

# **2019 ECONOMIC BRIEFING**

February 12, 2020 | New York City



**DISTILLED SPIRITS COUNCIL**  
OF THE UNITED STATES



# Chris R. Swonger

**Distilled Spirits Council  
of the United States**

*President & CEO*

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**DISTILLED SPIRITS COUNCIL**  
OF THE UNITED STATES

# A Decade of Market Share Gains



## 2019 Economic Overview

- U.S. revenue growth up 5.3 percent
- U.S. volume growth up 3.3 percent
- 10th straight year of market share gains
- Tariffs jeopardize strong U.S. market

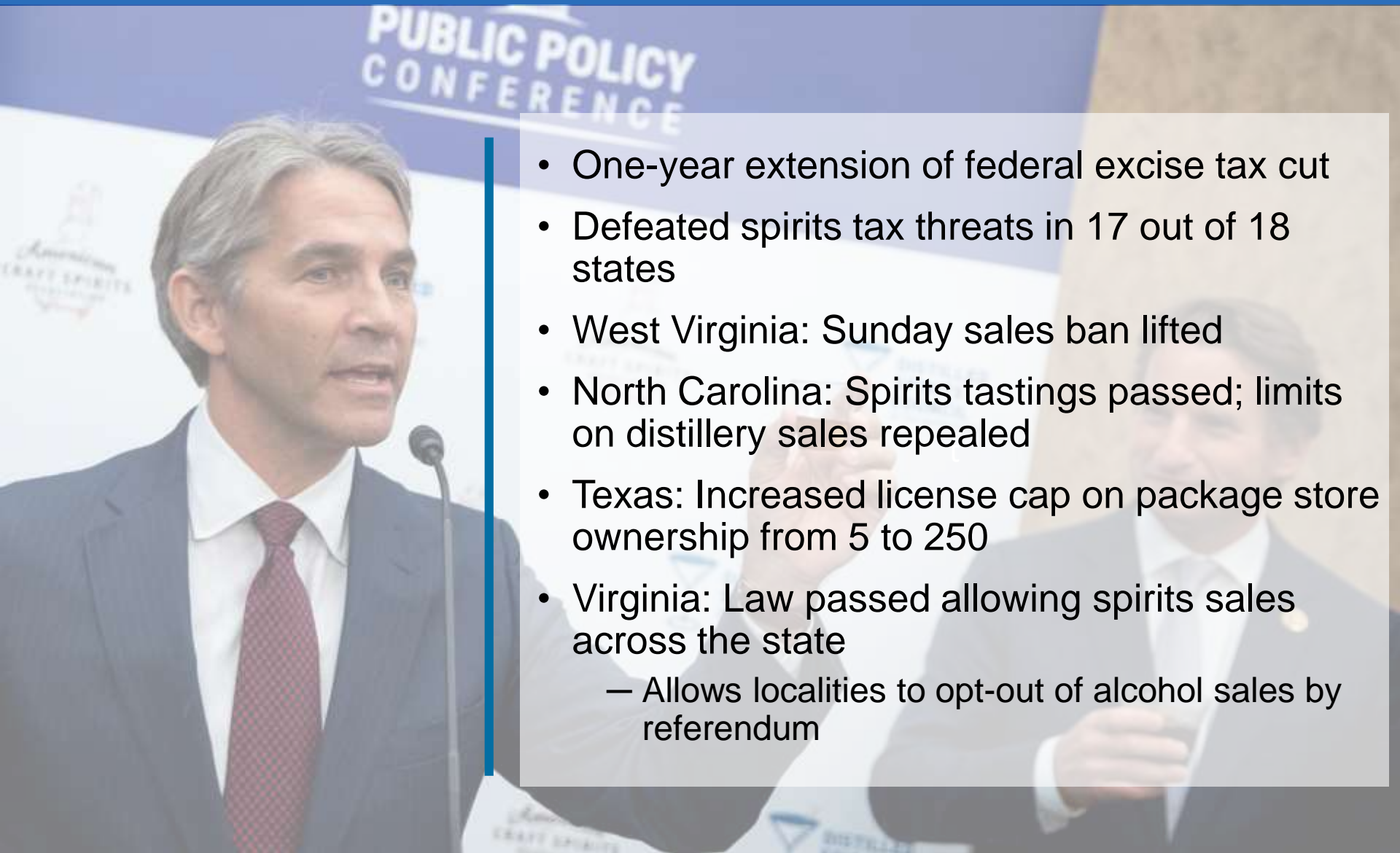
# Economic Impact of the Spirits Industry



## 2019 Economic Snapshot

- \$190 billion in economic activity
- 1.64 million jobs
- Nearly \$32 billion in federal, state & local taxes

# 2019 Key Policy Victories



- One-year extension of federal excise tax cut
- Defeated spirits tax threats in 17 out of 18 states
- West Virginia: Sunday sales ban lifted
- North Carolina: Spirits tastings passed; limits on distillery sales repealed
- Texas: Increased license cap on package store ownership from 5 to 250
- Virginia: Law passed allowing spirits sales across the state
  - Allows localities to opt-out of alcohol sales by referendum



# Launch of Spirits United

SPIRITS  
UNITED



- Industry's new grassroots platform activating spirits advocates on key policy initiatives
- More than **17,000** Spirits United advocates
- Making a real impact:
  - More than 65,000 communications to Congress in support of *Craft Beverage Modernization and Tax Reform Act*
  - Campaign: #ToastNotTariffs
- Building partnerships and expanding reach:
  - American Distilling Institute (ADI)
  - TIPS
  - Kentucky Distillers' Association
  - Tennessee Distillers Guild
  - Texas Whiskey Association
  - Texas Distilled Spirits Association
  - New York State Distillers Guild
  - Michigan Licensed Beverage Association (MLBA)
  - Techniques for Alcohol Management (TAM)



# We Are Spirits United

**SPIRITS  
UNITED**

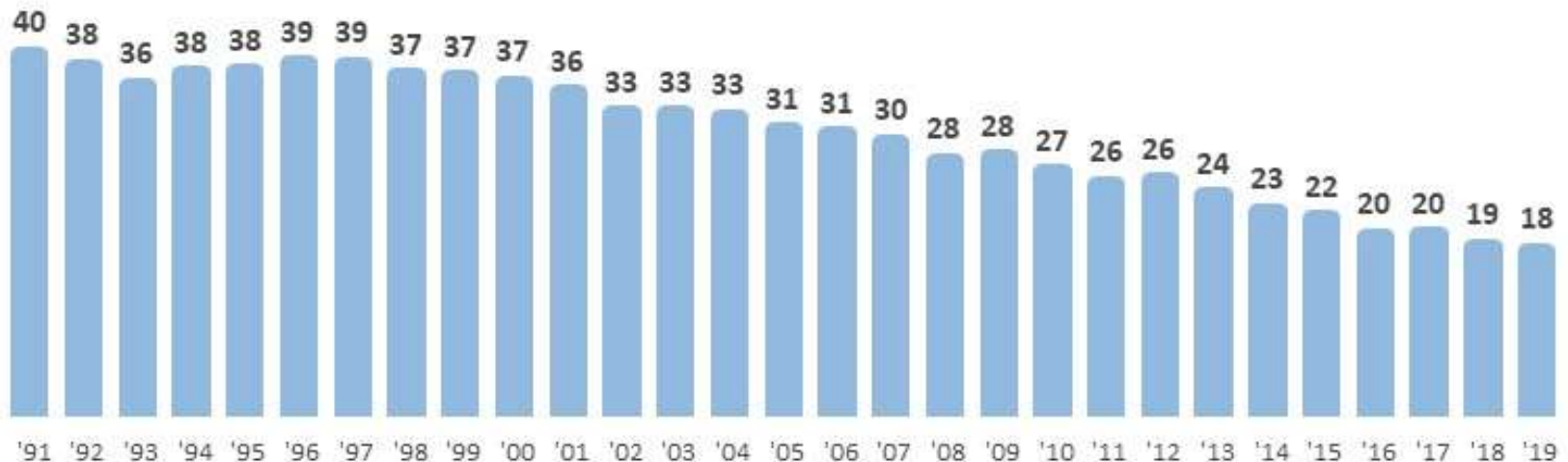
A woman in a dark shirt is shown in profile, reaching up to touch a wooden barrel in a distillery. The background is filled with rows of similar wooden barrels, creating a sense of depth and tradition. The lighting is warm and focused on the woman and the barrel she is touching.

**1.6 million men and women**  
in America that distill and  
serve your favorite spirits.

# Progress on Responsibility

**American Teens Who Reported Drinking in the Past Month Declined 54% Proportionally from 1991 to 2019.**

*(Numbers in Percentage)*



Source: NIDA, *National Survey Results on Drug Use from the Monitoring The Future Study*.

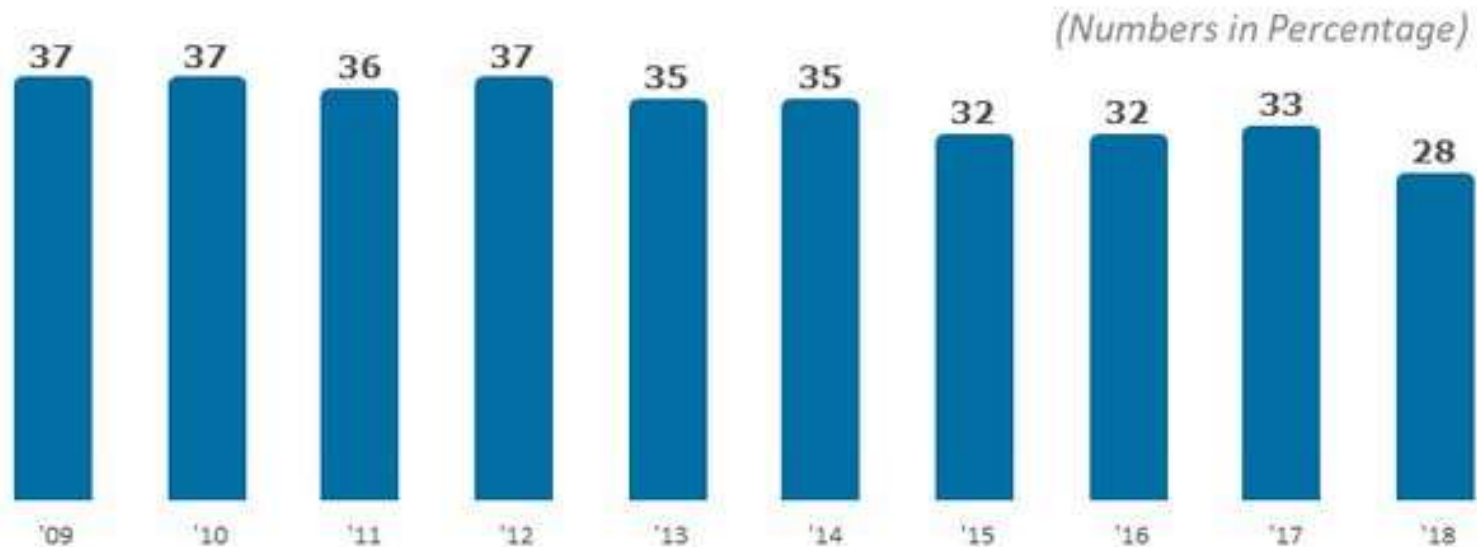
Vol. II Miech, R., et al, U. of Michigan, 12/19

Note: Author state language on the 93/94 survey changed slightly.



# Progress on Responsibility

**Binge drinking\* among college students decreased 24% proportionally from 2009 to 2018 with a statistically significant decline occurring between 2017 and 2018.**



Source: NIDA, *Monitoring the Future National Survey Results on Drug Use, 1975-2018, Volume II*.

Schulenberg, J. E., Johnston, L. D., et al, U. of Michigan, 8/2019

Note: Author state language on the 93/94 survey changed slightly.

