

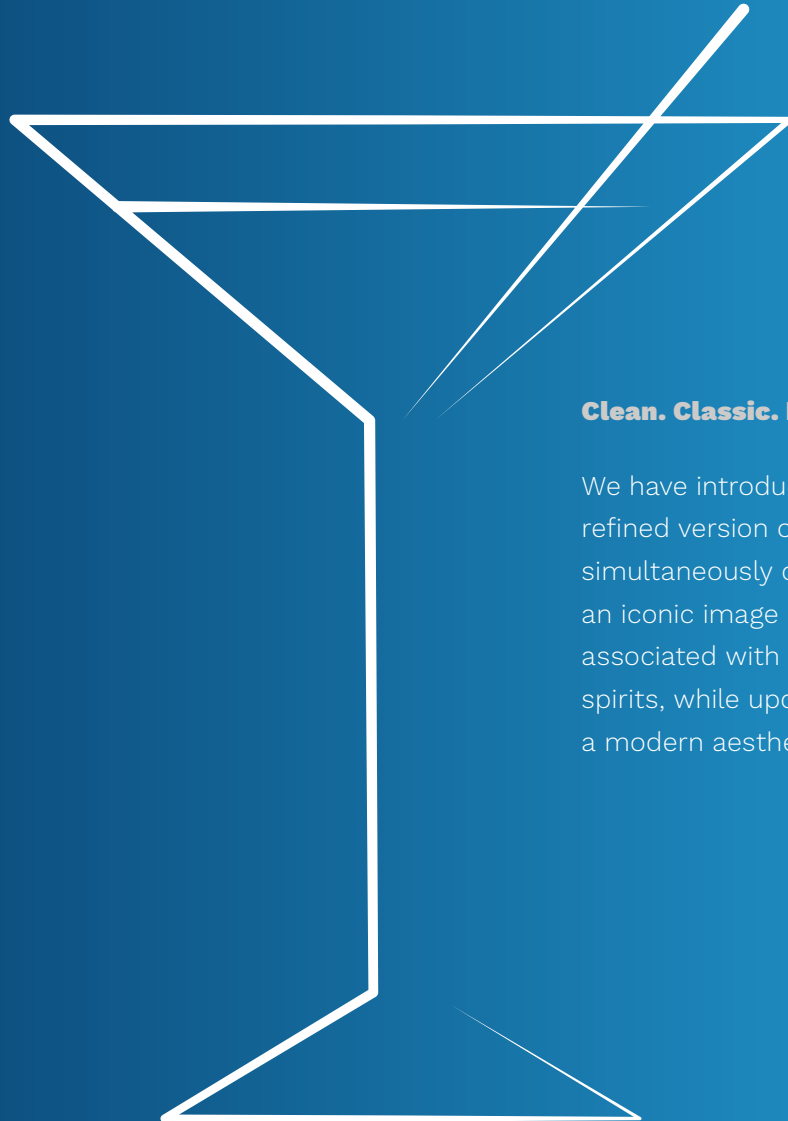


# CHEERS to the future



2017 ANNUAL REPORT

Introducing  
a new graphic  
treatment for  
our brand



**Clean. Classic. Modern.**

We have introduced a refined version of our logo — simultaneously celebrating an iconic image instantly associated with distilled spirits, while updating it with a modern aesthetic. Cheers!

## A Message from the President and Chair



Kraig R. Naasz



Jim Clerkin

# Advancing our agenda

The spirits sector celebrated a historic tax win as 2017 came to a close — the first federal excise tax reduction on distilled spirits since the Civil War was included in the *Tax Cuts and Jobs Act*.

Distillers of all sizes rallied to secure this landmark achievement on the federal level, as well as advance our agenda on the local, state and international levels. The Council was actively engaged on a wide range of issues, expanding interest in spirits and cocktail culture in the United States and around the world.

Our economic indicators reflect these efforts. The distilled spirits sector experienced a record eighth consecutive year of market share gain with supplier sales up 4 percent in 2017. An important economic driver, the sector supports 1.5 million jobs and generates \$160 billion in economic activity annually. U.S. distilled spirits exports continued their upward trajectory, recording a record \$1.63 billion in 2017.

