COVID-19: Uneven Economic Impact

2020 Economic Overview

• U.S. revenue growth up 7.7 percent
• U.S. volume growth up 5.3 percent
• 11th straight year of market share gains
• Destructive tariffs continue to curtail U.S. export growth/jeopardize U.S. jobs
• Uneven economic impacts of COVID-19 on U.S. hospitality industry
• New marketplace modernizations will aid recovery of restaurants, bars and craft distilleries
2020 Key Victories

- Passage of Craft Beverage Modernization and Tax Reform Act making tax cuts permanent
- Supported COVID-19 economic relief measures to boost hospitality businesses and increase consumer convenience:
  - Cocktails to-go in 33 states, including permanent laws passed in Iowa and Ohio
  - Pick-up and delivery measures for on/off premise in multiple states
  - Direct-to-consumer shipments from in-state distillers in 8 states
- New law permitting direct-to-consumer shipping in Kentucky
Christine LoCascio
Distilled Spirits Council of the United States
Chief, Public Policy
Trade: Impacts of Tariffs
From 1997 through June 2018, there were **no tariffs** on distilled spirits between the U.S. and EU.
Tariffs on Distilled Spirits

EU 25% tariff on:
- American Whiskey

U.S. 25% tariff on:
- Single Malt Scotch Whisky
- Single Malt Irish Whiskey from Northern Ireland
- Cordials and Liqueurs from Germany, Ireland, Italy, Spain and the UK

EU 25% tariff on:
- Rum
- Brandy
- Vodka
- Vermouth

U.S. 25% tariff on:
- Cognac
- Other grape brandies from France and Germany

The EU 25 percent tariff on American Whiskey will double to 50 percent in June 2021.
Decade in Review: U.S. Export Growth Stunted by Tariffs

Over the past 10 years, total U.S. spirits exports grew by 26.7 percent.

In June 2018, the EU imposed a 25 percent retaliatory tariff on American Whiskey.

From 2018 to 2020, total U.S. spirits exports were down 22.8 percent to $1.4 billion.

American Whiskey exports were down 28.9 percent to $845 million from 2018 to 2020.

Source: USITC Dataweb
2020:
- The EU accounted for 52 percent of total American Whiskey exports.
- The UK accounted for 16 percent of American Whiskey exports to the EU.

2018-2020:
- Since the imposition of retaliatory tariffs, American Whiskey exports to the UK have decreased 53 percent and 38 percent to the EU.
41 States Exported U.S. Spirits in 2020

Source: 2020 U.S. Census & ITC Data
36 States Exported American Whiskey in 2020

Source: 2020 U.S. Census & ITC Data
Imports of Scotch Whisky

- In October 2019, the U.S. imposed a **25 percent retaliatory tariff** on Single Malt Scotch Whisky.

**2009-2019:**
- From 2010 to 2019, U.S. imports of Scotch Whisky increased by **94 percent**

**2019-2020:**
- From 2019 to 2020, U.S. imports of Scotch Whisky decreased by **37 percent**.

Source: USITC Dataweb
• In October 2019, the U.S. imposed a **25 percent retaliatory tariff** on liqueurs and cordials from Germany, Ireland, Italy, Spain and the UK.

**2009-2019:**
• From 2010 to 2019, U.S. imports of affected liqueurs and cordials were relatively consistent.

**2019-2020:**
• From 2019 to 2020, U.S. imports of affected liqueurs and cordials decreased by **40 percent**.
2021: Legislative Priorities
2021 DISCUS Legislative Priorities

FEDERAL

• Securing an immediate suspension of tariffs on all distilled spirits
• Seeking further relief for hospitality industry in any additional Federal COVID-19 relief bill
• Restaurants Act re-introduction

STATE

• Ready-to-Drink (RTD) Products: Ensure any RTD legislation treats spirits-based RTDs fairly and equitably relative to other RTDs
• Sunday Sales: Secure repeal of bans in SC, NC, MT, TX and MS
• Combat tax threats targeted at consumers and small businesses
• Outlet expansion in Pennsylvania
State Priority: Cocktails To-Go