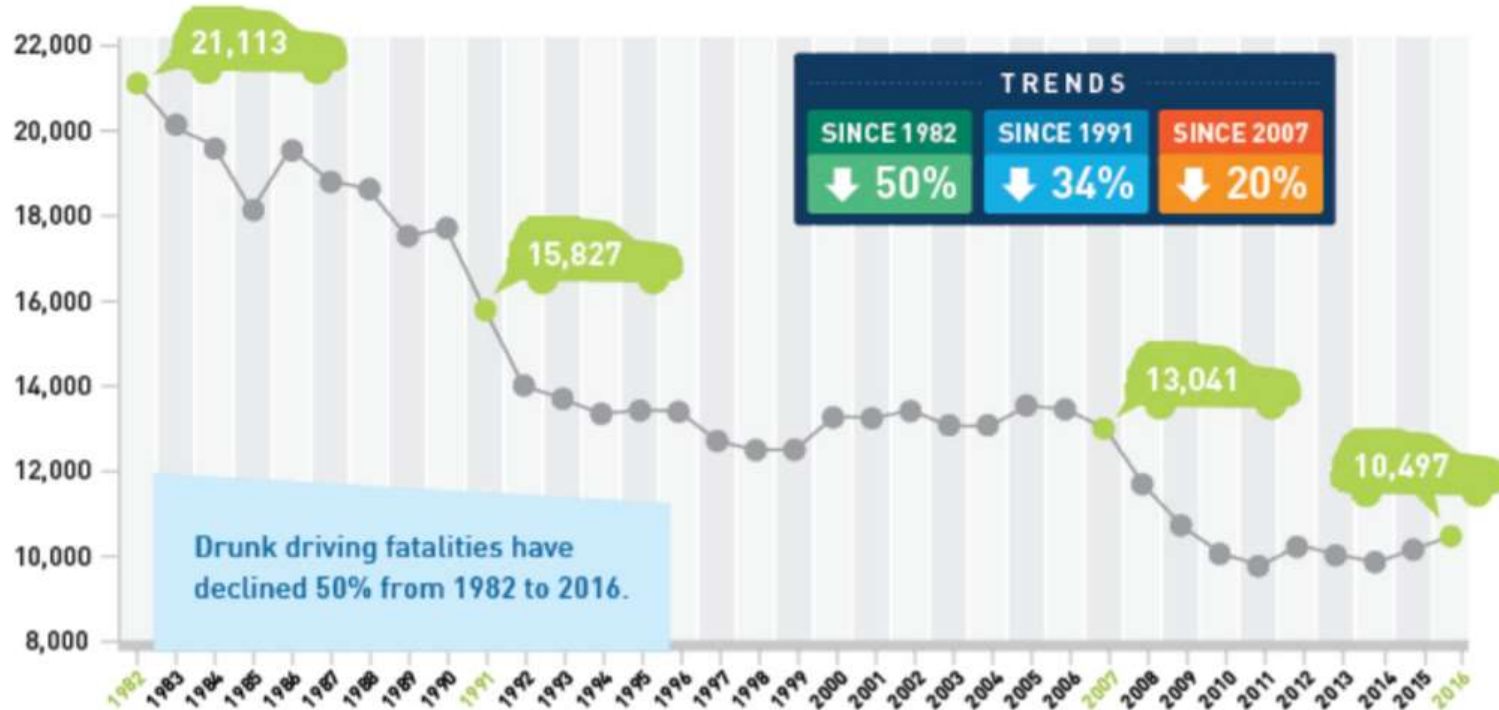
\*Five or more drinks in a row in previous two weeks.

Prepared by Responsibility.org

# Progress on Responsibility

Drunk Driving Fatalities have decreased **50 percent** since 1982.

## TOTAL ALCOHOL-IMPAIRED DRIVING FATALITIES



Source: NHTSA/FARS, 10/17

# Progress on Responsibility Continues

Under 21 Drunk Driving Fatalities have decreased **80 percent** since 1982.

## UNDER 21 ALCOHOL-IMPAIRED DRIVING FATALITIES





# Christine LoCascio

**Distilled Spirits Council  
of the United States**

*Chief, Public Policy*

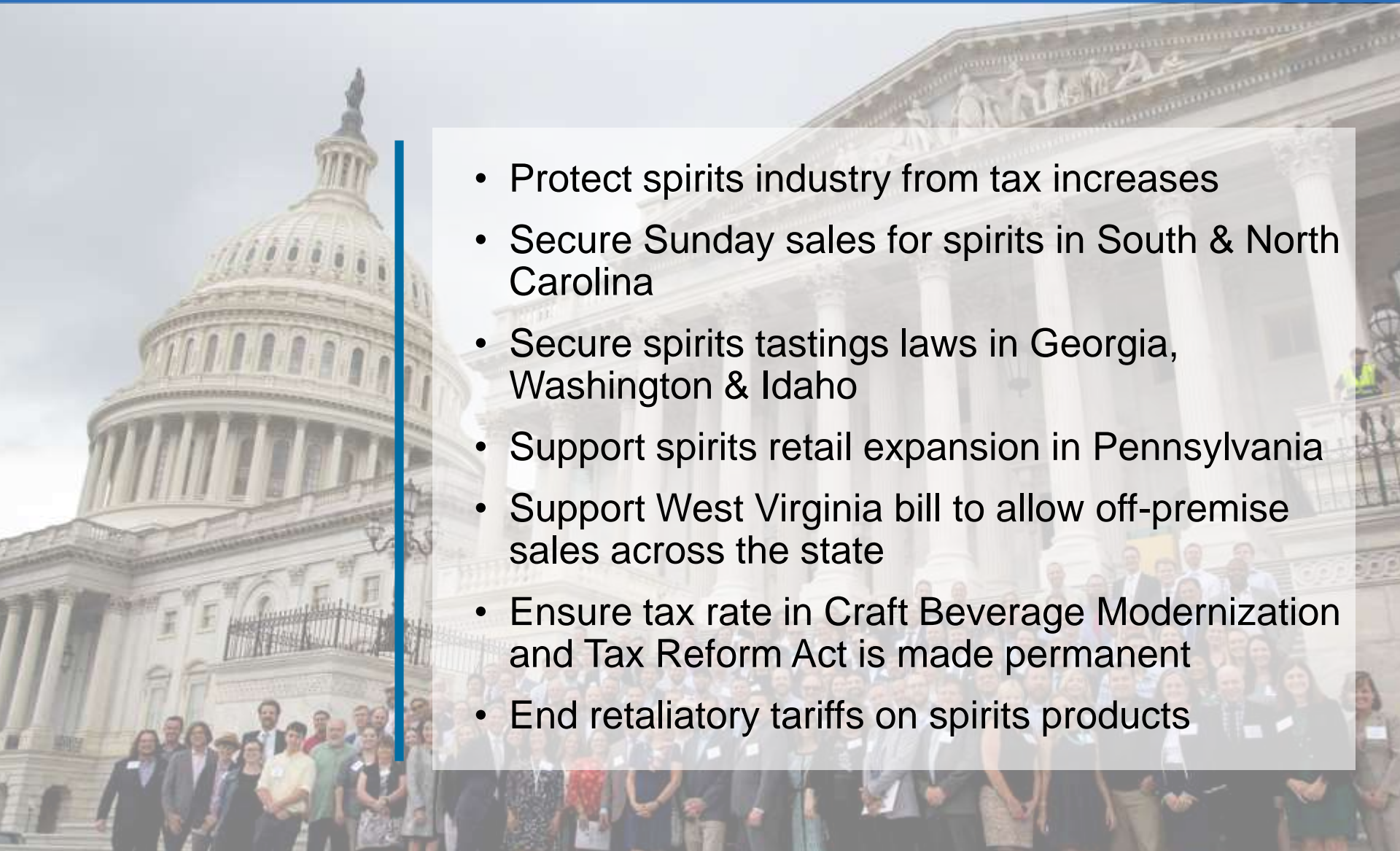
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# 2020 DISCUS Legislative Priorities



- 
- The background of the slide is a faded image of the United States Capitol building. In the foreground, there is a large group of people, likely industry professionals and lawmakers, posing for a group photo. A vertical blue line is positioned to the left of the list of priorities.
- Protect spirits industry from tax increases
  - Secure Sunday sales for spirits in South & North Carolina
  - Secure spirits tastings laws in Georgia, Washington & Idaho
  - Support spirits retail expansion in Pennsylvania
  - Support West Virginia bill to allow off-premise sales across the state
  - Ensure tax rate in Craft Beverage Modernization and Tax Reform Act is made permanent
  - End retaliatory tariffs on spirits products



# U.S. Trade Agreements



- **USMCA**

- Maintains duty-free trade in spirits
- Preserves recognition for “Bourbon” and “Tennessee Whiskey;” Mexico will begin process to recognize “American Rye Whiskey”
- Reaffirms commitments concerning the internal sale and distribution of distilled spirits
- Establishes new best practices regarding labeling and certifications for beverage alcohol

- **CHINA PHASE 1**

- Significant agreement that helps to de-escalate trade dispute
- China suspended additional tariff increases on certain U.S. spirits products, but retaliatory tariffs remain
- Will reduce tariffs on U.S. rum and vodka to 35 percent on Feb. 14

- **Japan**

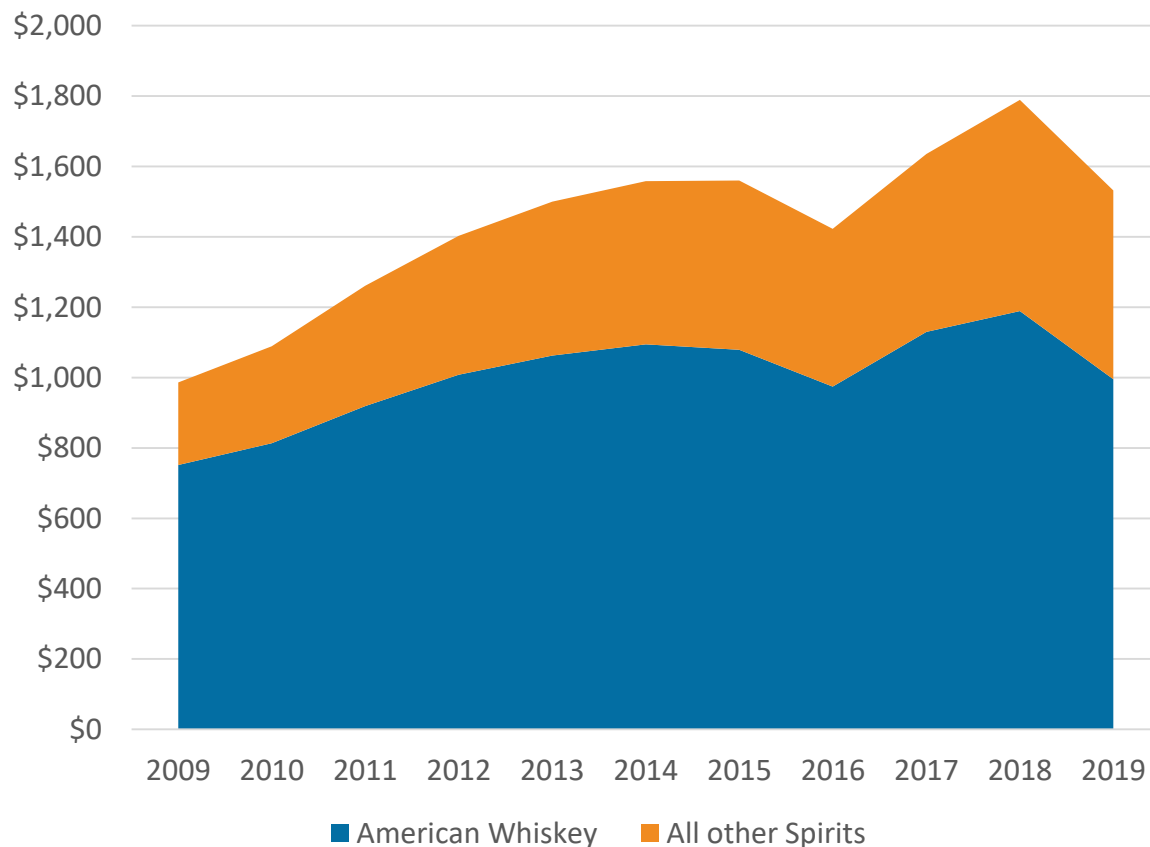
- Initial agreement covering several agricultural products; additional negotiations for a comprehensive agreement to begin later this year

# Decade in Review: U.S. Export Growth Stunted by Tariffs



- Over the past 10 years, total U.S. spirits exports grew by **55.3 percent**.
- In June 2018, the EU imposed a **25 percent retaliatory tariff** on American Whiskey.
- From 2018 to 2019, total U.S. spirits exports were **down 14.3 percent** to \$1.5 billion.
- American Whiskey exports were **down 16.0 percent** to \$996 million from 2018 to 2019.

