of Schlitz major brewery in Memphis, TN to Coors

Stroh's acquired Schlitz (#4) minus Memphis TN plant but shackled w/debt

Coors acquired Schlitz Brewery of Memphis, TN (allowed Coors to move eastward; replaced Stroh as #3

1985 - Heileman announced proposed acquisition of Pabst. DOJ cleared, but

Schmidt and Stroh filed private Section 7 suit, obtained injunction blocking the merger

1987 - Miller Beer acquired Leinenkugel of Chippewa Falls, WI

Bond Corporation Holdings (Australia) acquired Heileman and placed it in bankruptcy

1993 - Hicks, Muse & Co. (turnaround specialists) acquired Heileman from Bond

1996 - Stroh's acquired Heileman DOJ cleared deal without condition [DOJ concluded that even though Stroh's and Heileman accounted for 80% of malt liquor sales, malt liquor was not a distinct market separate from the beer market as a whole.]

1999 - Miller and Pabst (controlled by Kalmanovitz) acquired Stroh with DOJ clearance.

Pabst brands to be brewed under contract with PM-Miller. Pabst Breweries closed

2000 - Stroh assets sold; split between Pabst (Kalmanovitz) and Miller

2002 - South African Breweries acquired controlling interest in Miller Beer from Philip Morris Philip Morris retained 36 percent of the stock and about 25 percent voting rights

2005 - Coors and Molsons merged to form Molson Coors Brewing Company

2006 - Miller Brewing purchased Sparks and Steel Reserve brands from McKenzie River Corporation for $215 million cash. Miller had been producing both products prior to this purchase

2007 - SABMiller and MolsonCoors formed a joint venture (MillerCoors)

2008 - DOJ clears MillerCoors merger

DOJ clears InBev acquisition of Anheuser-Busch to form ABInBev, subject to divestiture of Labatt's because of concentration in upper NY State

Appendix I-5
ABINBEV - 2010 SALES

	Volume - All Products <u>(in 1,000 hectoliters)</u>	**Market Share (Percent)**	**Market Position (Rank)**	**Number of Beer Plants**
ABInbev Worldwide	398,917.80	N/A	N/A	133
ABInbev Beer	352,941.80	N/A	N/A	121
ABInbev Non-Beer	45,986.00	N/A	N/A	12
US Anheuser-Busch	118,450.30	48.3	#1	12
Canada Labatt	11,025.20	41.2	#2	6
Brazil Beer	84,475.10	70.1	#1	25
Brazil Soft Drinks	29,250.20	17.7	N/A	4
Argentina Beer	13,087.20	76	#1	7
Argentina Soft Drinks	10,967.60	22	#2	3
Belgium	5,272.20	56.3	#1	4
Germany	8,638.00	8.8	#2	5
United Kingdom	11,367.30	21.2	#1	3
Russia	16,282.80	15.8	#2	10
Ukraine	10,467.40	36.7	#1	3
China	50,120.00	11.1	#4	31

Source: ABInbev Annual Report 2010

Appendix I-6
AB INBEV AND SABMILLER STOCK PRICES, EARNINGS, PROFITS, DIVIDENDS 2008-2012

Share Prices

AB InBev Price per Share US$ per share (NYSE)	**SABMiller Price per Share Pence per share (London)**
2008 - - - -	2008 - 1250p
2009 - $47.00	2009 – 1900p
2010 - $52.00	2010 - 2000p
2011 - $62.50	2011 - 2200p
2012 - $77.47 (as of July 13)	2012 - 2667p (as of July 13)

Profits, Earnings, Dividends

AB InBev	**2008**	**2009**	**2010**	**2011**
Profit (before tax) in $millions	1,927	4,613	4,026	5,855
Earnings per Share (US$)	2.51	2.48	3.17	4.04
Dividend per Share (US$)	0.35	0.55	1.07	1.55

SABMiller (FY end Mar 31)	**2008**	**2009**	**2010**	**2011**	**2012**
Profit (before tax) in $millions -	2,958	2,929	3,626	5,603	
Earnings per Share (US cents)	134.9	125.2	122.6	152.8	266.6
Dividend per Share (US$)	-	-	0.68	0.81	0.91

Source: Company Annual Reports

Appendix II-1
CONSUMER PRICE INDEX

		Change from Previous Year 2000-2010 (Percent)				
Year	**All Items**	**Alcoholic Beverages**	**Beer At Home**	**Beer Away**	**Wine At Home**	**Wine Away**
2000	3.4	2.9	3.2	3.3	1.5	3.7
2001	2.8	2.6	2.5	2.7	-0.1	5.9
2002	1.6	2.4	2.5	2.9	0.5	7.1
2003	2.3	2	2.3	3.2	0.5	1.4
2004	2.7	2.6	3.6	3.5	0.5	3
2005	3.4	2	1	2.5	1.6	4.5
2006	3.2	2.5	1	4.4	2.3	3.9
2007	2.8	3.2	3.4	3.8	1.9	4.7
2008	3.8	3.6	3.4	3.9	3.6	4.4
2009	-0.4	2.9	3.7	2.6	2	4.1
2010	1.6	1.2	1.8	2.6	-1.4	1.5

Source: U.S. Department of Labor, Bureau of Labor Statistics

Appendix II-2
PRODUCER PRICE INDEX, BEER AND ALE, 1994-2010

Year-to-Year Change (Percent)

Year	Breweries	Beer & Ale: In Cans	Beer & Ale: In Bottles	Beer & Ale: In Barrels and Kegs
1994	-2.0%	0.6%	-7.0%	-2.6%
1995	3.4	2.4	4.6	10.7
1996	3.0	2.5	2.5	10.7
1997	0.2	-1.3	2.7	1.1
1998	0.1	-0.6	0.7	2.7
1999	2.6	3.0	0.8	2.6
2000	3.6	4.8	1.6	2.2
2001	3.2	3.0	3.8	3.0
2002	1.6	1.6	0.4	4.9
2003	2.2	n/a	1.3	5.1
2004	4.2	9.0	0.8	1.3
2005	4.3	6.1	1.4	4.2
2006	0.0	-1.1	1.3	2.1
2007	-1.5	-3.0	0.5	3.8
2008	4.5	4.7	4.1	5.1
2009	5.3	4.9	5.5	8.0
2010	3.3	4.1	2.0	4.6

Sources: Bureau of Labor Statistics and Brewers Almanac

Appendix II-3
PERCENTAGE PRICE INCREASE IN SUPERMARKETS 2007-2010

Year	Domestic Premium	Import	Craft
2007	+1.3%	+3.4%	+3.6%
2008	+1.9%	+1.3%	+4.2%
2009	+2.8%	+0.7%	+3.3%
2010	+1.2%	-0.5%	+1.3%

Source: Presented by Information Resources Incorporated during Brewers Association Power Hour electronic seminar series, 2008-2011.