The Council is working to ensure we maintain our impressive growth. Marking the hundred-year anniversary of the repeal of Prohibition, our Vision 2033 initiative drew upon a multi-disciplinary effort to identify over-the-horizon issues of critical importance to the spirits sector.

The Council examined long-term possible and probable scenarios, determined how to best shape our future and forged a set of consumer-focused principles that will inform the association's initiatives and priorities moving forward. These principles will guide us as we develop and refine the association's new strategic plan in the coming year.

We take great pride in what we've accomplished over the past year and look forward to an active year at the Council. By building on this work and collaborating with lawmakers, regulators and sector partners, we will continue to promote meaningful growth for the spirits sector.

Cheers,

A handwritten signature in black ink that reads "Kraig R. Naasz".

Kraig R. Naasz  
President & CEO, Distilled Spirits Council

A handwritten signature in black ink that reads "Jim Clerkin".

Jim Clerkin  
Chair, Distilled Spirits Council  
President & CEO, Moët Hennessy North America

# Effecting change **ON TAXES**

As a component of the massive tax rewrite, Congress recognized the excessive tax burden on distillers nationwide and included a two-year version of the *Craft Beverage Modernization and Tax Reform Act*. The legislation creates a fairer tax structure for all beverage alcohol makers by equalizing the federal excise tax on spirits, beer and wine for the first 100,000 proof gallons.

The *Craft Beverage Modernization Act* is about more than a tax cut for makers of distilled spirits. It's about enabling our members to invest back in their businesses and communities across the United States, generating jobs and supporting agriculture and tourism. The Council will continue to educate members on Capitol Hill about the high tax burden that our products face. Adoption of a federal excise tax cut is an important step forward in relieving some of that excessive burden.

## **OVERWHELMING SUPPORT FOR FEDERAL EXCISE TAX REDUCTION**

The Council and its members advocated in support of this tax cut legislation as part of an alcohol producers coalition that included the Beer Institute, Brewers Association, Wine Institute, WineAmerica and the American Craft Spirits Association.

The Council commends Congress for its efforts to create a simpler, more competitive and equitable tax system through the *Tax Cuts and Jobs Act* — and we look forward to working with lawmakers to ensure the continuation of the *Craft Beverage Modernization Act*.







## Did you know?

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### CURRENTLY

There are **2,000 OPERATING DISTILLERIES** nationwide.

The distilled spirits sector paid more than **\$6.0 BILLION** in FET in 2017 alone.

On average **50 PERCENT** of the price of a typical bottle of distilled spirits **GOES TO TAXES AND FEES.**

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### WITH THE NEW LAW

The *Craft Beverage Modernization and Tax Reform Act* creates a more **fair and equitable tax structure** for producers and importers of all beverage alcohol.

And establishes a **reduced rate of \$2.70 per proof gallon** for the first 100,000 proof gallons of distilled spirits produced.

**This marks the first time that federal excise taxes on distilled spirits have been reduced since the Civil War.**

# SIGNIFICANT GAINS **AT THE STATE LEVEL**



## Old Fashioned

The Old Fashioned is one of the oldest cocktails, dating back to 1806. Originally described as “a potent concoction of spirits, bitters, water and sugar,” today, it is the best-selling cocktail in the United States.

Long a hallmark of the Council’s efforts on behalf of its members, we continued to improve market access and push back against new tax increases for the spirits sector at the local and state level.

We defeated tax increases in 18 states, which threatened to saddle the spirits sector with an additional tax burden of \$321 million. Market access victories such as Sunday sales, additional spirits outlets and tastings accounted for a savings of more than \$60.4 million in supplier revenue value.





### **CALIFORNIA “COCKTAIL TAX” WIN**

The Council defeated legislation in California that would have assessed an additional tax of between \$1.20 and \$2.40 per gallon on spirits. After the Council highlighted the unfair tax burden already faced by spirits products, the state assembly tax committee unanimously rejected the tax hike. The significant tax win, which specifically targeted distilled spirits, equates to \$50 million in annual supplier savings.



### **EXPANDING SPIRITS OUTLETS IN MARYLAND**

In the only county-controlled liquor authority in the country, Montgomery County, Maryland, spirits sales were 42 percent lower than expected for the area. After the Council demonstrated that limited access led to low sales, the Maryland legislature passed legislation allowing the liquor authority to contract with existing private beer and wine stores to sell distilled spirits. By providing consumers equal access to spirits, beer and wine, the state is generating millions more in revenue without adding any additional capital expenditures. The additional outlets generate an estimated \$12.6 million in additional annual supplier revenue.

