



DISTILLED
SPIRITS
COUNCIL

The background of the cover features three cocktails. In the foreground, a martini glass is filled with a yellow-to-orange gradient liquid. To its right, another martini glass is filled with a vibrant blue liquid and garnished with a bright yellow lemon twist. In the bottom right corner, a lowball glass is filled with a dark amber liquid and ice cubes. The background is a soft-focus blue with bokeh light effects.

cheers

celebrate life, responsibly

2016 ANNUAL REPORT



advocate
promote
lead

ABOUT US

The Distilled Spirits Council is the national trade association representing the leading producers and marketers of distilled spirits in the United States.

Since the repeal of Prohibition, the Council has advocated on legislative, regulatory and public affairs issues that impact the distilled spirits sector, adult consumers and our hospitality business partners at the local, state, federal and international level.

celebrate life, responsibly



JIM CLERKIN



KRAIG R. NAASZ

message

A MESSAGE FROM THE PRESIDENT AND CHAIR

2016 was a significant year of growth as the Council saw membership climb to more than 150 for the first time. In bringing together companies of all sizes to support the spirits sector, we were able to advance our agenda on the local, state, federal and international levels, lead collaborations with critical partners and expand interest in spirits and cocktail culture in the United States and around the globe.

These efforts are reflected in our sector's impressive numbers. The distilled spirits sector experienced a record seventh-consecutive year of market share gain with supplier sales up 4.5 percent in 2016. An important economic driver, the sector supports 1.4 million jobs and generates \$150 billion in economic activity annually. U.S. distilled spirits exports continued their upward trajectory, topping \$25.2 billion in 2016.

It is a good time to be in the spirits business as consumers across the country and around the world are fascinated with cocktail culture. Our mixable products provide a canvas to constantly innovate with new flavors and experiences. And that says nothing of enjoying the ever-increasing spirit expressions that can be enjoyed neat or on the rocks. Spirits truly are a dynamic product.

We also completed a strategic research initiative to learn more about our adult consumers and better inform our policy priorities. This research has helped us

to reframe our approach to some of the challenges facing the spirits sector and we look forward to sharing these valuable insights with our sector partners.

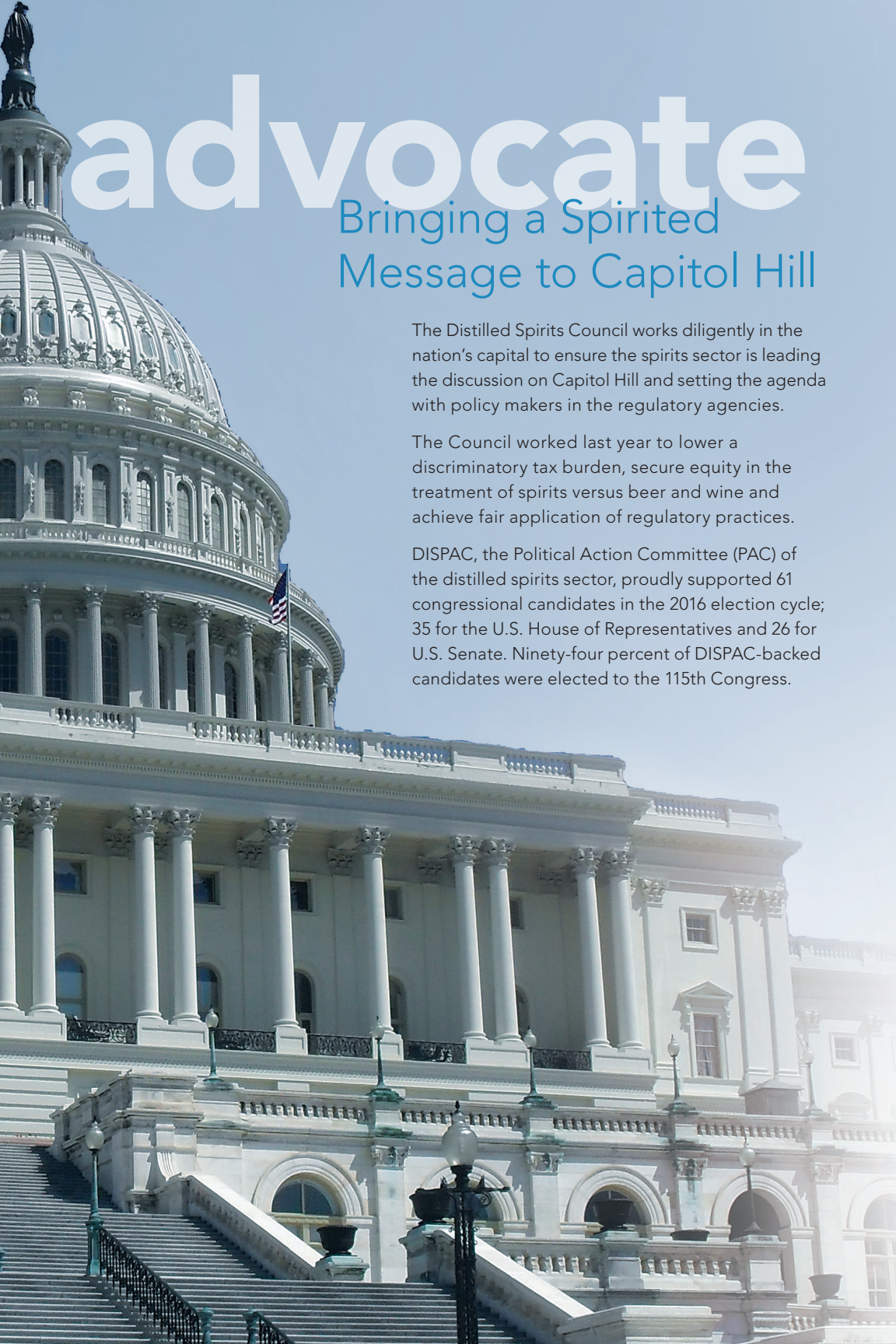
During the coming year the Council will embark on a new Vision 2033 Initiative, a multi-disciplinary effort that will focus on identifying over-the-horizon issues of critical importance to the spirits sector. Through this initiative the Council will carefully examine where we are heading and how best to shape our future with particular focus on complex emerging issues such as routes to market, equivalency and responsibility.