Appendix II-4
CONCENTRATION OF SALES BY TOP BREWERS, 1947-1998*

Year	Five Largest	HHI
1947	19.0%	140
1954	24.9%	240
1958	28.5%	310
1964	39.0%	440
1968	47.6%	690
1974	64.0%	1080
1978	74.3%	1292
1981	75.7%	1545
1984	83.9%	1898
1987	88.1%	2267
1990	88.6%	2555
1992	87.4%	2574
1993	87.3%	2603
1994	87.3%	2637
1995	89.9%	2659
1996	89.2%	2732
1997	88.1%	2729
1998	87.2%	2789

Based on beer volume. HHI includes only the top five brewers in that year.
Source: Elzinga, Kenneth G, "Beer," Chapter 4 in Adams, Walter and Brock, James, "The Structure of American Industry," 2001, Prentice Hall

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*The HHI index for the beer industry increased from 204 in 1950 to 3612 in 2000, according to Tremblay, V. and Tremblay, C., "The U.S. Brewing Industry: Data and Economic Analysis," MIT Press, 2005. The FTC considers an HHI over 2500 as "highly concentrated" (between 1500 and 2500 is "moderately concentrated" and under 1500 is "unconcentrated"). See DOJ-FTC 2010 Horizontal Merger Guidelines, available at doj.gov.

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Appendix II-5
ECONOMIC IMPACT OF THE U.S. BEER INDUSTRY - 2010 DATA

	Jobs	Wages	Output
Brewing	41,490	$4,178,014,075	$32,497,787,263
Wholesaling	98,123	$7,436,377,006	$14,548,763,806
Retailing	904,372	$20,924,877,074	$41,025,544,240
Total	1,043,985	$32,539,268,155	$88,072,095,309

Source: The Beer Institute

Appendix II-6
U.S. MALT BEVERAGES, SHIPMENTS AND PER CAPITA CONSUMPTION

2003-2010

Year	Beer and other Malt Beverages Shipments (in million barrels)	Per Capita Consumption (gallons per person)	
		Beer	Wine
2003	202.3	30.6	2.1
2004	205.2	30.7	2.2
2005	205	30.3	2.2
2006	210	30.6	2.26
2007	211.9	30.6	2.31
2008	213.1	30.5	2.3
2009	208.7	29.5	2.3
2010	205.8	28.9	2.3

Source: Beer Institute

Appendix II-7
U.S. DEPARTMENT OF THE TREASURY, ALCOHOL AND TOBACCO TAX AND TRADE BUREAU: UNFAIR TRADE PRACTICE TO OBTAIN PREFERENTIAL DISPLAY AND SHELF SPACE

"Ensuring that the commercial trade of alcoholic beverages is fair and open to all players is also essential in this economy, and the responsibility for overseeing the integrity of the domestic marketplace falls to TTB. In FY 2011, with a small cadre of investigators, TTB settled a landmark series of cases in which TTB alleged that six major alcoholic beverage suppliers were furnishing illegal inducements to a retail casino chain in return for preferential shelf space for their products. Such acts threaten fair competition in the alcoholic beverage trade, especially for small companies that cannot afford to pay fees to retailers to do business. TTB negotiated a $1.9 million settlement for these cases, the largest set of offers in compromise ever accepted by TTB for trade practice violations. Looking ahead, vigorous enforcement of these provisions of the Federal Alcoholic Administration Act will continue so that all who operate in the alcoholic beverage trade have equal opportunity."

Excerpt from Alcohol and Tobacco Tax and Trade Bureau Annual Report FY 2011
Message from the Administrator, John J. Manfreda, p. iii

Excerpt from Part I: Management's Discussion and Analysis

In FY 2011, TTB concluded a nationwide trade practice investigation of some of the largest alcohol beverage suppliers in the United States. The suppliers were alleged to have violated the tied house "slotting fee" provisions of the FAA Act by offering inducements to a large casino chain in order to receive preferred shelf and warehouse space. TTB accepted offers in compromise totaling approximately $1.9 million from six companies—Diageo North America, Inc.; Period Ricardo USA, LLC; Moet Hennessey USA, Inc.; Bacardi USA; Future Brands; and E. & J. Gallo Winery. This case marked the largest set of offers in compromise ever accepted by TTB for trade practice violations.

The allegations of tied house violations stem from the companies' participation in the 2008-2009 Harrah's Nationwide Beverage Program. The TTB investigation, which focused on activities in the Las Vegas area, alleges that the companies collectively furnished nearly $2 million in inducements through a third party to Harrah's Entertainment's hotel and casino subsidiary corporations during the two year period of the program. TTB alleges that the purpose of these inducements was to obtain preferential product display and shelf space (also known as slotting fees) at Harrah's Hotels and Casinos.

Payment of slotting fees by an alcohol beverage supplier to an alcohol beverage retailer is an unlawful marketing inducement which creates an artificial barrier to open and fair competition especially for small to medium-sized companies that cannot afford to pay such fees, and to other companies that refuse to pay them.

TTB Annual Report 2011, p.14
Available online at treasury.gov, accessed Aug 3, 2012

Appendix III-1
SELECTED GLOBAL MARKETS

With traditional markets growing slowly, multinational beer companies are seeking to enter faster-growing markets in emerging nations. For their part, emerging nations are becoming more interested in attracting corporations with large capital resources and technological know-how to operate breweries efficiently, to generate tax revenue, and create stable employment for local residents. As a result, beer industries around the world are consolidating. Much of this is happening in China (now the world's largest beer consuming country) and Africa. This section provides short descriptions of beer markets in both developed and developing countries and activities of the major brewing companies. The information is drawn from various sources, including company annual reports, trade press articles, and market research publications.