**Global U.S. Spirits and American Whiskey Exports (in millions of USD)**

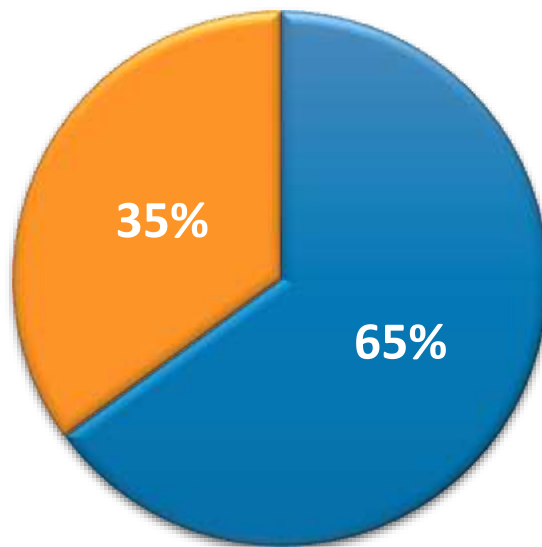


# American Whiskey Drives U.S. Spirits Exports



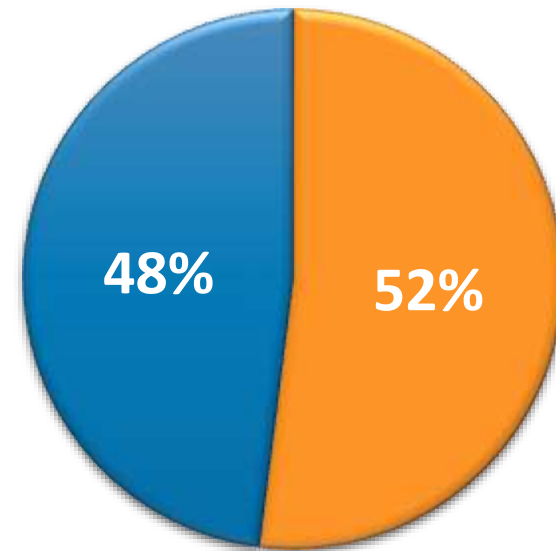
American Whiskey accounts for **65 percent of all U.S. spirits exports**.  
The EU is the top export market for American Whiskey.

**Total U.S. Spirits Exports  
(\$1.5B)**



- American Whiskey (\$996 M)
- All other U.S. spirits (\$537 M)

**Total American Whiskey  
Exports (\$996 M)**

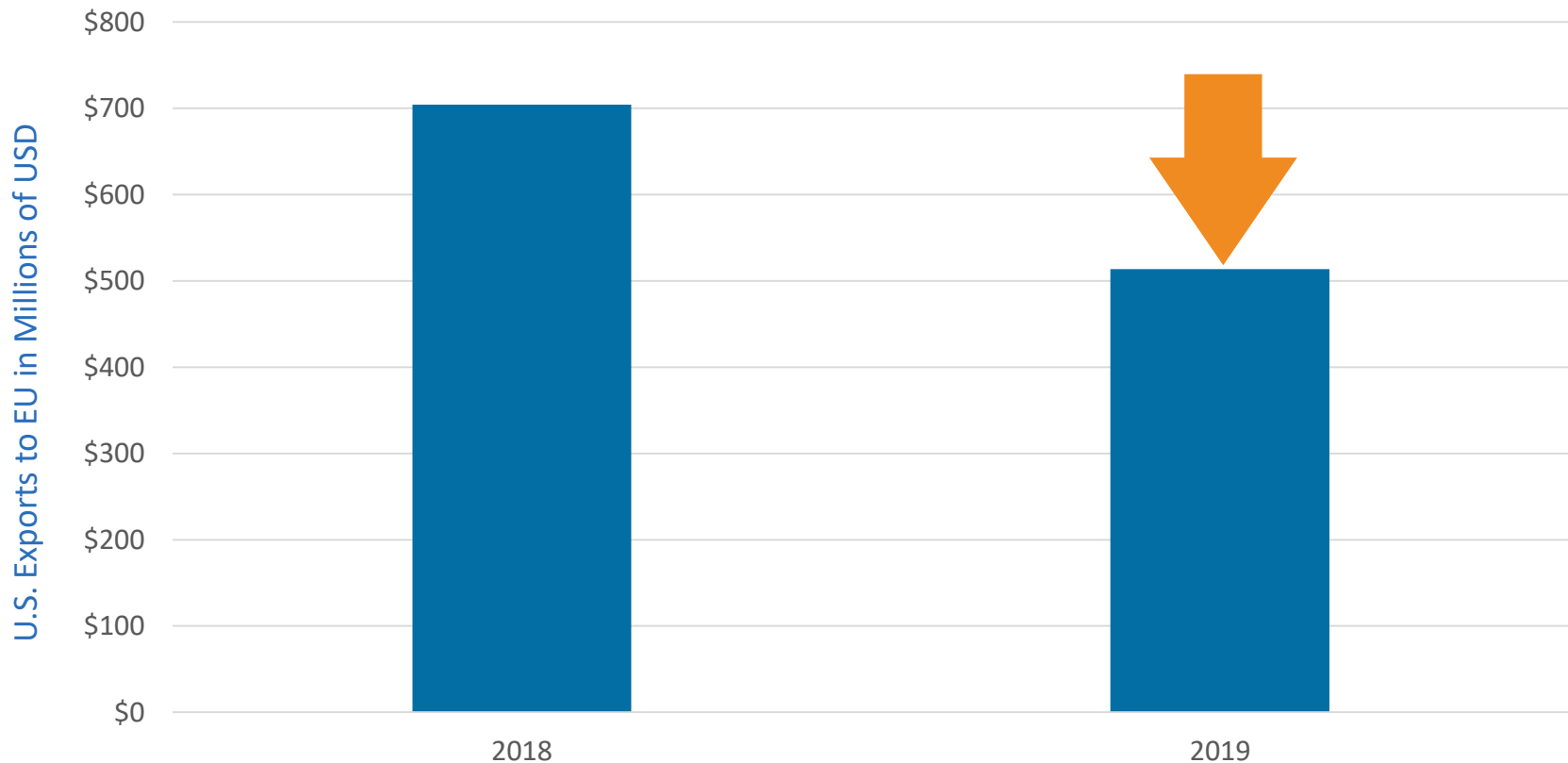


- American Whiskey exports to the EU (\$514 M)
- American Whiskey exports to rest of world (\$482 M)

# The Effects of Tariffs: European Union



American Whiskey exports to the EU were **down 27 percent** in the last year.



Source: USITC Dataweb, latest data available

# The Effects of Tariffs: Top 10 Markets for U.S. Spirits



	2018 Total U.S. Spirits Exports (In millions of USD)	2019 Total U.S. Spirits Exports (In millions of USD)	2018-2019 Percent Change
Canada	\$234	\$202	- 13.6
Japan	\$118	\$138	+ 17.7
<b>United Kingdom*</b>	<b>\$190</b>	<b>\$111</b>	<b>- 41.5</b>
Australia	\$121	\$102	- 15.9
<b>France*</b>	<b>\$115</b>	<b>\$93</b>	<b>- 18.9</b>
<b>Germany*</b>	<b>\$120</b>	<b>\$83</b>	<b>- 30.4</b>
Mexico	\$61	\$72	+ 18
<b>Spain*</b>	<b>\$119</b>	<b>\$70</b>	<b>- 41.3</b>
Vietnam	\$62	\$63	+ 0.8
<b>Latvia*</b>	<b>\$44</b>	<b>\$52</b>	<b>+ 19.5</b>

\* EU member countries

- Total U.S. spirits exports to the top ten markets were **down 16.6 percent to \$987 million.**
- **Five of the top 10 markets are EU members**, imposing 25 percent tariff on American Whiskeys since June 2018.



# The Effects of Tariffs: Top 10 Markets for American Whiskey



- Total American Whiskey exports to the top ten markets were **\$693 million**.
- **Seven of the top 10 markets are EU members** which has been imposing a 25 percent tariff on American Whiskeys since June 2018.

	2018 American Whiskey Exports (In millions of USD)	2019 American Whiskey Exports (In millions of USD)	American Whiskey Exports Percent Change
Japan	\$98	\$122	+ 24.6
<b>United Kingdom*</b>	<b>\$150</b>	<b>\$101</b>	<b>- 32.7</b>
<b>France *</b>	<b>\$108</b>	<b>\$86</b>	<b>- 19.9</b>
Australia	\$101	\$84	- 16.6
<b>Germany*</b>	<b>\$100</b>	<b>\$82</b>	<b>- 18.2</b>
<b>Spain*</b>	<b>\$108</b>	<b>\$61</b>	<b>- 43.8</b>
Canada	\$50	\$52	+ 5.1
<b>Latvia*</b>	<b>\$42</b>	<b>\$50</b>	<b>+ 18.9</b>
<b>Netherlands*</b>	<b>\$45</b>	<b>\$29</b>	<b>- 37.1</b>
<b>Poland*</b>	<b>\$33</b>	<b>\$27</b>	<b>- 18.5</b>

\* EU Member Countries

# U.S. Spirits Market: Imports



## Top 10 Countries Importing Spirits to the U.S.

	2018 (in millions of USD)	2019 (in millions of USD)	Percent Change
France	\$2,279	\$2,551	+ 11.9
<b>United Kingdom *</b>	<b>\$1,789</b>	<b>\$1,884</b>	<b>+ 5.4</b>
Mexico	\$1,524	\$1,850	+ 21.4
<b>Ireland *</b>	<b>\$695</b>	<b>\$794</b>	<b>+ 14.3</b>
Canada	\$393	\$428	+ 8.7
Netherlands	\$347	\$329	- 5.1
Sweden	\$241	\$248	+ 2.7
<b>Italy *</b>	<b>\$171</b>	<b>\$178</b>	<b>+ 4.2</b>
Latvia	\$125	\$136	+ 8.5
<b>Germany *</b>	<b>\$120</b>	<b>\$135</b>	<b>+ 12.2</b>

\* Countries facing U.S. tariffs

- **Top five countries produce “distinctive” spirits** that can only be made in certain countries (e.g. Cognac, Scotch, Tequila).
- Since October 2019, U.S. has imposed a **25 percent tariff** on Single Malt Scotch Whisky, Single Malt Irish Whiskey from Northern Ireland, and liqueurs and cordials from Germany, Ireland, Italy, Spain and the UK.

# DISCUS-led Export Promotion Program



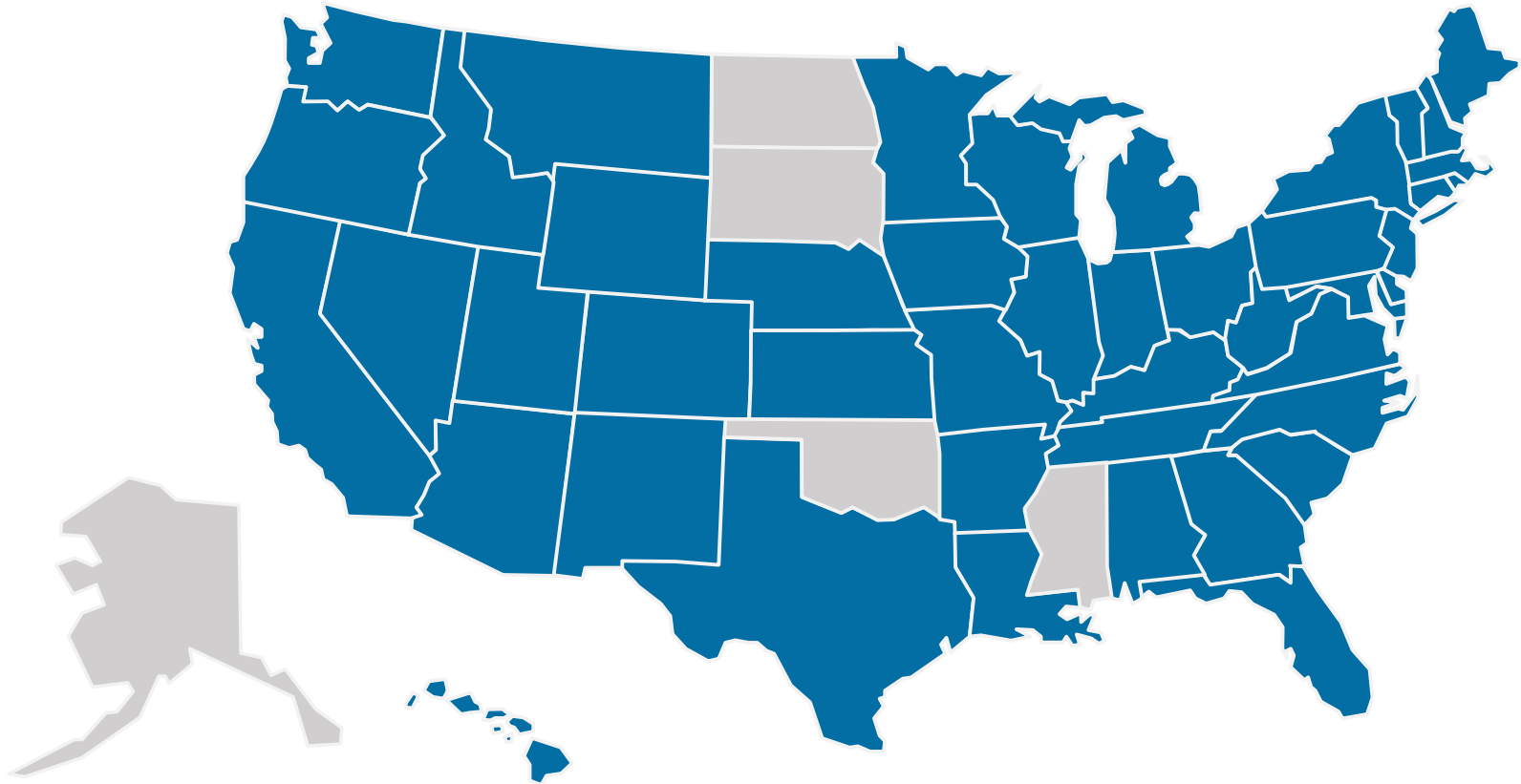
## Market Access Program (MAP)

- Supported by the U.S. Department of Agriculture
- Promotes U.S. distilled spirits in key foreign markets by:
  - Conducting educational seminars
  - Hosting trade expositions
  - Executing social media campaigns

Since 2014, the initiatives through the MAP have directly resulted in **nearly \$6 million in new exports** for small and medium U.S. distillers.