### **SUNDAY SALES BANS REPEALED IN MINNESOTA AND OKLAHOMA**

Consumers in Minnesota and Oklahoma can now shop for spirits seven days a week, thanks to efforts by the Council to secure passage of Sunday sales legislation. In addition to providing greater consumer shopping convenience, the extra day of sales equates to an estimated \$19.7 million in additional annual supplier revenue. Forty states now permit spirits sales every day of the week, as one of the final remnants of Prohibition continues to fade away.



PROMOTE

# Celebrating **COCKTAIL CULTURE**

Distilled spirits sales continue the dramatic upward trend with a record eighth consecutive gain of market share — capturing 36.2 percent of revenue compared to beer and wine. Distilled spirits supplier revenue is up 4 percent over 2016 driven largely by high-end and super premium spirits products. Consumers are embracing the cocktail scene with the innovation and experimentation that spirits invite.

This trend is not just evident in the United States — U.S. spirits, particularly American whiskey, are surging around the world. U.S. spirits exports more than doubled over the past decade to reach a record \$1.63 billion in 2017. Internationally, consumers are enjoying high-end spirits and celebrating cocktail culture.

# 78%

OF THE PUBLIC VIEW THE  
SPIRITS SECTOR FAVORABLY

**Spirits have become a fixture in popular  
culture and are part of the norm**



# Market overview

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## SECTOR GROWTH

Sales of distilled spirits **GREW BY 4 PERCENT** to more than **\$26.2 BILLION** in 2017 alone.

The distilled spirits sector **VOLUMES ARE UP 2.6 PERCENT** to 226 million cases.



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## INNOVATIVE AND ARTISAN

American whiskey revenues climbed 8.1 percent to 3.4 billion, with **American rye whiskey up 16.2 percent** in 2017.

**Tequila has seen substantial growth**, powered by the rise of high-end and super premium tequilas, with **revenues up 9.9 percent** to \$2.7 billion.

**Revenues for Cognac soared in the United States**, up 13.8 percent to \$1.6 billion.

**Premiumization has added \$2.4 billion in supplier revenue since 2007.**



### Manhattan

Created in the early 19th century, the Manhattan is a classic cocktail made with rye whiskey, sweet vermouth and Angostura bitters. Since its inception, there have been variations of the original recipe. During Prohibition, the cocktail was made with Canadian whiskey.

# AN AGENDA FOR GROWTH

Highlighting the unique aspects of our diverse spirits products, the Council this year hosted signature trips for domestic and international media to experience Cognac, Tequila and American whiskey in their native regions around the world. Top-tier reporters from publications ranging from *USA Today* and National Geographic to Xinhua News Agency and BBC News, sampled the finest spirits alongside master distillers and learned the unique stories behind each category. Generating headlines for months following our tours, these destination educational tours have become an indispensable way for the Council to highlight the diverse range of spirits and the premium offerings that have driven extensive growth in the higher-end segments.



**SHOWCASING AMERICAN SPIRITS  
IN THE UNITED KINGDOM**

The Council conducted an export promotion initiative in London for 19 small, medium and large distillers, showcasing American spirits products in one of the most important markets for U.S. distilled spirits. The initiative, supported by the U.S. Department of Agriculture, consisted of two events that featured exclusive tastings and a cocktail demonstration highlighting the mixability and versatility of American spirits. For the first event, the Council hosted a product and cocktail sampling at Somerset House for more than 75 industry executives, beverage buyers, distributors and mixologists. The second event, hosted at the residence of the Deputy Chief of Mission of the U.S. Embassy in London, educated top-tier media from London and around the United Kingdom on the finest spirits available from the United States.

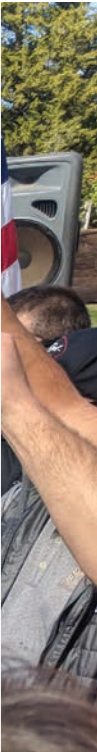


**Top Export Growth Markets by Dollar Value**



**10TH ANNIVERSARY OF  
GEORGE WASHINGTON'S  
DISTILLERY RECONSTRUCTION  
TOASTED WITH SPECIAL  
WHISKEY COLLABORATION**

Distillers from across the country fired up the stills at George Washington's Distillery to collaborate on a special rye whiskey in honor of the 10th anniversary of the historic distillery's reconstruction. The distilling project was a two-day event sponsored by the Distilled Spirits Council and George Washington's Mount Vernon, featuring 14 of the top American whiskey distillers.