China

China is important because its market is vast. It is the world's largest beer market--- double the volume of the United States, five times the volume in Germany--- and growing. China's beer market is expected to continue increasing by 6 to 7 percent in the next five years, according to a forecast by market research firm Euromonitor International. Total sales in China's beer market hit 44.29 billion liters in 2010, about 24 percent of the world's total volume, according to Euromonitor. Also, while average consumption has grown continuously since 1980, it is still far below that of the U.S. or Western and Central Europe.

The market is only moderately consolidated, considering that the top four companies account for 55 percent of the market) and there is much room for further consolidation. SABMiller and Carlsberg ventured into China following the market reform in 2001. Anheuser has 19 percent of the Chinese market through its 30 breweries there. Producers are beginning to move westward in China where there is more opportunity.

Concentration of the Chinese beer industry has increased steadily since the turn of the century. The four leading companies in China have increased their market shares from about 19 percent in 2000 to 54 percent in 2009 at the expense of the small local breweries. During this period, CRB (a joint venture of China Resources Enterprise and SABMiller) increased its share from 3.2 percent to 19.2 percent; Tsingtao increased from 8.6 to 13.4 percent; and ABInBev from 5.9 to 10.8 percent. Meanwhile and Yanjing's share remained stable at roughly 10.6 percent during the period. The combined market share of the local companies, meanwhile, shrank from 81 percent to 46 percent, according to My Decker Capital.

Beer is relatively inexpensive in China. Budweiser, which translates as ``100 magnificents" in Chinese, sells for $1.25 per 640-milliliter bottle; most beer in China sells for the equivalent of 28 U.S. cents for a 660-milliliter (22-ounce) bottle.

Japan

Japan has liberal laws regarding the sale and consumption of alcohol. Beer can be purchased at a wide variety of outlets, including supermarkets, convenience stores, kiosks at train stations and even through vending machines. (Vending machines started to be phased out in June 2000, mainly over the concerns of underage drinking.)

Japan's major brewers are Asahi, Kirin, Sapporo and Suntory, which account for the great majority of beer sales in the country. Asahi was the leader in 2011 (for the seventh straight year) with a market share of 37.9 percent, outpacing Kirin with 36.2 percent. Together, the two accounted for almost three-quarters of Japan's beer market. In July 2011, according to Bloomberg News, Asahi and Kirin agreed to a joint delivery system to cut costs by several million dollars. Japan's brewery sales have declined by about 20 percent since the peak year (1994).

Anheuser-Busch and other foreign multinationals license the large Japanese brewers to produce and sell their brands in Japan. Budweiser and Heineken are brewed under contract with Kirin Brewing Company; Guinness is brewed by Sapporo Brewing Company. Anheuser-Busch has only about a one percent market share and is aiming for five percent.

Japanese brewers are active in international markets. Kirin brand beer has been produced and sold in the U.K. since the late 1990s. In the USA, three of the four major Japanese brands are available, including Sapporo Draft, Kirin Ichiban (Number One, as opposed to the normal Lager which is not available), and Asahi Super Dry. Asahi is produced by Molson in Canada; Kirin is produced at an Anheuser-Busch facility in Los Angeles; and Sapporo is produced at a Sapporo-owned brewery in Guelph, Ontario, Canada. Suntory beer is not available in the United States.

In recent years, Japanese beer companies (especially Kirin and Asahi) have made a number of international investments, including the following. Asahi bought a 20 percent stake in China's Tsingtao from ABInBev in 2009 and increased its stake to 41 percent in May 2011. In 2009, China withdrew its investments from Beijing Asahi Beer, making it a wholly foreign-owned company. In 2009, Kirin, whose portfolio also includes yogurt, health drinks and wine, bought stakes in Lion Nathan Brewery in Australia and San Miguel Brewery of the Philippines, for a total of about $4 billion. During that year, Kirin and Suntory merged into a highly diversified conglomerate with a market presence in Western Europe. In 2011, Kirin Holdings Co. agreed to sell its entire 25% stake in China's Dalian Daxue Brewery Co. to Anheuser-Busch InBev NV. as part of a reorganization of its Chinese beer operations. Kirin still holds two other beer production companies in China, Kirin Brewery (Zhuhai) Co. and Hangzhou Qiandaohu Brewery Co. Kirin also agreed to pay $2.6 billion for a controlling share of Schincariol, one of the largest beer and soft drink manufacturers in Brazil. In 2010, Kirin acquired a 14.7 percent stake in Fraser and Neave, a major player in the Singaporean and Malaysian beverage markets, for 84.6 billion yen. In January 2011, Kirin announced a deal to establish a joint venture with China Resources Enterprise, the biggest beer maker in the country, to produce and distribute nonalcoholic beverages in China. In August 2011, Asahi bought New Zealand's Independent Liquors for $1.5 billion and is competing against the duopoly of DB Breweries and Lion Nathan, especially in attempting to enter the market for tap beer. Asahi reportedly has earmarked $10 billion for M&A up to FY 2015. In another significant international transaction, Sapporo bought Canada's Sleeman Breweries in 2006.

There are currently over 200 microbreweries in Japan. Kiuchi brewery was the first Japanese microbrewery to export beer from Japan. While some other microbreweries now export marginal amounts, approximately 60 percent of Kiuchi's sales are overseas and it remains the largest exporter. In 1994, Japan's strict tax laws were relaxed, allowing smaller breweries producing 60,000 liters (15,850 gal) per year to be licensed. Previously, breweries could not get a license without producing at least 2 million liters (528,000 gal) per year.