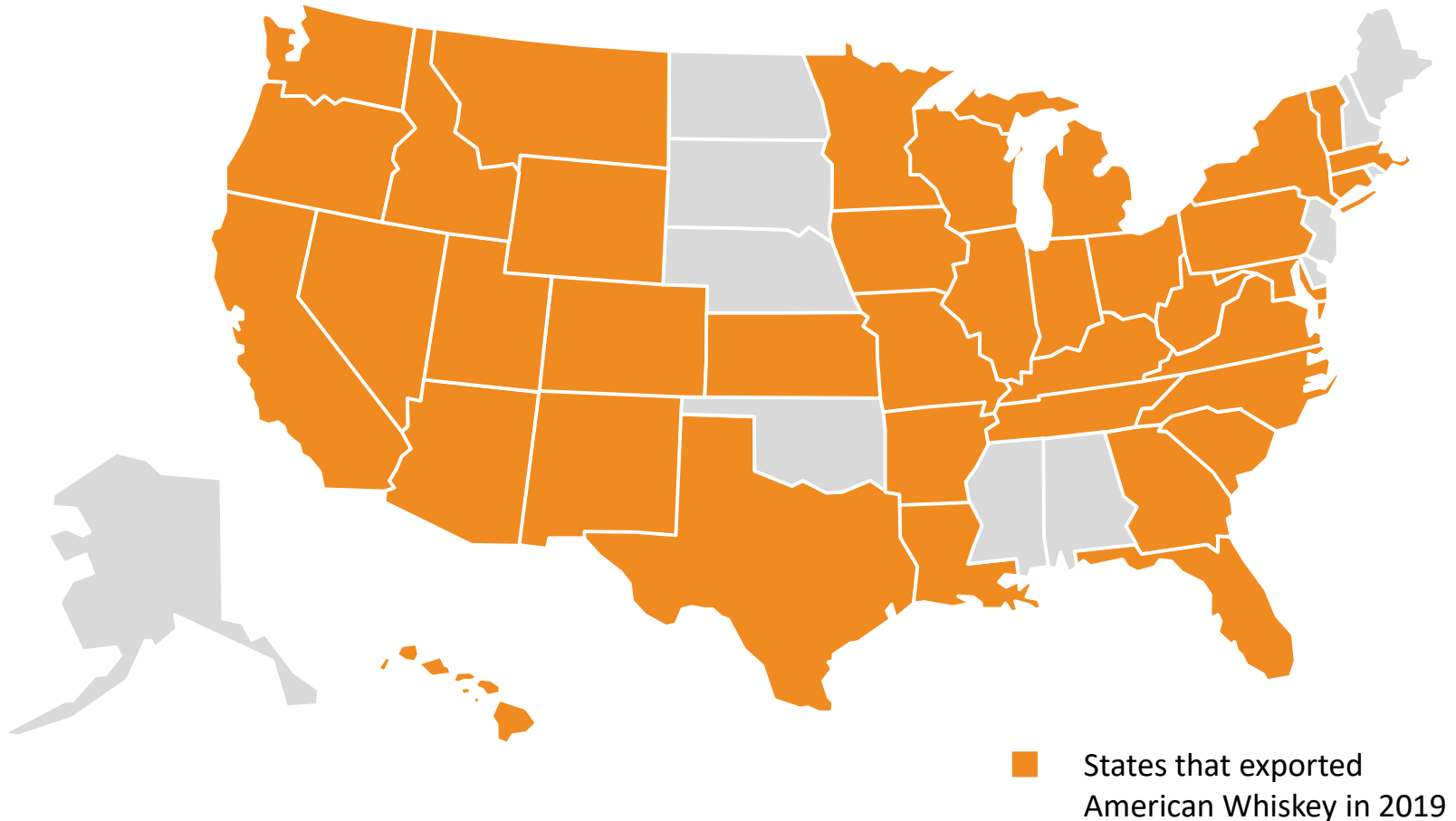
# 45 States Exported U.S. Spirits in 2019



■ States that exported  
U.S. spirits in 2019

Source: 2019 U.S. Census & ITC Data

# 39 States Exported American Whiskey in 2019



Source: 2019 U.S. Census & ITC Data





# Tom Potter

New York Distilling Company

*President*

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# U.S. Craft Distiller Perspective: New York Distilling Company



- Distillery in Brooklyn, NY
- Founded by Tom Potter, Bill Potter & Allen Katz in 2010
- Produces award-winning gins and rye whiskies
- 15 employees
- Long-term relationship with NY organic farmers to source all rye grains
- Began 10-year project in 2011 to grow & distill rye from heirloom seeds (historic “Horton” varietal)



# U.S. Craft Distiller Perspective: Retaliatory Tariffs on American Whiskey



- In 2017, exports accounted for 15 percent of company revenue; fastest growing segment
- Projections were for 25 percent of sales to come from exports in 2018
- Primary export markets: EU & China
- Introduction of tariffs in mid-2018 froze all foreign sales
- Now, less than 7 percent and continuing to erode
- Lost opportunity: \$100K and counting



# U.S. Craft Distiller Perspective: Craft Beverage Modernization & Tax Reform Act



- Within 30 days of initial passage of the federal excise tax cut in 2018, NYDC hired first full-time salesperson
- Within 30 days of 2019 extension, NYDC hired two additional full-time employees, bringing total to 15
- Without the extension, NYDC would have had to eliminate one position
- Next month NYDC will be purchasing our second rick house due to the extension
- Extension is welcome – but making it permanent is crucial to planning
- Proportionally, tax relief for small producers is even more important for spirits than beer or wine







# David Ozgo

**Distilled Spirits Council  
of the United States**

*Senior Vice President, Economic  
and Strategic Analysis*

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# Economic Overview

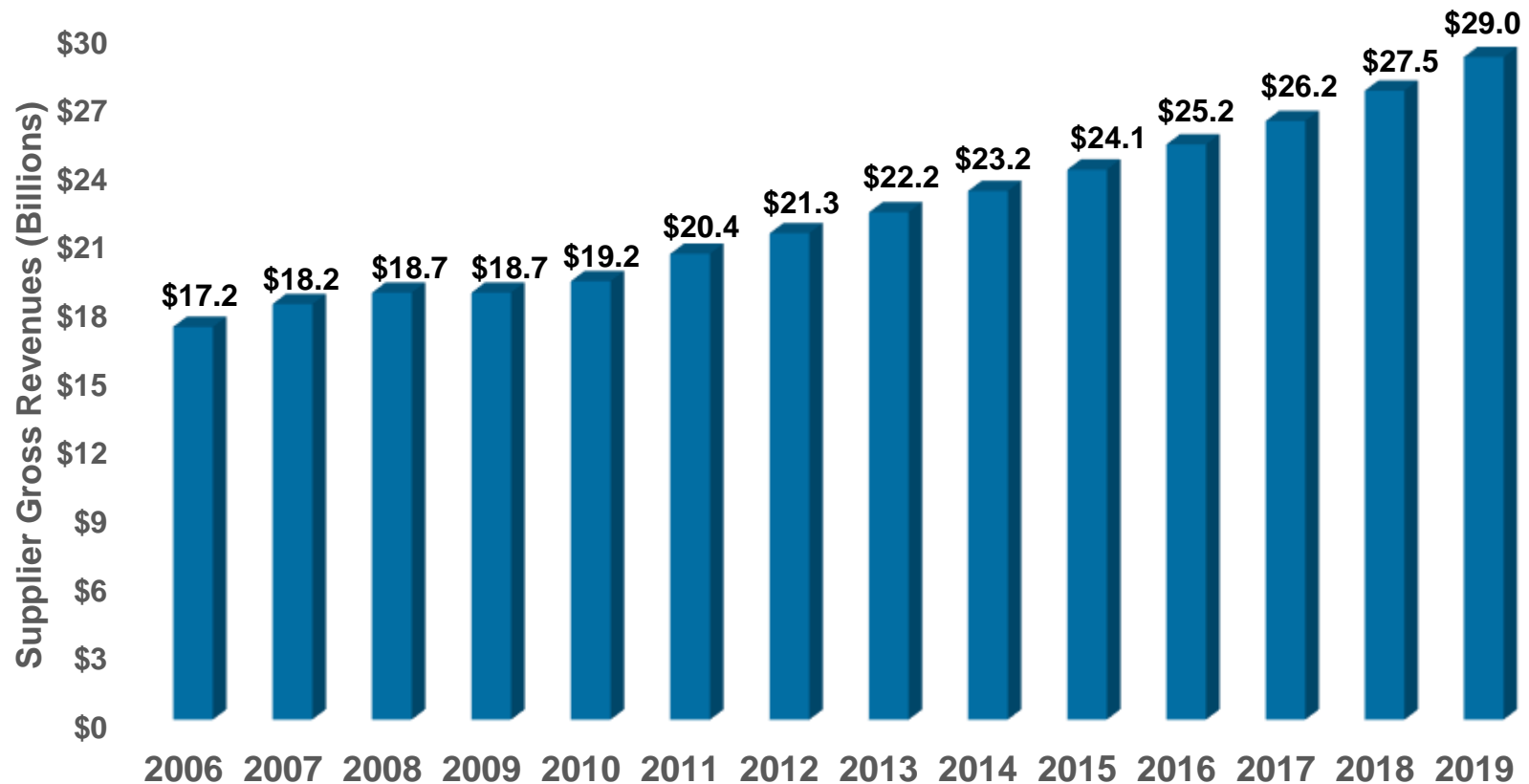


- 
- A person wearing a red, white, and blue plaid shirt is shown from the side, holding a white tablet computer. They are standing in a field of tall, green grass. The background is slightly blurred, emphasizing the person and the tablet.
- **Industry Growth**
  - **Market Share**
  - **Growth Drivers**
  - **Category Performance**
  - **Trends to Watch**

# U.S. Supplier Revenues Up 5.3 Percent to \$29 Billion - \$1.5 Billion Gain



Supplier Gross Revenues (Billions)