# Encouraging **MODERATION & RESPONSIBILITY**

The Council partnered with several organizations to promote tips for responsible entertaining, which were featured at large-scale events across the country. Our messages of moderation and responsibility were viewed by more than 100,000 attendees — many of whom are influencers in the hospitality sector and are in a prime position to inform guests and patrons of best practices. The Council emphasized the *Dietary Guidelines for Americans* definition of moderate drinking and drink-equivalents. The *Guidelines* state a “drink-equivalent” is 1.5 fluid ounces of 80-proof distilled spirits (40 percent alcohol); 12 fluid ounces of regular beer (5 percent alcohol); or five fluid ounces of wine (12 percent alcohol).

## “Drink-Equivalent”





# Collective efforts

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## COMMITMENTS

“We all have an important role to play in working to reduce alcohol abuse on college campuses. While there has been a positive downward trend, we want to ensure it continues. As participants at the Lambda Chi Alpha Stead Leadership Seminar, and as campus leaders, I encourage each of you to lead by example and fully embrace responsibility.”

Distilled Spirits Council  
President & CEO Kraig R. Naasz,  
keynote speech,  
2017 Lambda Chi Alpha  
Stead Leadership Seminar

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## IMPROVING SOCIAL RESPONSIBILITY

Among individuals aged 12 to 20, **underage drinking dropped to a historic low**, declining 32 percent over the past decade, according to the annual National Survey on Drug Use and Health (NSDUH).

The NSDUH survey showed **alcohol abuse trends among all age groups declined in 2016** compared to the prior year, with the survey showing **marked declines in binge drinking and heavy drinking** among all adult age group breakdowns.

# LEADING ON MULTIPLE FRONTS



The Distilled Spirits Council is a leader in the nation's capital, serving as a model for self-regulation, ensuring sound public policy prevails, and hosting signature events throughout the year attended by lawmakers, journalists and national opinion leaders. Across multiple constituencies and diverse audiences, the Council engaged in dialogue to make our members' voices heard, while working in communities to be part of the solution.

## Martini

One of FDR's favorite cocktails was the classic martini. Made with gin and a 1:1 ratio of dry and sweet vermouth, it is now enjoyed a variety of ways. Some adult consumers prefer vodka martinis, while others favor a Dirty Martini, which adds a dash of olive brine to the recipe.





## SPIRITS LIFE CYCLE FROM FARM TO TABLE

Distillers produce highly-nutritious “spent grains” as a by-product of the distillation process that are typically made available to local farmers for animal feed. The Council hosted a delegation from the U.S. Food and Drug Administration in Kentucky to see firsthand how this beneficial relationship between distillers and farmers, which has been going on since before George Washington was in the business, is one of the country’s original recycling programs.

## CODE OF RESPONSIBLE PRACTICES CITED AS MODEL

Within months of the repeal of Prohibition, leaders in the distilled spirits sector approved their first voluntary *Code of Responsible Advertising and Marketing Practices*. More than eight decades later, the spirits sector continues to lead the way in effective self-regulation. The *Code* has been heralded as a model for other industries by the Federal Trade Commission, and has been commended by regulators, industry watchdogs and the media.

**“The *Distilled Spirits Council Code* is a living document that frequently is reviewed and revised to stay current with today’s society and technology in a way that government agencies cannot match. Other industries are following their lead and they should.”**

Jodie Bernstein, Former Director of the Federal Trade Commission’s Bureau of Consumer Protection

## HOSTING THE MOST INFLUENTIAL EVENTS

The Council began the year toasting the inauguration of the 45th President of the United States by hosting “The Whiskey Ball.” We partnered with the British Embassy to hold a Burns Night Media Scotch Supper and worked with the National Press Club to throw a kick-off reception for the National Governors Association D.C. meeting, which featured an array of American whiskeys from across the country. Our “Toast to the First Amendment” event ahead of the White House Correspondents’ Dinner was the most sought-after ticket of the week.





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