Australia

The two largest beer companies in Australia are owned by foreign corporations: Foster's by SABMiller of the U.K. and Lion Nathan by Kirin of Japan. Nearly all the large Australian breweries are owned by these two companies. Beer comprises about 48 percent of Australia's $16.3 billion alcoholic beverage market. In 2004, Australia was ranked fourth internationally in per capita beer consumption, at around 110 liters per year. Foster's most popular beer in Australia is Victoria Bitters ("VB"); Foster's lager is made mostly for export or sold under license in other countries. For local consumption, Foster's presently manufactures foreign beers, including Carlsberg, Corona, (owned by Mexican beer giant Modelo), and Stella Artois and Kronenburg (owned by the world's biggest brewer, ABInbev), and Guinness. Lion Nathan produces Heineken, Beck's, and Kirin for local consumption. The recent takeover of Foster's by SABMiller gives the company nearly half the Australian beer market. A new competitor reportedly is entering the beer market in Australia, presumably to sell premium beers under license. Some of the most lucrative foreign label contracts have moved from Foster's to Lion.

Recently, two giant retailers in Australia--- Woolworths (Dan Murphy's chain) and Coles (First Choice stores --- greatly reduced packaged beer prices, drawing charges that they were trying to drive small retailers out of business. Foster's temporarily halted delivery of key brands to these stores in 2011, fearing beer market disruption due to sales at less than cost. The situation is under review by competition authorities.

Brazil

Brazil is the world's fourth largest market for beer with over 88 million barrels produced in 2010 and annual per capita consumption of 53.3 liters. Pilsener beers are the most consumed in Brazil (98% of the market share), with only a limited choice of other kinds. The majority of the market (about 70 percent) belongs to AmBev, the owner of the Brahma, Antarctica, Bohemia and Skol brands. Bohemia is the oldest Brazilian beer which is still under production; Antarctica and Brahma, Brazil's two biggest brands, merged in 1999 to form Ambev, Brazil's largest brewer. At the time of the merger, Brazil's policy was to develop "national champions" in various industries--- large Brazilian corporations which would be competitive internationally. In 2004, Ambev merged with Belgium's Interbrew (Stella Artois, Becks, and many others) to form the world's largest brewer, now known as InBev, which acquired Anheuser-Busch in 2008.

In 2002, Molson Coors bought Brazil's second largest brewery Kaiser. In 2006, the Mexican FEMSA Cerveza acquired 68% of Kaiser Brewery from Molson Coors. Molson Coors still holds 15% of Kaiser Brewery shares, and Heineken holds the remaining 17%. In 2006, FEMSA Cerveza released the Mexican brand Sol in the Brazilian market to compete against the biggest InBev brands with poor results. In 2010, Heineken bought all FEMSA's breweries, including the Brazilian unit. In 2011, Japan's Kirin Beer purchased Grupo Schincariol, the second largest Brazilian beer company for $2.5 billion. The group is second to ABInBev in Brazil with roughly a 12 percent market share. Together Schincariol and Ambev account for about 82 percent of the market. Competition is expected to intensify in the growing Brazilian market.

There are a number of microbreweries in Brazil, the emergence of which are a relatively recent phenomenon. In recent years Brazil has imported more and more brands of beer from Europe (particularly from Belgium) and the USA. These imports are a lot more expensive than locally brewed beers. Some international brands are produced in Brazil, such as Stella Artois and Heineken, but all are dedicated to the premium market with very small market share. Market share in 2009: Ambev (Inbev) (70%), Grupo Schincariol (11.6%), Petrópolis brewery (9.8%), Heineken (6.9%), others (1.73%). Most popular brands in 2005: Skol (32.6%), Brahma (20.4%), Antarctica (13.6%), Nova Schin (10.2%), Kaiser (8.9%).

Mexico

As the result of consolidation over the last century, two corporations--- Grupo Modelo and FEMSA Cerveza--- now account for 98 percent of the Mexico's beer market (Modelo, 57%; FEMSA, 41%). Beer is a major export for the country, with most going to the United States, but also to over 150 countries worldwide.

Grupo Modelo S.A.B. de C.V., Mexico's largest brewer, offers about 13 beers (including Corona) and imports several more, such as Anheuser-Busch's Budweiser. It has 57 percent of the Mexican beer market and exports Corona, Modelo, and Pacifico to the United Kingdom, United States and Canada (via a joint venture with Constellation Brands). Grupo Modelo has exclusive rights in Mexico for the import and distribution of beer produced by Anheuser-Busch, as well as Danish Carlsberg, and Chinese Tsingtao. In 2010, the first stage of construction of a huge brewery (the company's eighth in Mexico) was completed in Piedras Negras to serve the North American and European markets. Upon completion, the brewery is expected to be the largest in the world. Pending approval by regulatory authorities, in 2012 ABInBev expanded its ownership from 50 percent to full ownership of Modelo (subject to approval by regulatory authorities) by purchasing the balance of shares for $20 billion. According to ABInBev's announcement of the transaction, Modelo has installed capacity of 70 million hectoliters and employs 37,000.

FEMSA (Fomento Económico Mexicano, S.A.B. de C.V) is Latin America's largest beverage company in terms of sales. Founded in 1890 and headquartered in Monterrey, Mexico, it produces, distributes and exports various brands of beer such as Tecate, Carta Blanca, Superior, Sol, XX Lager, Dos Equis and Bohemia. FEMSA was acquired by Heineken in 2010 in an all-stock deal, valued at about $US 5.5 billion. The deal covers 100 percent of FEMSA's Mexican beer operations (including its US and other export business and its massive distribution network) and the remaining 83% of FEMSA's Brazilian beer business that Heineken did not already own. In payment, FEMSA received a 20 percent stake in the Dutch parent company.

Mexicans prefer Corona as their number one choice and Corona also tops the rankings in imported beers in the United States. Tecate and Dos Equis are ranked second and third places among top selling beers in Mexico, the world's sixth-largest beer market.

Aside from beer, the two companies are engaged in other business enterprises. Grupo Modelo has a partnership with Nestle Waters to make and distribute bottled water, which is a strong product because of Mexico's poor quality of tap water. FEMSA is the largest bottler of Coca-Cola and other beverages in Mexico. Also FEMSA owns and operates the largest and most profitable convenience-store chain in Latin America--- XXO--- with nearly 9,000 stores strategically located in Mexico and Colombia. Grupo Modelo owns and operates a chain of more than 700 convenience stores (Extra and Moelorama).

SABMiller has been selling Miller Lite, MGD and Miller High Life in some cities near the U.S. border and in retailers, such as Walmart de Mexico.