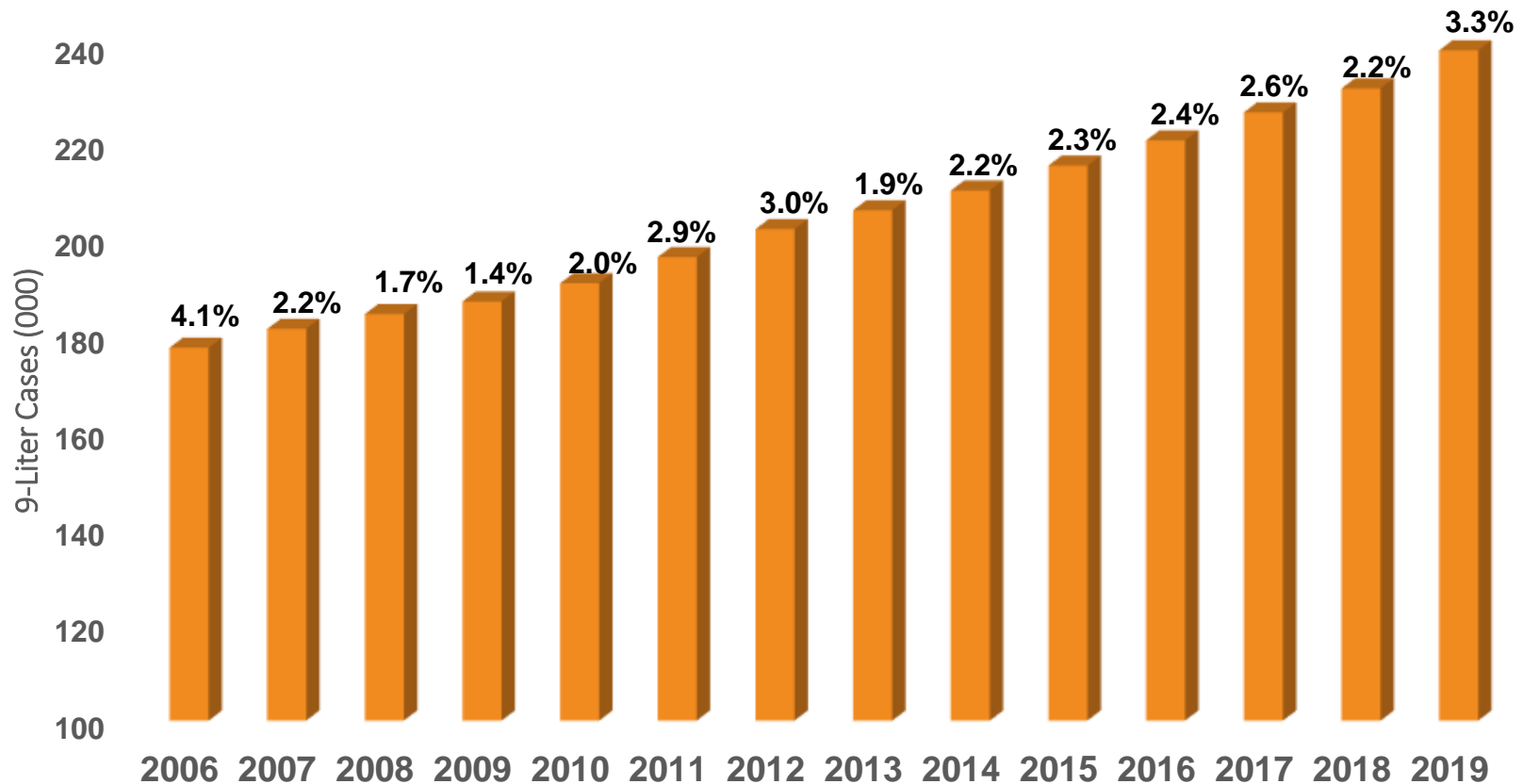


Source: Distilled Spirits Council Market Segmentation Database

# U.S. Volume Up 3.3 Percent in 2018 Up 7.6 Million to 239 Million Cases



U.S. Spirits Volume (Millions)

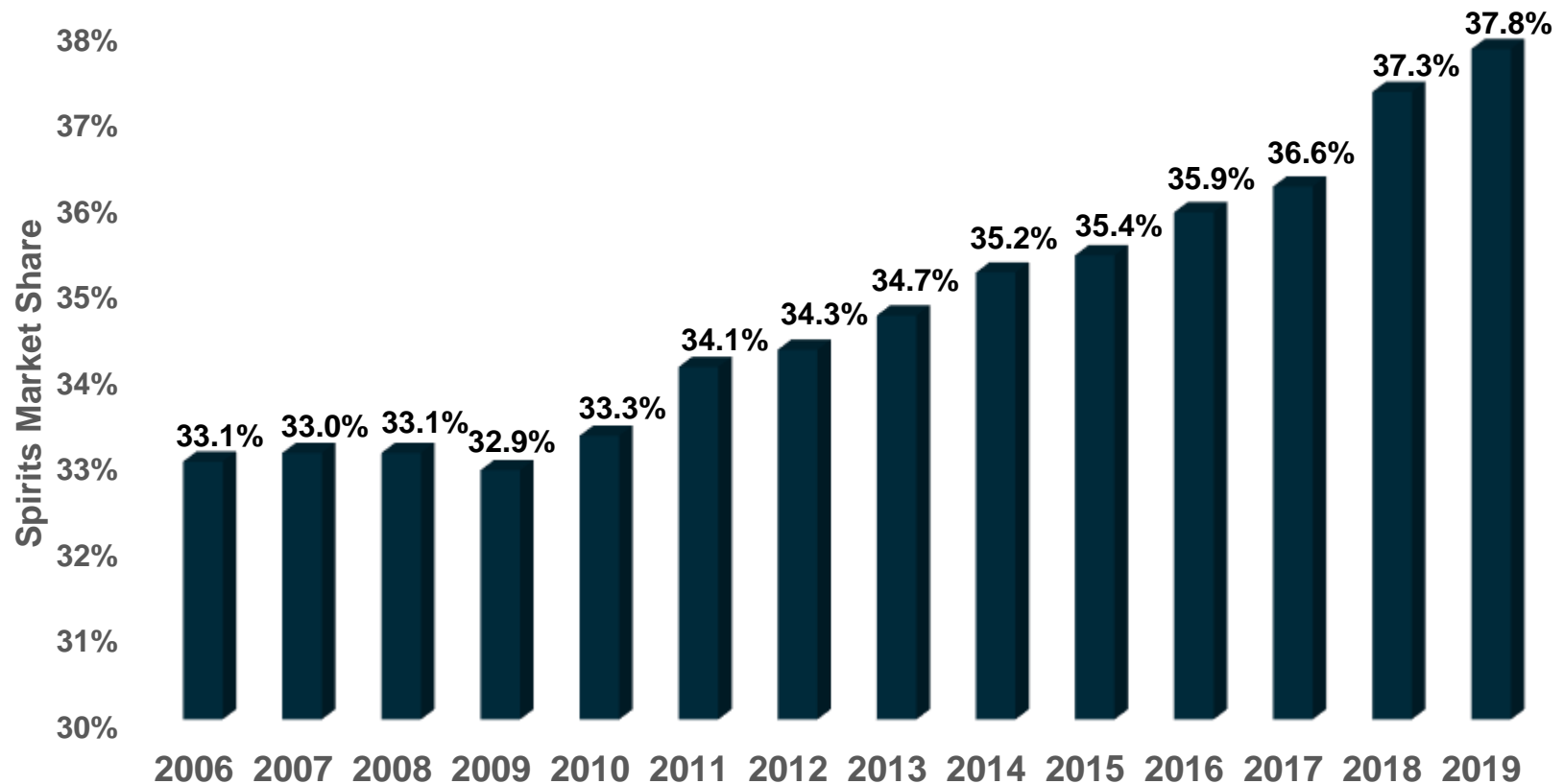


Source: Distilled Spirits Council Market Segmentation Database

# Spirits Market Share – Revenue Each Point Worth \$770M



## Revenue Market Share



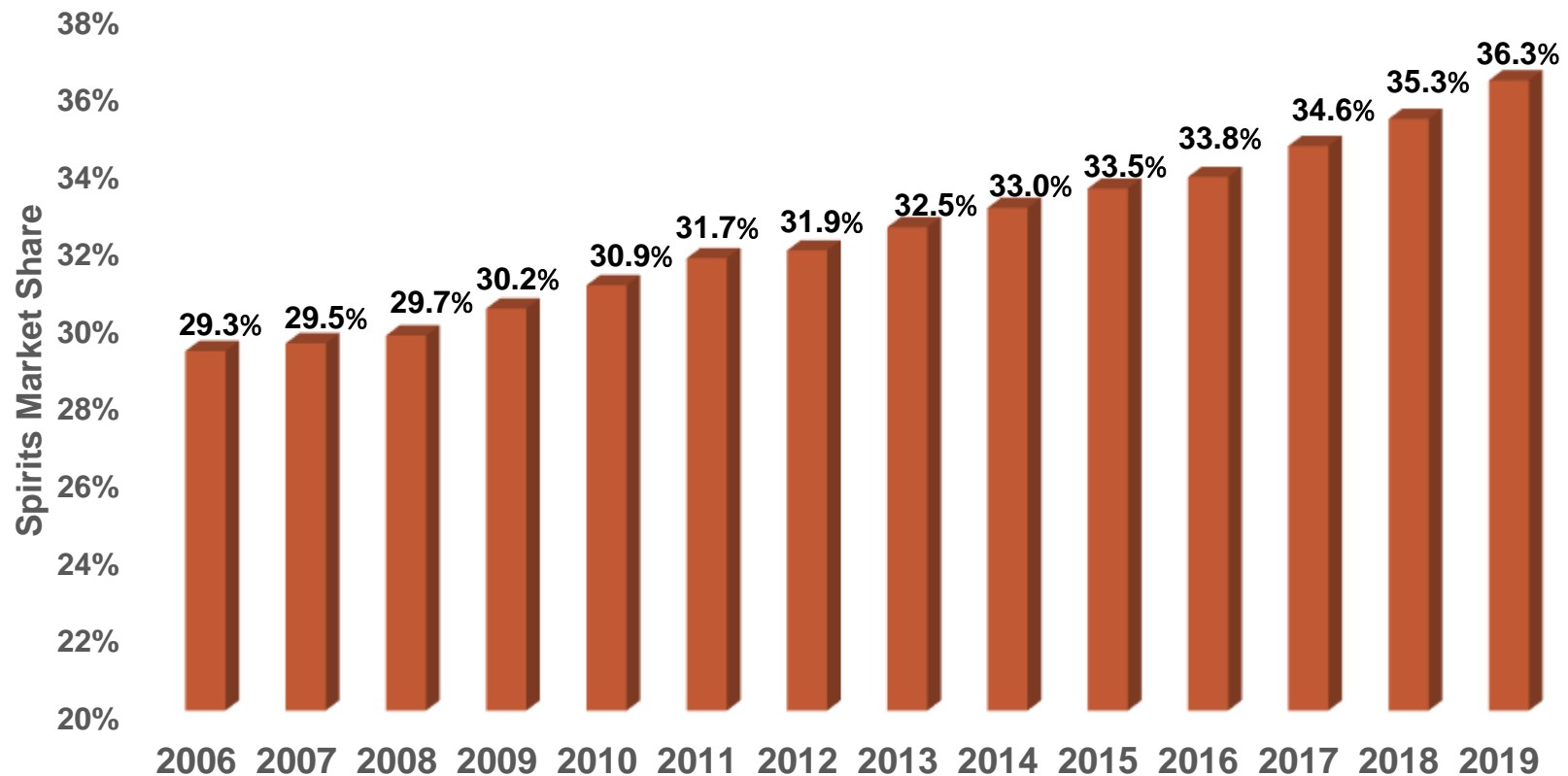
Source: Distilled Spirits Council Market Segmentation Database

# Spirits Market Share – Volume

## Each Point is Worth 6.6M Cases



Volume Market Share



Source: Distilled Spirits Council Market Segmentation Database

# Price Segments



- Products are segmented on supplier prices
- Range varies by product category
- Use market leaders to define segments
- Average supplier gross revenue per case:

## Revenue/9-Liters

## Retail Bottle Price

Value \$54

<\$12/bottle

Premium \$100

\$12-20/bottle

High End \$170

\$20-35/bottle

Super Premium \$277

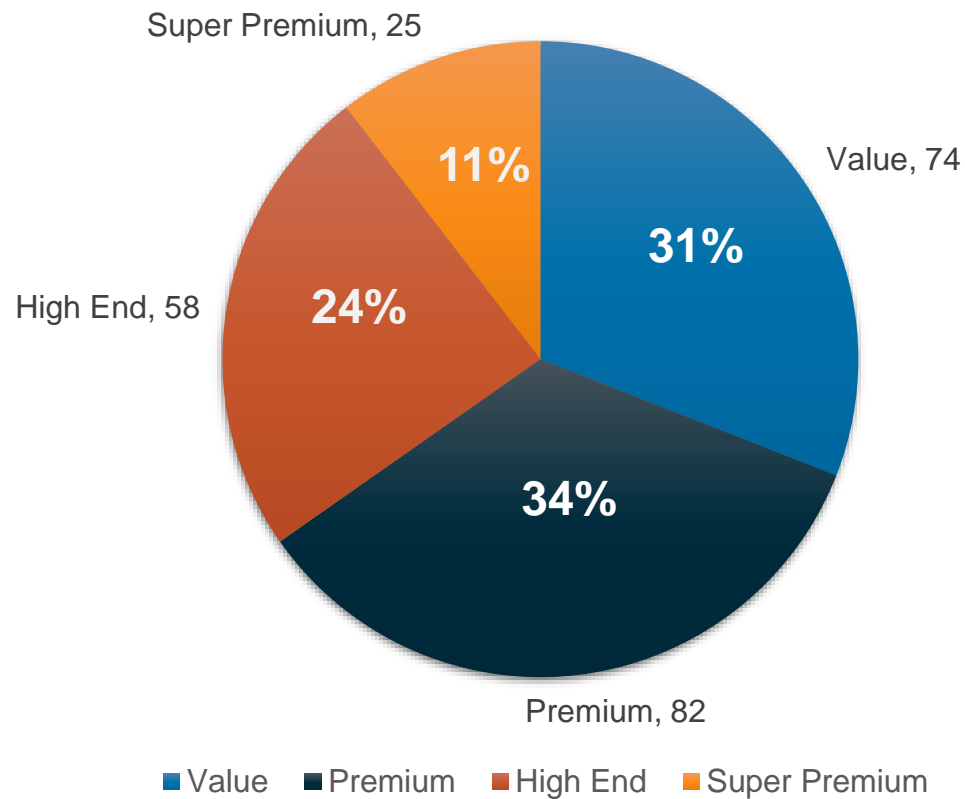
\$35+/bottle



# U.S. Volume by Price Point



## 9-Liter Cases (Millions)

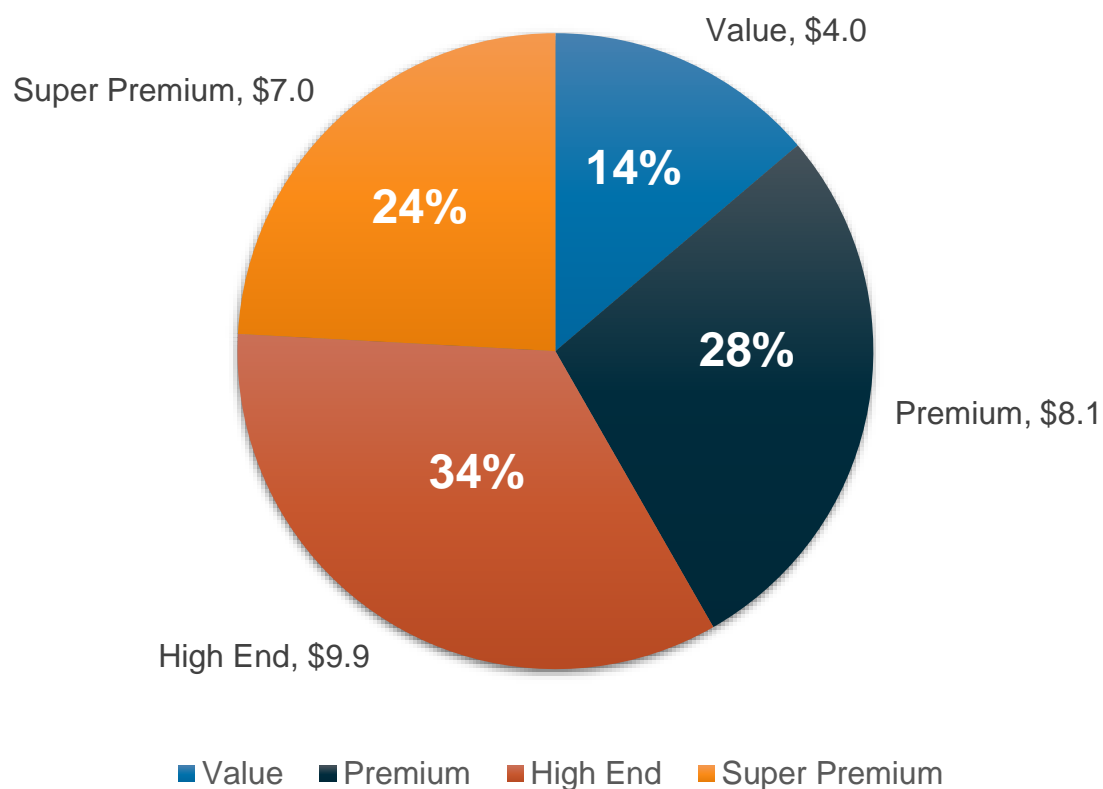


Source: Distilled Spirits Council Market Segmentation Database

# U.S. Supplier Revenue by Price Point



## Gross Revenues (Billions)

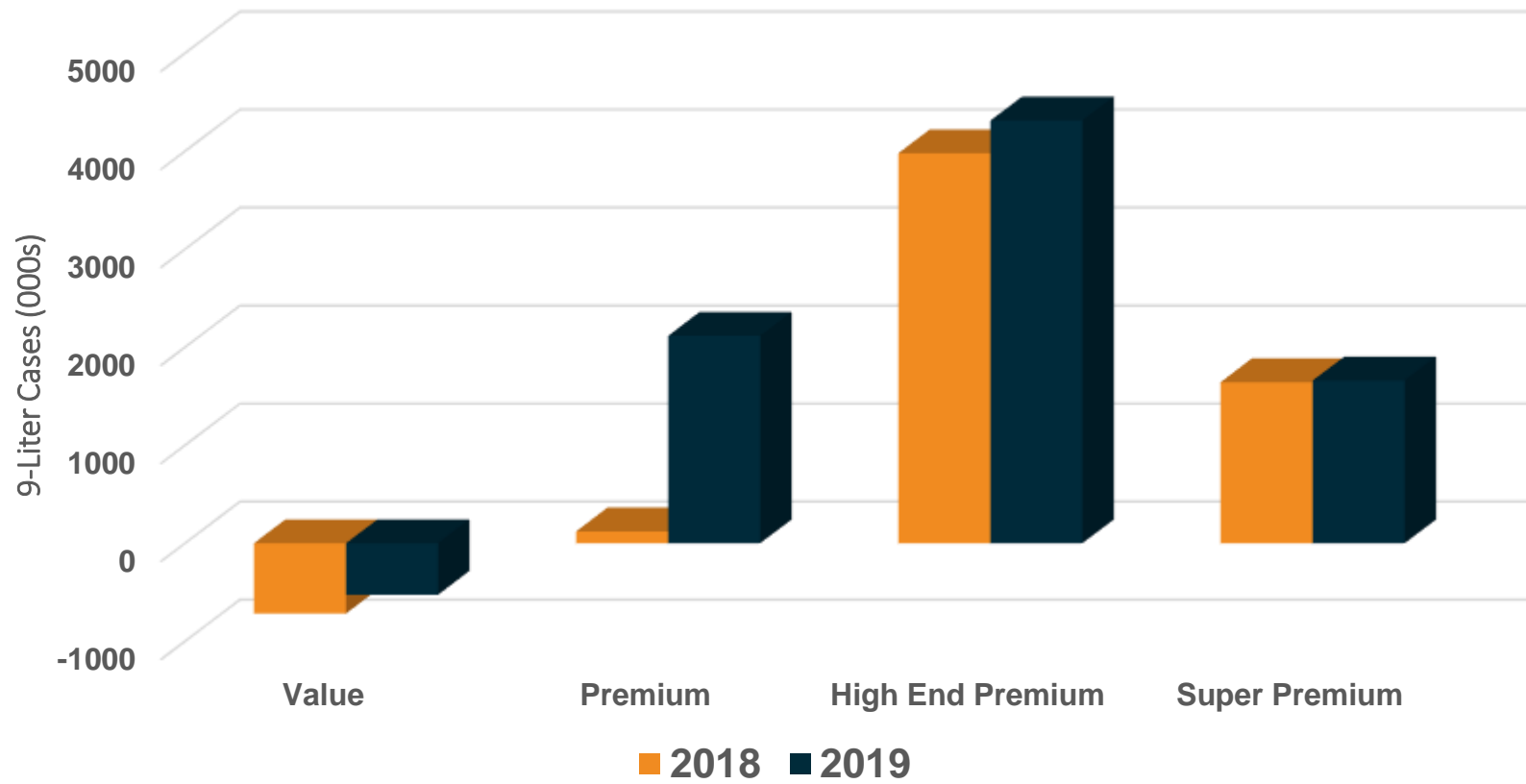


Source: Distilled Spirits Council Market Segmentation Database

# Growth by Price Point (Volume)



2018 Incremental Growth Compared to 2019

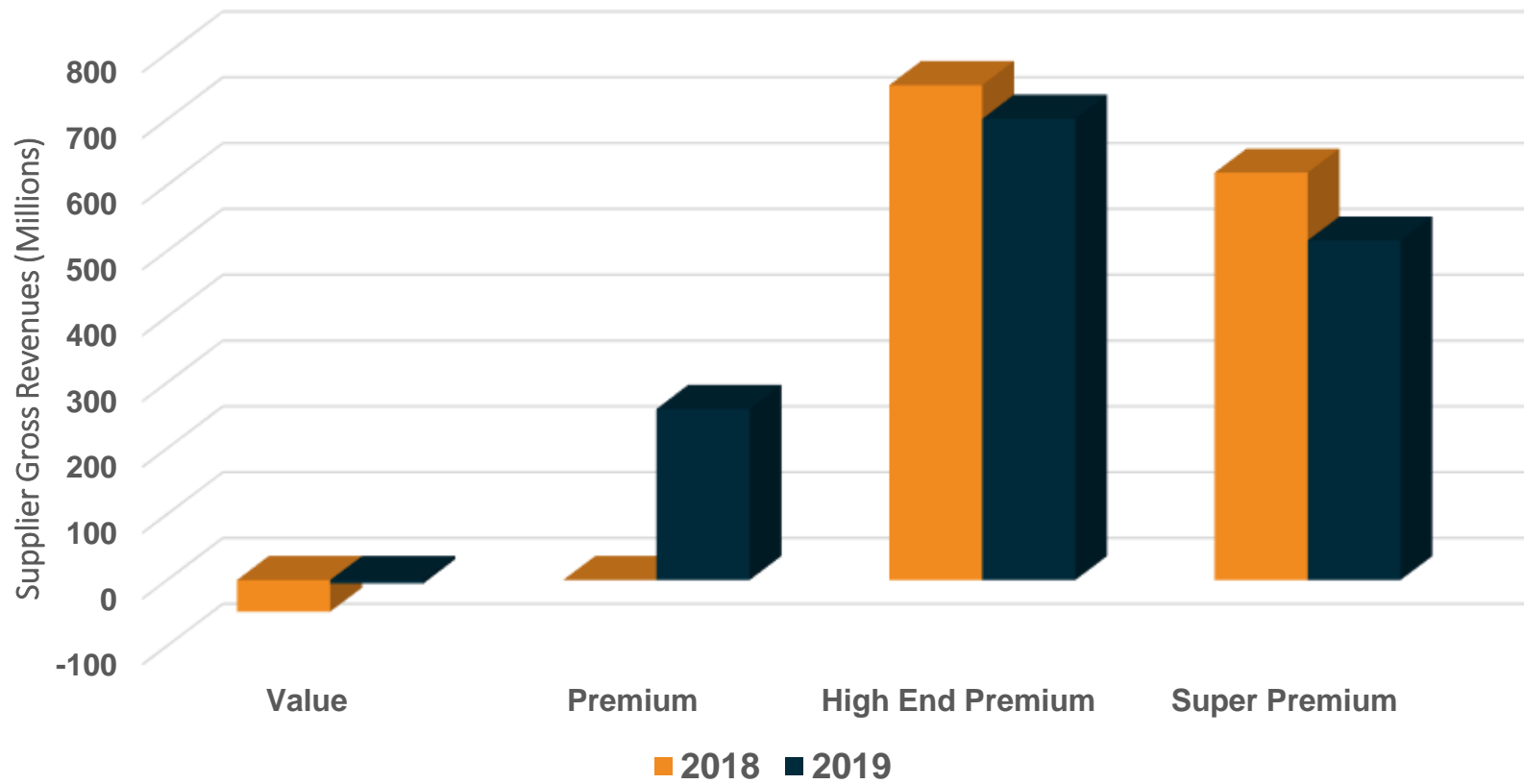


Source: Distilled Spirits Council Market Segmentation Database

# Growth by Price Point (Revenue)



2018 Incremental Growth Compared to 2019

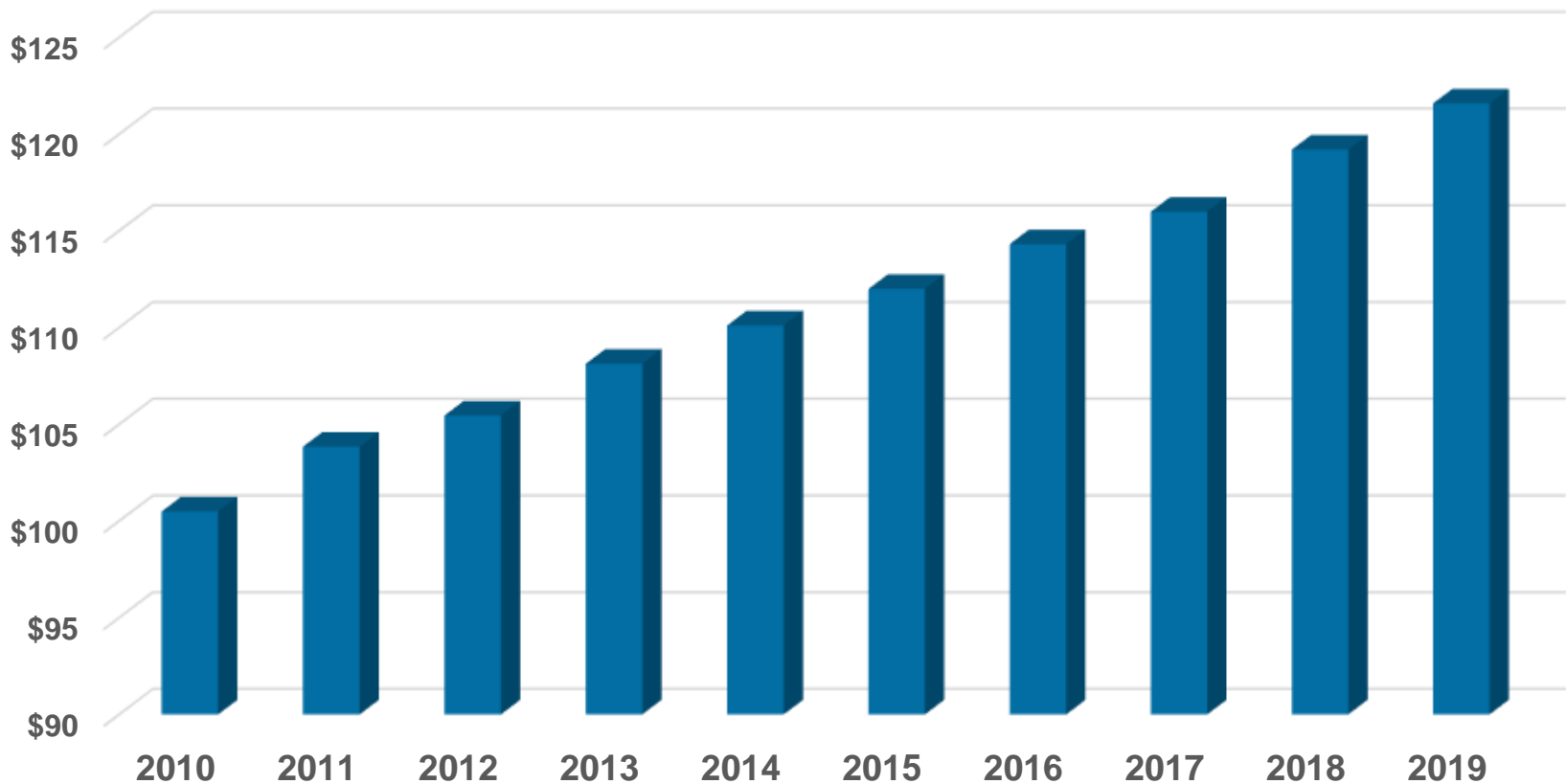


Source: Distilled Spirits Council Market Segmentation Database

# Rapid Growth in Revenue Per 9-Liters



U.S. Gross Supplier Revenue Per 9-Liters



Source: Distilled Spirits Council Market Segmentation Database

# 2019 Factors Contributing to Growth



- Strong U.S. economy and employment
- Federal excise tax cut supports growth of craft distillers
- Growth of spirits tourism & experiential distillery tours drive consumer interest & loyalty
- Fascination with rare spirits as collectible investments drive auction frenzy
- Consumer preference for premium products, prestige bottles & unique experiences