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 continuing to collaborate with lawmakers, regulators and sector partners, we will continue to promote meaningful growth for the spirits sector.

Cheers,

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

Kraig R. Naasz
President & CEO, Distilled Spirits Council



advocate

Bringing a Spirited Message to Capitol Hill

The Distilled Spirits Council works diligently in the nation's capital to ensure the spirits sector is leading the discussion on Capitol Hill and setting the agenda with policy makers in the regulatory agencies.

The Council worked last year to lower a discriminatory tax burden, secure equity in the treatment of spirits versus beer and wine and achieve fair application of regulatory practices.

DISPAC, the Political Action Committee (PAC) of the distilled spirits sector, proudly supported 61 congressional candidates in the 2016 election cycle; 35 for the U.S. House of Representatives and 26 for U.S. Senate. Ninety-four percent of DISPAC-backed candidates were elected to the 115th Congress.

RECORD SUPPORT FOR FEDERAL EXCISE TAX REDUCTION

The Council led a coalition of beverage alcohol organizations that made the case for federal excise tax cuts for spirits, wine and beer and secured a majority of both the U.S. House of Representatives and U.S. Senate as cosponsors of the *Craft Beverage Modernization & Tax Reform Act*. The Council is well positioned to achieve federal excise tax relief as part of an overhaul of our nation's tax code in the new Congress.



DISTILLERS HEAD TO CAPITOL HILL TO TALK JOBS

More than 50 distillers from across the country traveled to Washington, D.C., for the Distilled Spirits Council's seventh annual Public Policy Conference. Distillers, both large and small, made 120 Congressional visits and delivered a unified message calling for a reduction in the federal excise tax on spirits and adoption of important trade legislation to open markets for American spirits products. CNN's John King presented an election analysis.

Lawmakers also were invited to tour local distilleries to see first hand how our part of the hospitality sector is creating local jobs, generating tax revenue and producing high-quality distilled spirits.



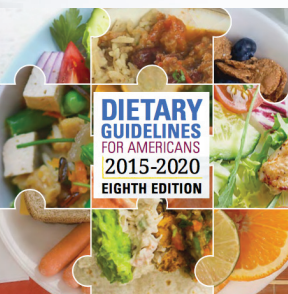
SERVING UP HOSPITALITY AT THE POLITICAL CONVENTIONS

The Council hosted popular events at the Republican and Democratic National Conventions that welcomed hundreds of office holders, media and other important opinion leaders. *The New York Times* Chief Washington Correspondent and Managing Editor Carl Hulse interviewed Council President & CEO Kraig R. Naasz in Cleveland for a Facebook Live segment that was live-streamed on the NYT homepage. *USA Today*, Bloomberg News, the Today Show and other top-tier media also covered the events.