Canada

Canada is a nation of ten million beer drinkers, whose breweries produce 21.9 million hectoliters annually. The market is dominated by two brewing companies: Labatt (owned by ABInBev) and Molson (now part of a joint venture with SABMiller). Estimates of the company market shares of the Canadian market vary from a combined 79 percent to 85 percent to 90 percent, based on the source of the data.

Canada's major breweries have been acquired by or merged with foreign companies, notably its three largest beer producers, Labatt, Molson and Sleeman. The result is that Moosehead has become the largest fully Canadian-owned brewer. Beer sales in 2009 (2.3 billion liters) totaled $8.8 billion. Per-capita beer sales have dropped 28 per cent from their peak of 115.2 liters in 1976 to 83.5 liters in 2009. By volume, imported beer has more than doubled its market share in the last decade. In 2009, imported beer had captured 13% of the beer market in Canada, up from six per cent in 1999.

Canada's largest brewing companies were traditionally Labatt's and Molson. Labatt's was purchased in 1995 by the Belgian company Interbrew (now part of Brazilian-Belgian AB-InBev), the world's largest brewing company) and Molson merged with U.S. company Coors in 2005 to create Molson Coors, now part of a joint venture with London-based SABMillers. In 2006, with the purchase of Sleeman Breweries, the largest remaining Canadian brewer, by the Japanese owned Sapporo Brewery, Canada's beer production has been mainly under the control of foreign multinationals. By the end of 2006, nearly 90 percent of beer sales consisted of product brewed domestically under license from non-domestic corporations. American beers brewed under license dominate much of the market. For example Budweiser is brewed under license in Canada by Labatt's and Coors Light by Molson. Michelob is also brewed in Canada by Labatt. The largest Canadian-owned brewer, Moosehead Brewery, controls about 5.5% of the Canadian market.

In English Canada the most popular types are pale lager like Molson Canadian and Labatt Blue, although ales are also consumed. In Quebec ales such as La Fin du Monde, Molson Export and Labatt 50 are also popular. Foreign and more exotic types of beers are becoming increasingly popular. Some of the top brands in the United States rank as top selling beers in Canada also.

As a matter of practice, most domestic beer in Canada must be brewed in the province in which it is sold. Viewed as restrictive and discriminatory under trade agreements, this practice was subject to a trade dispute case under the General Agreement on Tariffs and Trade, which Canada lost in 1992. Canada's Agreement on Inter-Provincial Trade was designed to solve these types of trade problems. The Beer Store which handles 80 percent of Ontario's beer trade is a government-instituted, privately-owned monopoly, owned by ABInBev, MolsonCoors, and Saporro, which generates $1 billion per year profit. The other 20 percent is handled by the Liquor Control Board of Ontario, a crown corporation. Brewers Distributors Ltd., a Canadian company which distributes beer throughout four western provinces and three northern territories, is a private joint venture owned by InBev (parent of Labatt) and MolsonCoors (parent of Molsons).

Labatt has been active internationally. In 1987 the Latrobe Brewing Co. of Pennsylvania, brewers of Rolling Rock beer, was acquired. The following year Labatt began to brew the Carlsberg and Carlsberg Light brands under license from the Copenhagen, Denmark-based company. Labatt purchased a 77.5 percent stake in Italian brewer Birra Moretti in 1989. In 1996, Labatt sold its stake in Birra Moretti. In August 1996 a joint venture in the Dominican Republic launched its first brand, Soberana ("sovereign" in Spanish). The following year saw Labatt enter the fast-growing South American market for the first time through a brewing joint venture with the Cisneros Group of Companies. The first country targeted by this initiative was Venezuela, where a new brewery opened outside of Caracas in 1997. Labatt entered into an agreement in 1997 to brew and sell Lowenbrau beer in North America. In early 1998 Labatt increased its stake in FEMSA to 30 percent. In June 1998 Labatt and Anheuser-Busch tightened their relationship in Canada through a new agreement whereby the American company granted Labatt the right to sell Anheuser-Busch brands in Canada in perpetuity. Labatt Blue celebrated its 20th straight year as the top-selling beer in Canada in 1998; and this same flagship brand had become the number three import beer in the United States by early 1998. In the United States, Labatt brand beers are sold under license by Labatt USA, which since 2009 has been fully independent of the Canadian firm and a subsidiary of the privately-held North American Breweries of Rochester, New York.

India

In India, despite a large population that does not consume beer, there appears to be much room for growth. The Indian beer industry has grown by 10-17% per year over the last ten years. With the average age of the population on the decrease and income levels on the increase, the popularity of beer in the country continues to rise. Euromonitor International, a consulting firm, expects the market to almost double to $9 billion by 2016.

America's Stroh's was the first foreign beer brand to be launched in India, and the first to be sold in cans. In 1994, Stroh entered into a licensing agreement with Rajastan Breweries, Ltd. to produce, distribute, and market Stroh and Stroh's Super Strong beers.

International beer giant SABMiller entered the Indian market in the year 2000 by acquiring Narang breweries and several other breweries and brands, the most notable being its acquisition, in June 2001, of Mysore Breweries (with its Knock Out brand) and in May 2003 Shaw Wallace's beer brands (Royal Challenge & Haywards). After the Shaw Wallace acquisition for a reported US$ 264 million, SABMiller expanded across India, opening new breweries in states where Shaw Wallace did not have a presence, and currently is the second leading brewer in the country. In 2006, SABMiller acquired Foster's Brewery in Aurangabad for US$ 120 million and extended its sales through the company's network in India. SABMiller has thirteen breweries in India.

A strong rival to SABMiller is Millenium Alcobev, a joint venture between the United Breweries Group (UB) and Scottish & Newcastle. In the strong beer sector (beer with an alcohol content of 6% or more--- fastest-growing segment in the market), SABMiller's Haywards 5000 is the biggest-selling strong beer brand (a fact hotly contested by UB Group). Bangalore-based United Breweries, India's beer market leader, has 28 breweries in 28 states across the country. UB's Kingfisher is the largest-selling beer brand overall. Thus, the industry is well consolidated into a duopoly, with UB--- along with Millennium Alcobev--- and SABMiller accounting for nearly 85 percent of the Indian beer market.