- Spirits authenticity and rich heritage
- Innovation in spirits from new mash bills to aging techniques interest curious consumers
- Marketplace modernization increases consumer convenience and access to spirits
  - Innovation in the Control States





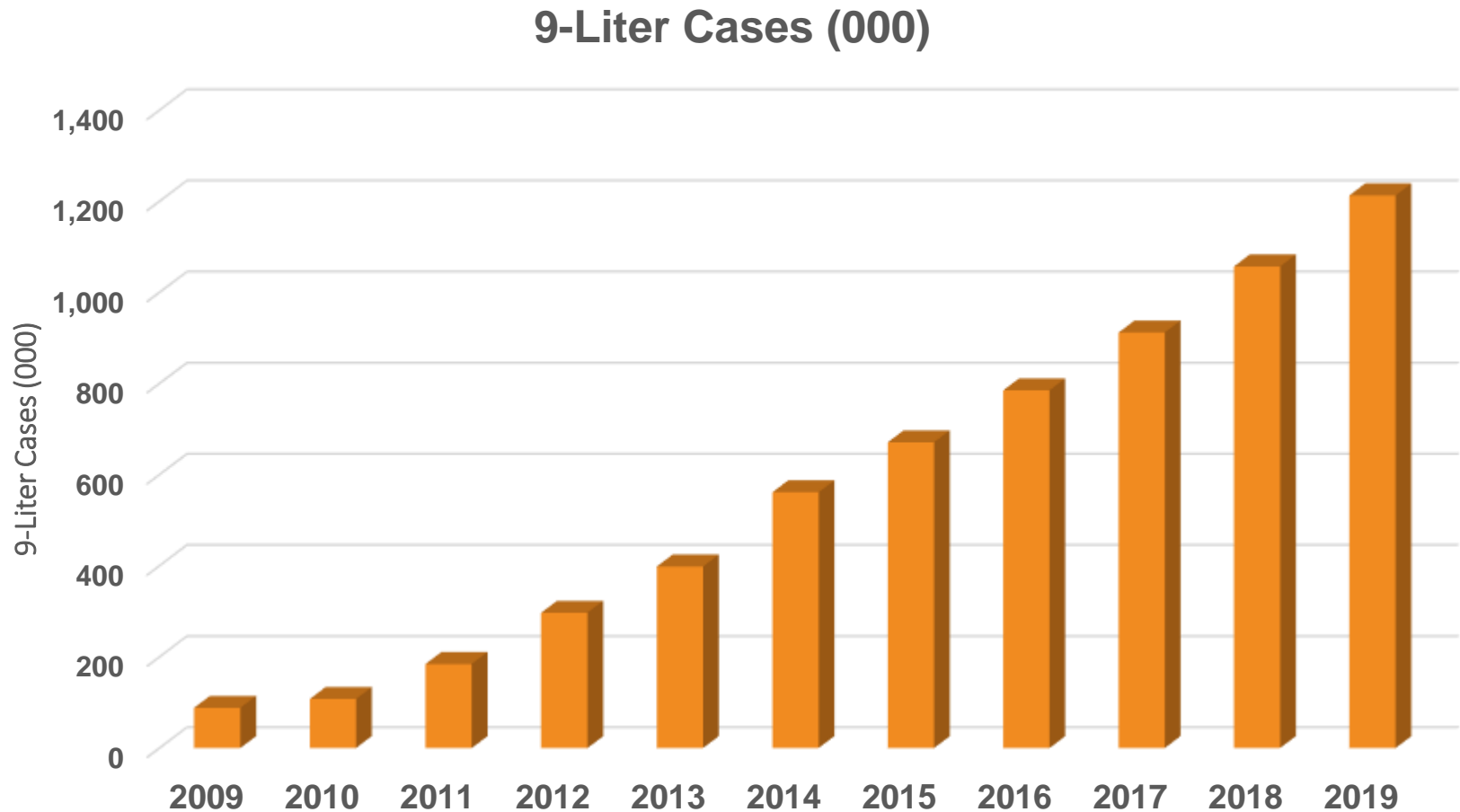
# American Whiskey

## Bourbon, Rye and White



- Volume up 8.4% to 26.6M cases (+2.1M cases)
- Revenues up 10.8% to \$4.0B (+\$387M)
- Premium+ price categories drove growth
  - Value vol. down -3.3% (3.7M), rev. down -2.7% to \$224M
  - Prem. vol. up 9.4% (7.1M), rev. up 9.4% to \$739M
  - High End vol. up 8.2% (12.3M), rev. up 8.6% to \$2.2B
  - Super vol. up 22.2% (3.5M), rev. up 25.0% to \$804M
- Added 650K cases flavored Bourbon up 23%
- Traditional Bourbon/Tennessee up 5.5%, (+1.3M cases)
- White/Corn flat total volume 2.2M cases

# American Rye Up 14.7 Percent to 1.2M Cases, \$235M Revenue



Source: Distilled Spirits Council Market Segmentation Database

# Scotch



- **Single Malt**

- Volume up 6.9% to 2.4M cases
- Revenue up 9.6% to \$925M
- Volumes concentrated in Super Premium

- **Blended**

- Volume down -2.0% to 7.1M cases
- Revenue down -0.6% to \$1.4B
- Super Premium volumes up 7.7%

# Irish Whiskey

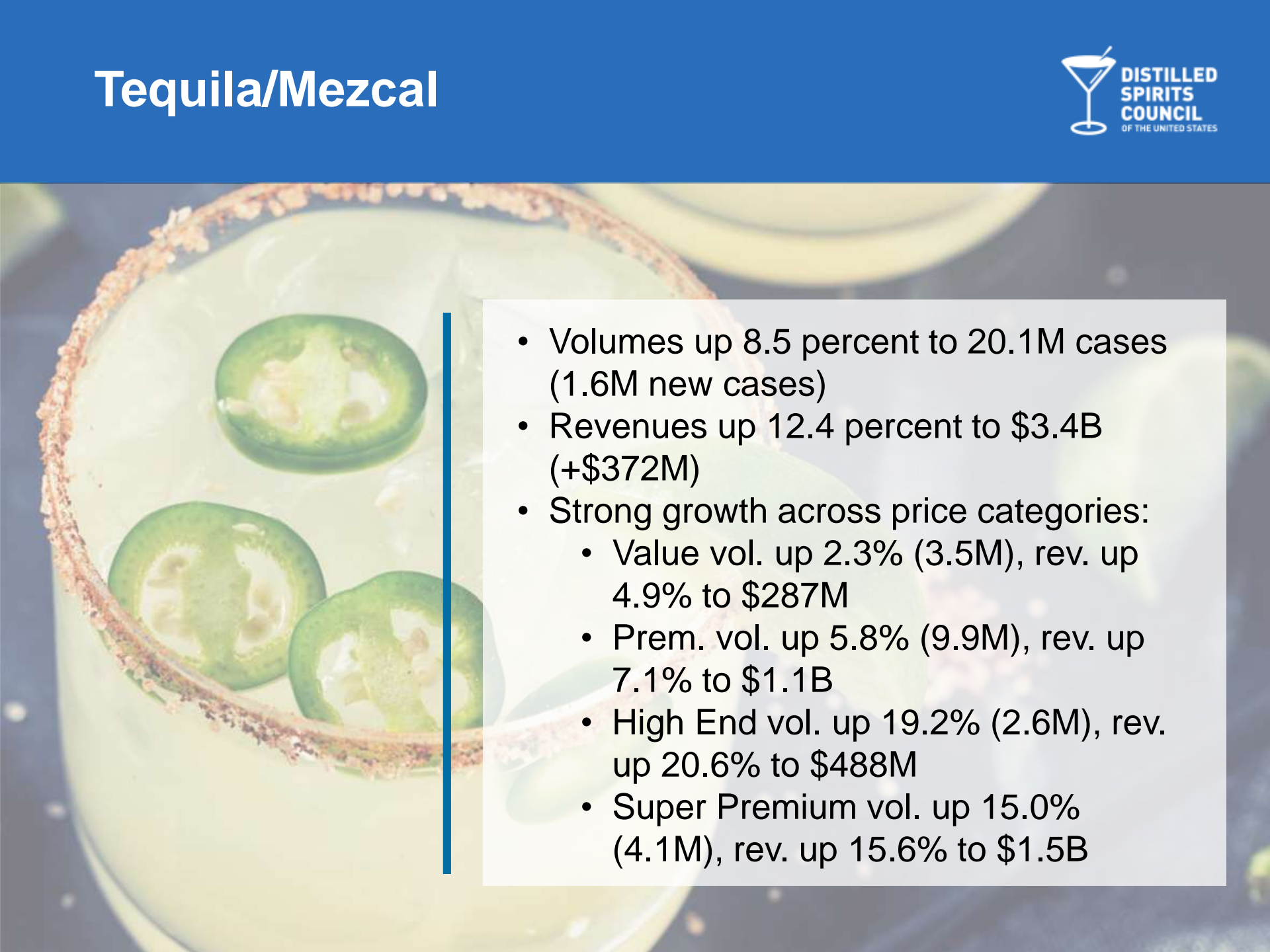


- Volume up 3.9% to 4.9M cases (+185k cases)
- Revenue up 5.6% to \$1.1B (+60M)
- Volumes concentrated in High End and Super Premium