DIETARY GUIDELINES AFFIRM STANDARD DRINK-EQUIVALENTS, MODERATION

As the New Year got underway, we heralded the issuance of the 2015-2020 *Dietary Guidelines for Americans* for reaffirming that moderate alcohol consumption can be part of a healthy diet for adults and for its inclusion of the definition of a drink-equivalent of beer, wine and spirits. The Council played an active role in the *Dietary Guidelines* development process by testifying before the *Dietary Guidelines* panel and submitting scientific comments.



advocate

...and to State and Local Officials

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

We defeated tax increases in 10 states, which threatened to saddle the spirits sector with an additional tax burden of \$180 million. If these taxes had been approved and passed on to consumers, they would have reduced supplier revenues by \$119 million and retail sales by a whopping \$540 million.

We also scored 21 wet/dry election victories that increased access to spirits at bars, restaurants and retail establishments, allowed stores to open for business on Sundays and permitted the sale of spirits during brunch. In total, 1.6 million adult consumers are benefiting from our efforts to improve their access to distilled spirits.

These victories were notched in a year that also saw extended sales hours, additional distillery sales, expanded tastings, marketing improvements and increased outlets in localities across the country.

SPIRIT SALES IN COLORADO GROCERY STORES WIN

One of our most notable achievements of the year was securing spirits sales in Colorado grocery stores by bringing disparate parties together and brokering a compromise. Faced with a beer-and-wine-only ballot initiative, the Council successfully facilitated a legislative compact that gradually phases in the sale of beer, wine and spirits in grocery stores. Had the original ballot measure been adopted by the state's voters, the reduced foot traffic, consumer substitution and reduced outlet density would have cost spirits suppliers \$27 million annually.

BEATING BOSTON DRINK TAX

The Boston City Council soundly rejected a substantial citywide tax increase on the sale of alcohol – beer, wine and spirits – that would have crippled Boston hospitality businesses. The 10-3 vote against a 2 percent drink tax followed significant legislative outreach and education by the Council, a grassroots effort in conjunction with the No Boston Tax coalition and significant public support from Boston editorial boards.





PREVENTING PENNSYLVANIA PRICE HIKES

The Pennsylvania Liquor Control Board (PLCB), at the urging of the legislature, sought to implement a new pricing format that would have captured any pricing discount offered by suppliers rather than passing the savings on to consumers. The Council advocated for an open and transparent process and persuaded the PLCB to delay implementing the pricing structure during the holiday season. We continue to encourage dialog between the agency and suppliers.

MODERNIZING THE MARKETPLACE AND PROVIDING CONSUMER CONVENIENCE

“Brunch Bills” ushered in a new era of convenience as many localities rolled back restrictions on when consumers can purchase a Bloody Mary. The Council worked with state legislatures in Connecticut, New York and West Virginia to modernize the laws and move away from the Prohibition-era policies that barred patrons from ordering a cocktail before 1 p.m. The Council also achieved new or improved tastings legislation in Alabama, Arizona, Kentucky and Ohio that allows consumers to “try before they buy.” This marketing tool is key to growth in premiumization and rising sales of high-end spirits.



promote

Celebrating Cocktail Culture

The spirits sector is entering a new golden era. Distilled spirits market share for revenue is up 6.7 points since 2000 driven largely by high end and premium spirits products. Consumers are embracing the cocktail scene, where combinations are endless and a new exciting mixture is just a sip away.

The media mirrors this trend as interest continues to grow in reporting on innovative flavors and experiences. And this trend is not just evident in the United States – American whiskey is also booming across the globe. U.S. spirits exports more than doubled over the past decade to reach \$1.42 billion in 2016. In cities around the world, consumers are sampling high end spirits and celebrating cocktail culture.





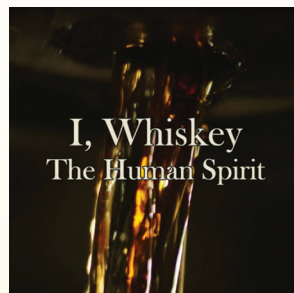
EXPANDING ACCESS TO FOREIGN MARKETS

The Council hosted U.S. Trade Representative (USTR) Michael Froman on a tour of Nelson's Green Brier Distillery in Nashville to discuss the importance of international trade to our sector. Our collaborations with USTR and the U.S. Department of Agriculture (USDA) over the last decade have contributed to U.S. spirits exports more than doubling, reaching \$1.42 billion in 2016. The Council also helped secure the elimination of Colombia's discriminatory practices against U.S. distilled spirits, as well as prevent new discriminatory practices in Canada and India.

I, WHISKEY: IN THE SPIRIT OF COLLABORATION

The Distilled Spirits Council, in conjunction with the national think tank Competitive Enterprise Institute (CEI), hosted the premiere of the short film *I, Whiskey: The Human Spirit* in D.C., with subsequent screenings across the country. The film's message is that the innovation and collaboration needed to produce whiskey reflects the underlying tenets of our country.