Anheuser-Busch is present in India through its 50% joint venture with Crown Beers in 2007 and by purchasing the remaining 50% in 2008 (terms not disclosed). Crown brews Budweiser and Armstrong for markets in southwestern and western India. Carlsberg also entered the market in 2007 and has introduced some strong beers. Carlsberg has five breweries in India.

United Breweries, the market leader, increased its market share from 43 percent in 2006 to 57 percent in 2011, while SABMiller's share fell from 37 percent to 24 percent. Carlsberg had a 4.4 percent share and ABInBev, 1.1 percent. In 2011, UB began selling Heineken to offer more options to compete against foreign rivals. SABMiller's decline in market share is mainly attributed to regulatory disputes in Andhra Pradesh and Uttar Pradesh, as well as increases in excise duty in other states, according to SABMiller's annual report.

Every state in India has its own system of taxation and labor requirements. Imports into the states and exports from the states are taxed, thus forcing companies to open breweries in each state where they intend to sell their products. Thus, UB is located in 28 states. Andhra Pradesh and Maharastra together account for 40 percent of beer sales in India. India also bans advertising of alcoholic beverages, another challenge for newcomers to the market.

Per capita consumption of beer in India is low, but is expected to grow, despite religious opposition by devout Muslims and Hindus. Social norms are changing, especially among young adults with growing spending power. Euromonitor estimates India's beer market will grow to 447.9 billion rupees ($9 billion) from 257 billion rupees in 2011. As much as 80 percent of the beer sold in India's beer industry is "strong" (at least 6% alcohol content).

Microbreweries are springing up in India as well. The New Delhi suburb of Gurgaon has several. One of the largest, called Rockman's Beer Island, has raised prices as many as four times since starting in 2009 and is still attracting new customers.

Russia

The Russian beer market, at 91 million hectoliters, is the fourth largest in the world (Euromonitor). There are 250 breweries in the country. Five key players account for 80 percent of the market: Baltika (Carlsberg), SUN InBev, Heineken, Efes, and SABMiller.

In October 2011, Efes (#4) and SABMiller (#5) announced the formation of a strategic alliance, which puts it ahead of SUN InBev (ABInBev) as the second leading company in Russian beer sales. Under that transaction, SABMiller will transfer its Russian and Ukranian beer businesses to Anadolu Efes, which will then transfer a 24% equity stake in Efes, including its home country operations in Turkey, to SABMiller via a capital increase. Anadolu Efes will be the vehicle for both groups' investments in Turkey, Russia, the Commonwealth of Independent States (CIS), Central Asia and the Middle East.

Baltika, the leading Russian beer company (with a 37.4 percent market share in 2011) is roughly 89 percent owned by Carlsberg, which announced in February 2012 that it is buying the 11 percent balance of shares (according to The Telegraph). Carlsberg has invested more than $12 billion in the country since the 1990s. Baltika is sold abroad in 75 countries.

SUN InBev (owned by ABInBev) had a 15.8 percent share of the Russian market in 2010. It owns 10 breweries and employs 8800 people in Russia. Until the recent venture between SABMiller and Efes, it was the second largest in the country's beer sales

Annual per capita consumption of beer in Russia has grown phenomenally, more than quintupling from 1995 to 2006 (from 12 liters to 67 liters per capita), but still remains lower than consumption of vodka (which comprises 70 percent of the alcoholic beverages consumed in the country). At one point, Russia's rate of growth had exceeded China's.

However, beer poses a health problem in Russia. Unlike vodka, no license is needed to sell beer. Russians think of it as a soft drink, but it is 8% alcohol and is widely available to consumers. Russia is planning to treat it as other alcoholic beverages. It raised the beer tax by 300 percent beginning in 2010 and is planning to ban TV advertising of beer from 7 am to 11 pm (effective January 1, 2013). Beer prices were increased by 25 percent because of the tax and a severe drought that caused Russia to import grains.

In August 2012, to cut costs, ABInBev announced the closing of the Kursk plant, one of its nine breweries in Russia, whose output fell by 30 percent as a result of government actions to reduce alcoholic beverage consumption.

Africa

Africa is a large continent with more than 50 countries, many of which are small markets that cannot support more than one or two brewers. Africa's beer market is one of the fastest growing in the world. A considerable part of the continental market is consolidating into the hands of several multinational beer corporations, including SABMiller, Heineken, Diageo (Guinness), and BGI Castel. ABInBev, the world's largest brewer, has a negligible presence in Africa.

SABMiller Plc (SAB), the world's second-largest brewer by volume, is the largest supplier of beer in Africa, at one time having supplied 98 percent of South Africa's beer sales, and about 40 percent of consumption in all of Africa. In 2007, Heineken ended its license arrangement with SAB to manufacture and distribute Amstel beer, which accounted for about 9 percent of the market. Amstel is now distributed by Brandhouse Beverages (Pty) Ltd., a joint venture between Heineken, Guinness-brewer Diageo, and Namibia Breweries. In 1993 and 1994, South African Breweries (the forerunner of SABMiller) began expanding into other African countries: Uganda, Angola, Ghana, Mozambique, Tanzania and Zambia. At that time, African breweries were largely state owned. In 2012, SAB was operating in 37 African countries and had invested $1.75 billion there in the past four years. In a continent with very little industrialization, Africa's beverage companies were major manufacturers, employers and taxpayers. SAB was successful in working with governments which were reluctant to privatize the breweries, although they later discovered that taxing beer was more lucrative than manufacturing beer. SAB plans to build a $100 million plant in Nigeria, the continent's most populous country.

While SABMiller is active in southern and eastern Africa, BGI Castel (of France), a private wine, beer and soft drink company, owns breweries in northern and western Africa: Angola, Cameroon and Ivory Coast. Castel and SABMiller formed a strategic alliance in 2001, whereby SABMiller took a 20 percent stake in the French group's beer and soft drinks operations in Africa and Castel acquired a 38 percent stake of SAB's African division (excluding South Africa). Together, they agreed to seek 50-50 joint ventures in other African markets. Castel beer is marketed by SABMiller in various African markets. Castel distributed SABMiller brands in 15 west and central African countries. Together, Castel and SAB have 60 percent of Africa's commercial beer market. SABMiller is viewed as an eventual acquirer of Castel when Pierre Castel (an octogenarian) relinquishes control. "Indeed, SABMiller has the right of first refusal if the business is sold" (according to Simon Hales at broker Evolution Securities, quoted by Reuters).