33 States and D.C. Allow Cocktails To-Go in Response to COVID-19

- States allowing or expanding cocktails to-go in response to COVID-19 (31 states)
- States that passed permanent laws allowing cocktails to-go (2 states)
- Cocktails to-go not allowed (17 states)

* Rules and regulations vary by state.
State Priority: Direct-to-Consumer

- Direct to Consumer Shipping
- Direct to Consumer Shipping (In-State Only)
- Other Direct to Consumer Shipping and Delivery
- Temporary COVID-19 Authorization (In-State Only)
Dr. Sonat Birnecker Hart
KOVAL Distillery
Owner & President
NEGATIVE IMPACTS OF THE COVID-19 PANDEMIC ON CRAFT DISTILLERIES

By Dr. Sonat Birnecker Hart, owner and president of KOVAL Distillery
KOVAL Distillery

About KOVAL Distillery

- 100% woman owned distillery
- KOVAL makes organic whiskey, gin, and specialty spirits, using a heart cut approach
- Founded in 2008 as first in Chicago since the mid-1800s
- KOVAL has distribution in 55 export markets around the world
- Winner of over 100 international awards and accolades
- Through Kothe Distilling Technologies, educated over 3,500 people in the art of distilling and helped to set up nearly 200 craft distilleries throughout the world
NEGATIVE IMPACT OF PANDEMIC ON CRAFT DISTILLERIES

- Bars, restaurants, and distillery tasting rooms have been completely closed to indoor activities since March 17th, 2020 and only recently opened again on Jan, 25th, leaving no avenue to build a brand on premise.

- Craft distilleries in general depend on their tasting rooms/bars for revenue, usually between 20%-80% of sales.

- KOVAL has been dramatically affected after spending 1.5M just before the pandemic to open a new tasting room and visitor center, which has yet to open due to pandemic concerns.

- Tourism is extremely important to craft distillers. Pre-pandemic (2019) we hosted nearly 15,000 people at the distillery for tours and tasting events. In 2020, the number was 0.

- Measures that can help craft brands recover include DTC (Direct to Consumer) shipping, and cocktails to go.
NEGATIVE IMPACT OF RETALIATORY TARIFFS

• Prior to tariffs, KOVAL’s exports had increased approx 25% per year.

NOW:

• Exports have decreased 60% due to tariffs.
• Cost to do business abroad have increased 15% due to tariffs.
• The tariffs negatively impacted what was a growing interest and appreciation of American whiskey.
LONG TERM CONSEQUENCES

Given the complications of the pandemic, coupled with the financial burden of the tariffs, American brands, particularly craft brands with smaller budgets, will have a difficult time competing abroad.
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Economic Overview 2020

- Industry Growth
- Market Share
- Growth Drivers
- Category Performance
- Developing Spirits RTD Market
- Coming Attractions
U.S. Supplier Revenues Up 7.7 Percent to $31.2 Billion - $2.2 Billion Gain

Source: Distilled Spirits Council Market Segmentation Database
U.S. Volume Up 5.3 Percent in 2020
Up 12.7 Million to 251 Million Cases

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Revenue
Each Point Worth $800M

Revenue Market Share

Source: Distilled Spirits Council Market Segmentation Database
Spirits Market Share – Volume
Each Point is Worth 6.7M Cases

Volume Market Share

Source: Distilled Spirits Council Market Segmentation Database
Rapid Off-Premise Growth Rate Slowed Later in the Year

Off-Premise Volume Growth

Source: IRI Scanner data, 52 Weeks Ending 12-27
Super Premium Accounted for 40% of Revenue Growth
(Growth by price point, revenue)

Source: Distilled Spirits Council Market Segmentation Database
Uneven Growth Across U.S. & International Markets