The premiere was a celebration of whiskey and an opportunity to reinforce our policy priorities. We showcased our members' finest products during the screening, which was attended by opinion leaders, top-tier reporters, public policy influencers, senior Capitol Hill staffers and lawmakers.



DRIVING INTEREST IN PREMIUM SCOTCH WHISKY

The Council's biennial Scotch Heritage Media Tour provided top-tier business, lifestyle and spirits media with unique experiences throughout Scotland's spectacular regions, including the Highlands, Speyside and its islands Orkney and Islay.

The media tour promotes the Scotch whisky category by showcasing the rich heritage and the diverse flavors of Scotch whisky, while exploring the unique landscapes, history and culture of Scotland. Throughout the week-long tour, attendees tasted rare malts, learned about iconic Scotch brands and met with top master distillers.



PREVIEWING SPIRITS TRENDS

Eighty-five top-tier business, lifestyle and trade media sampled an array of spirits and learned emerging cocktail trends at the Council's annual holiday media event in New York City.

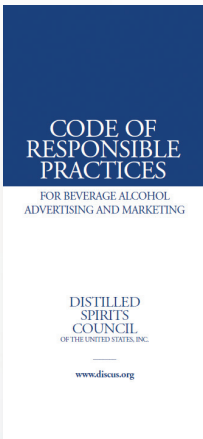
Reporters representing *The New York Times*, *Wall Street Journal*, *New York Post*, Fox News, Bloomberg News, *Vogue*, *Esquire*, *GQ*, *Condé Nast Traveler*, Reuters, Yahoo News, BuzzFeed News, Huffington Post, Daily Beast, *Forbes*, *Fortune*, *Market Watch*, *The Street*, Entertainment Tonight and many others all raised a glass to toast innovations in the cocktail scene.



lead

Encouraging Moderation & Responsibility

As a leader in social responsibility and the keeper of the *Code of Responsible Practices*, we host an annual conference for all beverage alcohol companies to share best practices and ensure that advertising guidelines comport with the rapidly changing media landscape. We lead by example, formulating policy on evidence-based science; supporting efforts to further reduce underage drinking and drunk driving; and encouraging moderate and responsible consumption among adults who choose to drink.



STEWARDSHIP THROUGH THE CODE OF RESPONSIBLE PRACTICES

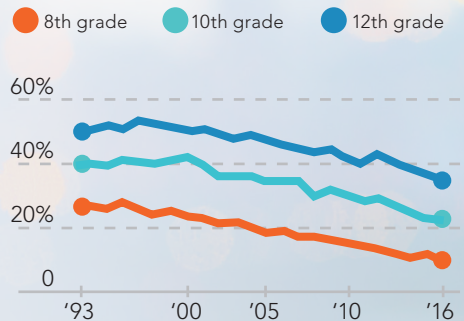
The Council hosted its Seventh Annual Best Practices Media Summit in January where beverage alcohol sector leaders, government officials and digital media experts gathered to learn about the latest developments in social media marketing and exchange best practices in alcohol marketing self-regulation. The Council's *Code of Responsible Practices* has been cited as a model for other industries and has been commended on numerous occasions by regulators, advocates and the media.

TEEN DRINKING RATES DROP TO HISTORIC LOWS

The progress in reducing underage drinking continues with teen drinking and binge drinking rates declining to record lows, according to the latest federal data. The spirits sector has been a part of this progress by advocating for tough laws aimed at reducing youth access to alcohol and supporting the education efforts of the Foundation for Advancing Alcohol Responsibility and the Federal Trade Commission's "We Don't Serve Teens" program. These historic declines in teen drinking underscore the effectiveness of public-private partnerships.

TRENDS IN TEEN DRINKING

The percentage of teenagers who says they drank alcohol in the past 30 days:



SOURCE The University of Michigan
Institute for Social Research
Janet Loehrke, USA TODAY





SCIENCE ADVISORY COUNCIL FORMED

The Council long has been dedicated to the fundamentals of good science and evidence-based policies. In keeping with the Council's commitment to sound, objective science, it formed a Science Advisory Council, chaired by Lopa Mishra, M.D. of George Washington University, and comprised of highly credentialed scientists from different disciplines. These experts from top universities and medical centers will evaluate research and help inform our policies on alcohol, health and moderation.

PROMOTING MODERATION

The Council teamed up with the National Association of Broadcasters to distribute a public service announcement encouraging responsible drinking to television stations across the country. This initiative is part of a broader effort by the Council to promote moderation among adult consumers including hosting a lunch briefing in New York for health writers on the new *Dietary Guidelines*, offering a free Alcohol and Moderation brochure to consumers for April Alcohol Awareness Month and disseminating responsible drinking information through our DrinkInModeration.org website and social media channels.





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