Castel reportedly owns Banjul Breweries in The Gambia plus 70 other breweries in 24 African countries. SAB-Miller bottled 'Amstel' for Heineken in South Africa until 2007 when Heineken decided to build its own brewery in a 75-25% partnership with Diageo to brew Heineken and Amstel brands. The plant opened in March 2010. BGI and SAB-Miller used to have a 'non-competition' agreement throughout Africa. (BGI has a monopoly position in French speaking Africa.) BGI also has an interest in the Raya Brewery in northern Ethiopia.

Diageo, a large producer and worldwide distributor of alcoholic beverages, including Guinness Beer, has significant beer operations in Africa. In volume terms, the Middle East and Africa accounted for 60 percent of Diageo's 1.9 billion liter global total in 2010. Diageo's operations in Africa are primarily focused on East Africa, particularly Kenya, although it also has a growing presence in West Africa, particularly in Nigeria. The Kenyan beer market is dominated by Diageo's operating arm--'East African Breweries', bottler of brands like, 'Tusker' and 'White Cap'. SAB tried to crack Kenya's beer market. Through a 51 percent share in Castle Brewing, SAB began brewing in Kenya in October 1998 and aimed for a 30 percent market share within two years. Two years later, it had less than 15 percent, though its sales had grown steadily in a declining market. SAB closed the plant after spending close to US$ 70 million on it. Guinness now bottles SAB-Miller's brands in Kenya. In Uganda, however, SABMiller's new plant is expected to double the capacity of its Nile Brewing subsidiary by 2013.

In recent years, Diageo has greatly increased its investment and focus on beer in Africa, attempting to increase its revenues from emerging markets. In 2010, Diageo acquired Tanzania's second biggest brewer, Serengeti Breweries. In 2011, the company spent US $368 million to expand its Nigerian brewing capacity and US $225 million to acquire the Meta Abo brewery in Ethiopia, formerly a government-owned brewery. (Under Ethiopia 's antitrust policy, no single operator may have a market share over 30 percent.) Diageo, Heineken and Namibian Breweries operate a joint venture in Namibia and South Africa under the name of Brandhouse. Brandhouse's premium beers include Windhoek, Heineken, Guinness, Kilkenny and Becks. The beer business also provides a platform for Diageo to sell its other alcoholic beverages, such as Johnnie Walker, Bell's, J&B, White Horse and Dimple as well as Smirnoff Vodka, Jose Cuervo Tequila, and Tanqueray Gin.

Heineken has a majority share of Nigerian Breweries Plc (NB), the country's biggest beer-maker by market value. With Nigerian Breweries' acquisition of Sona Systems Associates Business Management Ltd. and Life Breweries Co., Heineken has extended its reach to other parts of Nigeria, the continent's second largest beer market, expanding its capacity by about 3.7 million hectoliters and broadening its product range. In Ethiopia, Heineken purchased two formerly state-owned Breweries (Harar Brewery and Bedele Brewery) for a reported US $163 million. With 7.7 million hectoliters, Heineken is the second largest brewer in Africa and has about 70 percent of Nigeria's beer market. Along with Diageo and Namibian Breweries, Heineken is part owner of Brandhouse, which markets beer in South Africa and Namibia (as stated above). In Egypt, Heineken has 99 percent of the market. Heineken is present in other African markets, including Burundi, Democratic

Republic of Congo, Ghana, Rwanda, and Sierra Leone. The best selling international beer in Morocco is Heineken, which is locally brewed by Brasseries du Maroc under the supervision of Heineken International.

Together, SAB, Castel, Heineken and Diageo account for about 80% of the African market.

Appendix III-2
PER CAPITA CONSUMPTION OF BEER, BY COUNTRY 2004, 2010

Rank 2004	Rank 2010	Country	Consumption (liters) 2004	Consumption (liters) 2010
1	1	Czech Republic	158.6	131.7
2	4	Ireland	131.1	103.7
3	2	Germany	110.0	106.8
4	3	Austria	108.3	105.8
5	8	Australia	104.7	83.4
6	18	United Kingdom	99.0	73.7
7	7	Poland	95.0	83.6
8	24	Denmark	89.9	67.4
9	10	Finland	85.0	82.7
10	N/A	Luxembourg	84.4	N/A
11	28	Slovakia	84.1	64.3
12	22	Spain	83.8	69.9
13	12	United States	81.6	78.2
14	14	Croatia	81.2	77.8
15	13	Belgium	81.0	78.0
16	5	Estonia	80.0	90.6
17	17	Netherlands	77.0	73.9
18	6	Lithuania	76.0	85.7
19	20	New Zealand	75.5	70.5
20	21	Hungary	75.3	70.0
21	23	Canada	68.3	68.4
22	25	Latvia	68.0	67.2
23	19	Bulgaria	67.0	72.8
24	32	Portugal	59.6	54.9
25	29	South Africa	59.2	63.0
26	26	Russia	58.9	66.2
27	9	Venezuela	58.6	83.0
28	15	Romania	58.2	77.4
29	N/A	Cyprus	58.1	N/A
30	30	Switzerland	57.3	57.6
31	N/A	Gabon	55.8	N/A
32	34	Norway	55.5	52.1
33	31	Mexico	51.8	57.1
34	35	Sweden	51.5	52.0
35	38	Japan	51.3	45.4
36	27	Brazil	47.6	65.3

Rank		Country	Consumption (liters)	
2004	2010		2004	2010
37	N/A	Argentina	43.2	N/A
38	N/A	Namibia	40	N/A
39	N/A	South Korea	38.5	N/A
40	N/A	Colombia	36.8	N/A
41	49	China	30	31.5
42	N/A	Vietnam	19	N/A
43	N/A	Kenya	12	N/A
44	N/A	Uzbekistan	11	N/A
45	N/A	Tanzania	8.4	N/A
46	N/A	Uganda	6	N/A
47	N/A	Sri Lanka	2.45	N/A
48	N/A	India	2.33	N/A
N/A	11	Slovenia	N/A	82.7
N/A	14	Croatia	N/A	77.8
N/A	16	Panama	N/A	75.0
N/A	33	Angola	N/A	52.7