- While overall domestic growth was strong, total performance was uneven
- Strong off-premise sales (+18%) were off-set by weak on-premise
  - Closed restaurants meant that on-premise sales down 44%
  - Employment in the hospitality industry is still down by 2.3 million jobs
- Craft distillers forced to close tasting rooms: 36% reported sales down 25% or more
- Weak sales in international markets meant that overall, sales were down for most companies – average of +/-8%
  - International markets have 50/50 on/off-volume split, making shift to off-premise sales more challenging
- Global travel retail (duty free) almost zero
- Total beverage alcohol in U.S. only up +/- 3% for year
Domestic Growth Drivers

- Strong domestic growth driven by U.S. market structure
- Pre-Covid 80% of U.S. volumes sold through off-premise
  - More limited on-premise sales softened impact of restaurant closings
- Decline in on-premise spirits expenditures gave consumers $20 billion to spend off-premise. Plus, limited dining, travel, etc.
- Americans accustom to in-home entertaining
- Spirits have almost infinite shelf life. As entertaining moved into homes, many would have stocked their bars
- Online ordering/home delivery made shopping easier
American Whiskey
Bourbon, Rye and White

Total American Whiskey

- Volumes up 7.0% to 28.4 million cases
- Revenue up 8.2% to $4.3 billion
- Strength across all price points, but super-premium volumes up 17.4%

Rye

- Volume up 16.3% to 1.4 million cases
- Revenue up 16.9% to $275 million
Cognac

- Volumes grow by 18.7% to nearly 7.9M cases
- Revenues up 21.3% to $2.4B
- Almost all brands are High End or Super Premium
Tequila/Mezcal

Tequila + Mezcal
• Volumes up 10.2% to 22.2 million cases
• Revenues up 17.4% to $4.0 billion

Mezcal
• Volumes up 17.7% to 607,000 cases
• Revenues up 17.7% to $124 million
Scotch Whisky

Single Malt

- Volumes down 6.5% to 2.4 million cases
- Revenue down 2.1% to $905 million
- Previous 10 years volume grew average of 7.8% annually and revenue 10.7%
- Impacted by retaliatory tariffs
Pre-Mixed Cocktails

- Category volumes up 35.1% to 8.4 million cases
- Revenues up 39.1% to $489 million
- Account for only 2.6% of volume, but 17.3% of growth
- Driven by at-home entertaining and new ready-to-drink products
Spirits-Based RTDs Now Exceed Traditional Spirits Volumes in Canada, but Traditional Spirits Continue to Grow

Canadian Traditional Spirits Vs. RTDs

Source: Spirits Canada
U.S. Market Responding with Spirits-Based RTD Offerings
Potential for wider spirits-based RTD market in the U.S.

- RTDs helped drive 30% growth in U.S. Premixed cocktail category
- Growth coming from beer, FMB products wine and cider
- No impact on spirits
- A.C. Nielsen survey showed that, while hard seltzers categorized as beer, 60% of consumers consider own market
  - Fewer than 10% consider hard seltzers as beer
- While developing rapidly in the U.S., market huge market potential
- Based upon the Canadian experience market could reach 280 million cases worth over $7 billion in supplier revenues
Coming Attractions

• Luxury Spirits Index – have created index of luxury brands, brands retailing for over $50/bottle. Categories to include Single Malt Scotch, Cognac, American, Irish, Japanese whiskeys and Tequila. Will be released quarterly.

• Volumes by retail price categories – DISCUS worked with IRI and A.C. Nielsen to create retail price categories by product category. Will continue supply price category tables.
Summary

- 2020 U.S. Spirits Industry Snapshot:
  - Supplier revenue up 7.7 percent to $31.2B
  - Supplier volume up 5.3 percent to 251M 9-liter cases

- Pandemic had uneven economic impact on U.S. hospitality industry

- Craft distilleries reliance on tasting room sales and tourism create significant hardships

- Retaliatory tariffs dramatically curtailed export growth and remains a drag on economic recovery

- At-home entertaining, unused disposable income allowed U.S. spirits market to grow in down year internationally

- Making marketplace modernizations permanent will boost hard hit hospitality industry & consumer convenience
Looking Ahead