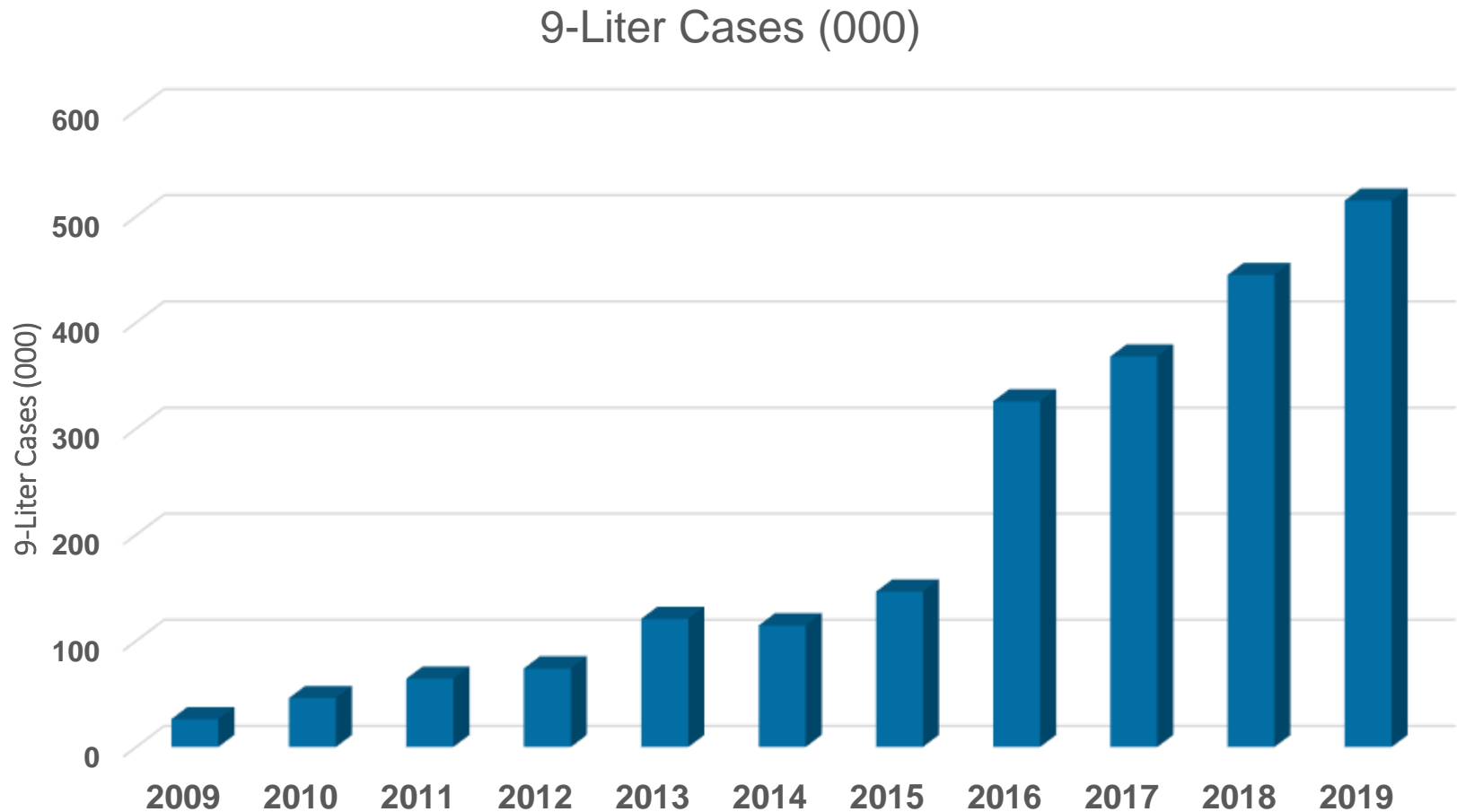
# Tequila/Mezcal



- 
- A close-up photograph of a margarita glass. The glass has a thick, textured rim coated in a reddish-brown salt or spice mixture. Inside the glass, there is a clear, light-colored liquid, likely tequila or mezcal, with several slices of fresh jalapeño floating on top. The background is blurred, showing more of the glass and some greenery.
- Volumes up 8.5 percent to 20.1M cases (1.6M new cases)
  - Revenues up 12.4 percent to \$3.4B (+\$372M)
  - Strong growth across price categories:
    - Value vol. up 2.3% (3.5M), rev. up 4.9% to \$287M
    - Prem. vol. up 5.8% (9.9M), rev. up 7.1% to \$1.1B
    - High End vol. up 19.2% (2.6M), rev. up 20.6% to \$488M
    - Super Premium vol. up 15.0% (4.1M), rev. up 15.6% to \$1.5B



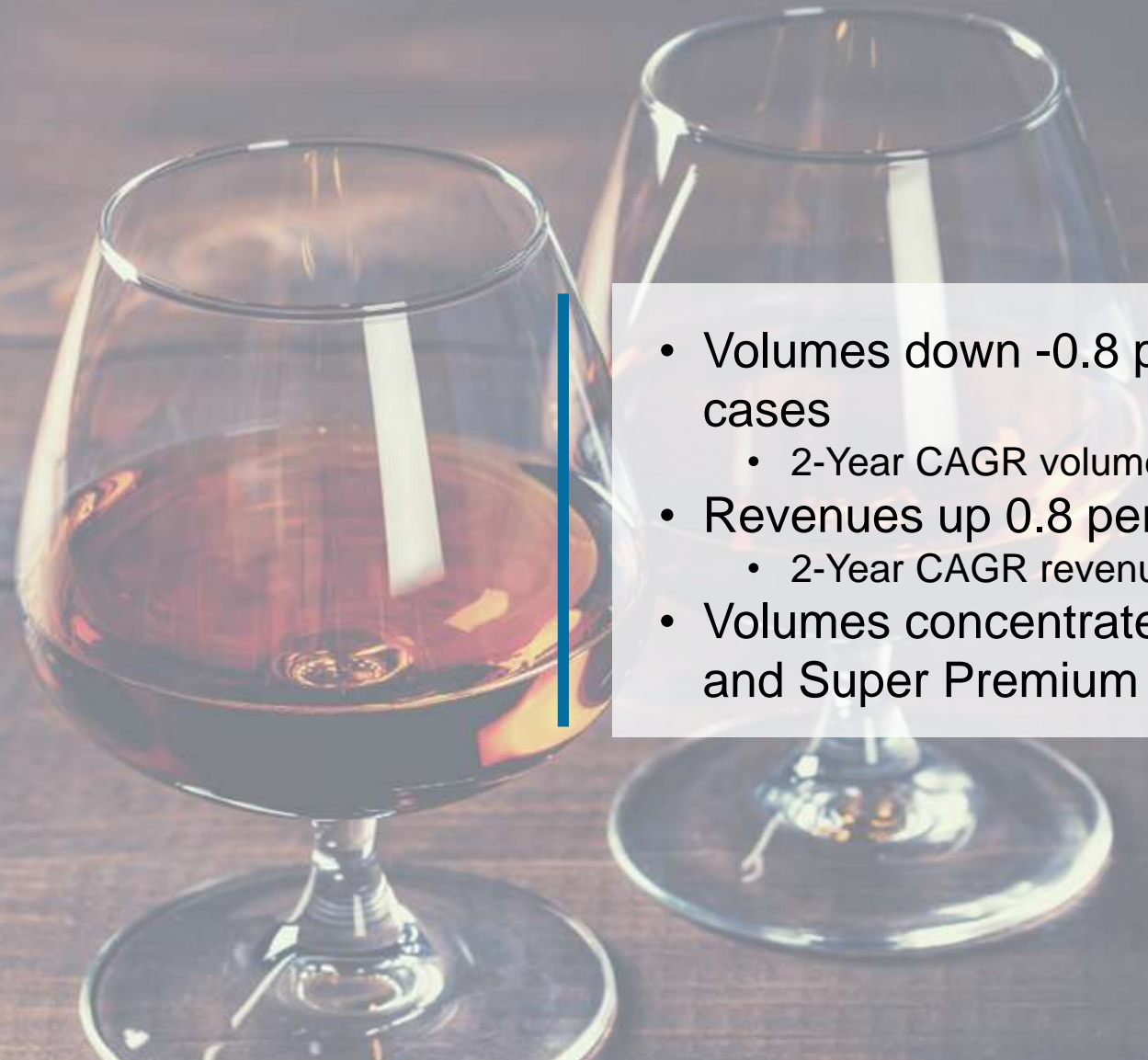
# Mezcal Grows to +/- 515 Cases \$105M Revenue



Source: Distilled Spirits Council Market Segmentation Database

# Cognac



- 
- A photograph of two snifter glasses filled with cognac, resting on a dark wooden surface. The glass in the foreground is partially filled with a golden-brown liquid. A semi-transparent white box with a blue vertical line on its left side is overlaid on the right side of the image, containing a bulleted list of statistics.
- Volumes down -0.8 percent to 6.6M cases
    - 2-Year CAGR volume up 7%
  - Revenues up 0.8 percent to \$2.0B
    - 2-Year CAGR revenue up 10%
  - Volumes concentrated in High End and Super Premium

# Gin and Rum



## • Gin

- Volume flat, revenue up 3.0%
- Growth driven by High End (vol. +5.1%) & Super Premium (vol. +31.7%)

## • Rum

- Volume up 1.1% (24.1M cases)
- Revenue up 2.2% (\$2.3B)
- High End volume up 0.5% (2.8M cases)
- Super Premium volume 6.6% (738k cases)

# Vodka



- Accounts for 31% of total volume
- Volumes up 2.3 percent to 74M cases (1.7M new cases)
- Revenues up 2.9% to \$6.6B (\$185M gain)
- Category driven by High Premium
  - Volumes up 11.0% to 22.4M cases (2.2M new cases)
  - Revenues up 10.9% to \$2.9B (\$288M gain)
- Flavored vodka up 450k cases

# Pre-mixed Cocktails



- First time to be highlighted
- Volumes up 6.1 percent to 6.2M cases (356K new cases)
- Revenues up 7.5 percent to \$351M (+\$25M)
- Price categories:
  - Value vol. up 1.5% (2.2M), rev up 1.9% to \$112M
  - Premium vol. up 8.8% (4.0M), rev up 10.4% to \$239M



# 2020 Spirits Trends



- **Classic comeback continues:** Many bartenders are simplifying menus, reverting to 2-3 ingredient classic cocktails, using premium ingredients with a modern or localized twist
- **Something for all:** Cocktail menus are increasingly featuring low-ABV or non-alcohol drink options, allowing every consumer to enjoy the bar community
- **Destination Distillery:** More consumers are seeking out distilleries for staycations or weekend getaways
- **Zeroing in on waste:** Commitment to sustainability is growing in the cocktail craft – from no plastic straws or stirrers to reducing waste by incorporating excess food ingredients in drinks
- **Shaking sugar:** Bartenders are creating cocktails with more savory, sour and umami flavor profiles
- **Return of the bar cart:** Millennials have brought back the bar cart as a way to showcase their premium spirits and entertain with style; On-premise also featuring bar carts to heighten consumers' experience

# Summary



- **Volume/Revenue**
  - Supplier revenue up 5.3 percent to \$29B
  - Supplier volume up 3.3 percent to 239M 9-liter cases
- **Bourbon/Tennessee significant growth driver along with Rye, Single Malt Scotch, Tequila, Mezcal and Pre-mixed Cocktails**
- **Revenue per 9-liters over \$120 in 2019**
- **Continue to increase market share gains:**
  - 37.8 percent revenue market share
  - 36.3 percent volume market share

# Question & Answer



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