Source: Kirin Institute

Appendix III-3
GLOBAL BEER PRODUCTION BY REGION IN 2010

Global Beer Production, Year-on-Year Change, and Production Share by Region

Region	Production Volume in 2010 (kiloliters)	633-ml Bottle Equivalent (millions of bottles)	Change from 2009	Production Share
Japan*	5,850,500	9,242	-2.4%	3.2%
Other Asian Countries	56,019,000	88,498	6.3%	30.2%
Asia Total	61,869,500	97,740	5.4%	33.3%
Europe	53,943,800	85,219	-2.4%	29.1%
North America	25,036,600	39,552	-1.2%	13.5%
Latin America	30,619,300	48,372	5.1%	16.5%
Africa	10,681,000	16,874	7.2%	5.8%
Middle East	1,308,500	2,067	12.0%	0.7%
Oceania	2,163,100	3,417	0.3%	1.2%
Total**	185,621,800	293,241	2.2%	100.0%

*Production volume in Japan is a combination of beer, low-malt beer, and no-malt beer.

**Total may not add up exactly as a result of rounding off.

Source: Kirin Institute

Appendix III-4
GLOBAL BEER PRODUCTION BY COUNTRY IN 2010

2010							2009	
2010 Ranking	2009 Ranking	Country	Production Volume (kiloliters)	Change from 2009	Production Share in the Global Market		Production Volume (kiloliters)	Change from 2008
					Incremental (%)	Cumulative (%)		
1	1	China	44,830,000	6.3%	24.2%	24.2%	42,173,100	6.5%
2	2	United States	22,816,600	-1.2%	12.3%	36.4%	23,093,700	0.1%
3	4	Brazil	12,600,000	18.0%	6.8%	43.2%	10,678,000	3.3%
4	3	Russia	10,240,000	-6.2%	5.5%	48.7%	10,916,800	-4.2%
5	5	Germany	9,568,300	-2.4%	5.2%	53.9%	9,807,800	-4.7%
6	6	Mexico	7,988,900	-3.0%	4.3%	58.2%	8,232,500	0.0%
7	7	Japan*	5,850,500	-2.4%	3.2%	61.4%	5,996,100	-2.2%
8	8	United Kingdom	4,499,700	-3.2%	2.4%	63.8%	4,648,500	-6.3%
9	10	Poland	3,390,000	5.3%	1.8%	65.6%	3,220,000	-9.6%
10	9	Spain	3,337,500	-1.3%	1.8%	67.4%	3,380,000	1.2%
11	11	Ukraine	3,100,000	1.6%	1.7%	69.1%	3,050,000	-4.8%
12	12	South Africa	2,960,000	2.8%	1.6%	70.7%	2,880,000	11.2%
13	15	Vietnam	2,650,000	15.2%	1.4%	72.1%	2,300,000	24.3%
14	13	The Netherlands	2,393,600	-5.7%	1.3%	73.4%	2,537,600	-6.6%
15	16	Canada	2,220,000	-0.9%	1.2%	74.6%	2,239,400	-5.4%
16	17	Colombia	2,050,000	1.8%	1.1%	75.7%	2,014,000	6.0%
17	14	Venezuela	2,000,000	-13.6%	1.1%	76.8%	2,314,100	-7.1%
18	18	Thailand	1,998,000	2.7%	1.1%	77.8%	1,945,000	-8.9%
19	21	Republic of Korea	1,817,300	1.0%	1.0%	78.8%	1,799,500	-3.3%
20	20	Belgium	1,812,300	0.6%	1.0%	79.8%	1,801,500	-0.2%
21	25	Nigeria	1,760,000	10.0%	0.9%	80.7%	1,600,000	3.9%
22	24	Argentina	1,750,000	2.9%	0.9%	81.7%	1,700,000	9.7%
23	23	Australia	1,742,000	0.6%	0.9%	82.6%	1,732,000	-0.2%
24	19	Czech Republic	1,630,000	-9.7%	0.9%	83.5%	1,805,100	-6.1%
25	22	Romania	1,570,000	-10.8%	0.8%	84.4%	1,760,000	-12.9%
25	27	The Philippines	1,570,000	7.5%	0.8%	85.2%	1,460,000	5.0%
		Total	185,621,800	2.2%	100.0%	100.0%	181,704,900	0.8%

*Production volume in Japan is a combination of beer, low-malt beer, and no-malt beer.

**Total may not add up exactly as a result of rounding off.

Source: Kirin Institute

Appendix III-5
TOP TEN GLOBAL BEER COMPANIES BY PERCENT VOLUME SHARE, 2010-2011

	2010	2011
ABInBev	18.4	18.3
SABMiller	9.4	9.7
Heineken	8.6	8.7
Carlsberg	5.7	5.6
China Research Enterprises	5.0	5.4
Tsingtao	3.4	3.6
Grupo Modelo	2.9	2.9
Beijing Yanjing	2.7	2.9
MolsonCoors	2.7	2.6
Kirin Holdings	1.7	2.6

Source: Euromonitor International

Appendix III-6
WORLD'S TOP 15 BEER BRANDS, BY VOLUME – 2010

Rank	Brand	Company	Sales inMillion Hectoliters
1	Snow (portfolio)	SABMiller	84.1
2	Bud Light	A-B InBev	55.6
3	Budweiser	A-B InBev	41.0
4	Skol	A-B InBev	40.4
5	Tsingtao	Tsingtao Brewery Group	35.1
6	Corona	A-B InBev	31.9
7	Brahma	A-B InBev	31.8
8	Beijing Beer	Asahi Breweries	30.5
9	Heineken	Heineken	28.9
10	Coors Light	Molson Coors	25.5
11	Miller Light	SABMiller	18.7
12	Harbin	A-B InBev	17.8
13	Baltika	Baltika	16.6
14	Antarctica	A-B InBev	15.9
15	Busch	A-B InBev	15.8
		Total	489.6

Sources: A-B InBev and Plato Logic