

2009 TTB Expo Presentation

Overview of the Distilled Spirits Industry

Presented by

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Dave Bateman, Trade Analysis and Enforcement Division



Overview

- TTB and the Distilled Spirits Industry
- Makeup of the Distilled Spirits Industry
- Current Industry Trends

TTB and the Distilled Spirits Industry

Chris Thiemann
Regulations and Rulings Division

TTB and DSPs

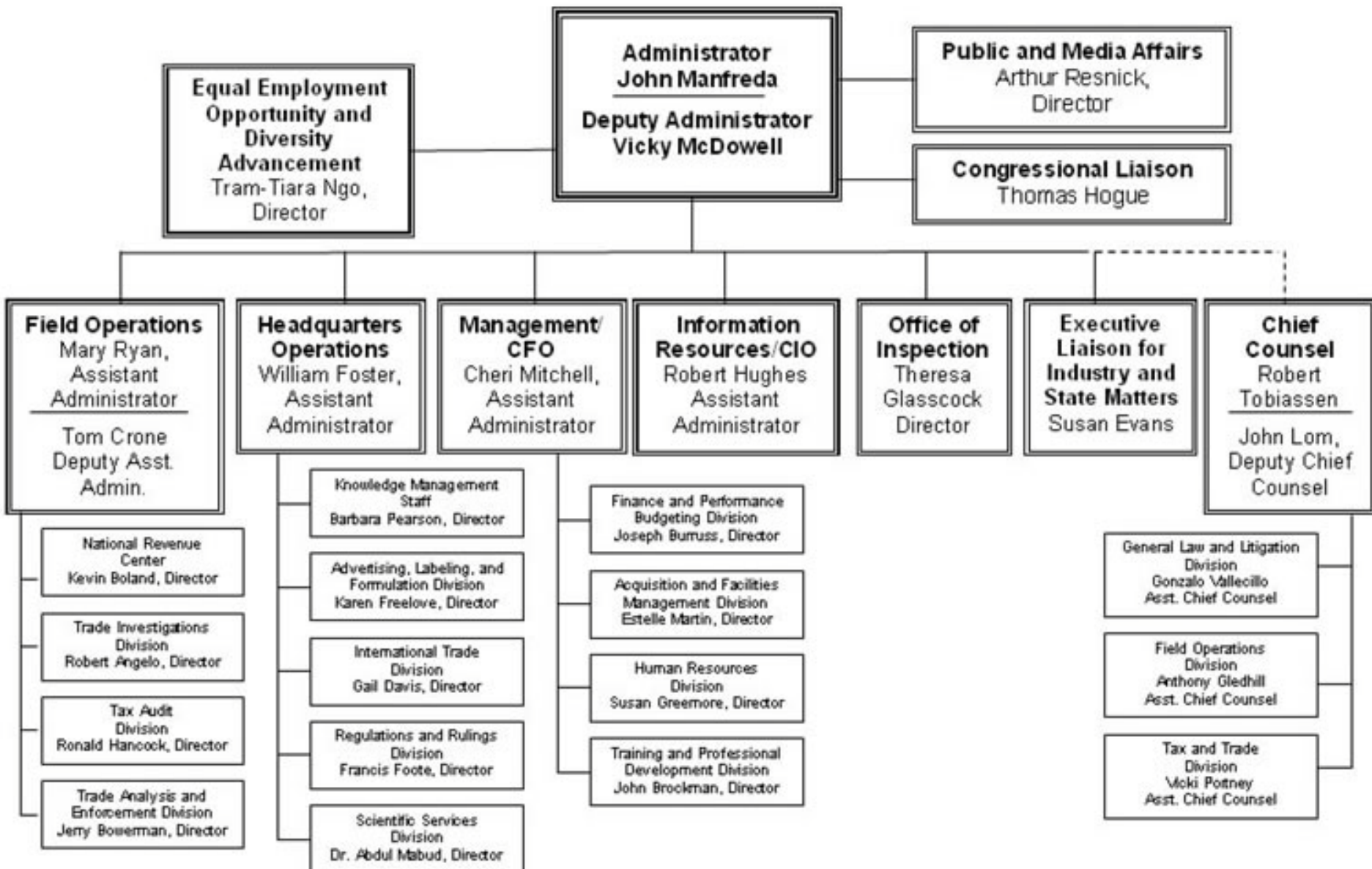
- TTB's role in regulating the distilled spirits industry
- DSP regulations and rulemaking updates
- This week's agenda

TTB's Role

- Qualifying manufacturers of beverage and industrial distilled spirits, producers of alcohol fuel, dealers of specially denatured alcohol, importers and wholesalers
- Protecting the revenue (26 U.S.C. 5001)
- Ensuring consumer protection (27 CFR part 5).
- Ensuring fair trade practices (27CFR part 5)
- Conducting quality audits and investigations

TTB's Role (Continued)

- Assisting industry members in understanding Federal laws and regulations as they relate to the industry
- Assisting industry members in achieving compliance and satisfying tax liability
- Processing MNBP drawback claims



DSP Regulations

- Permits
- Physical characteristics of DSPs
- Recordkeeping
- Standards of identity
- Labeling
- Removal from bonded premises

DSP Regulations (Continued)

- Industrial distilled spirits:
 - Specially Denatured Alcohol (SDA)
 - Completely Denatured Alcohol (CDA)
 - Manufacturers of Nonbeverage Products (MNBP)
 - Alcohol Fuel Plants
 - Users of Tax-Free Alcohol

Rulemaking Updates

- Part 19
- Cachaça
- Serving Facts

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The Distilled Spirits Industry

Dave Bateman

Trade Analysis and Enforcement Division

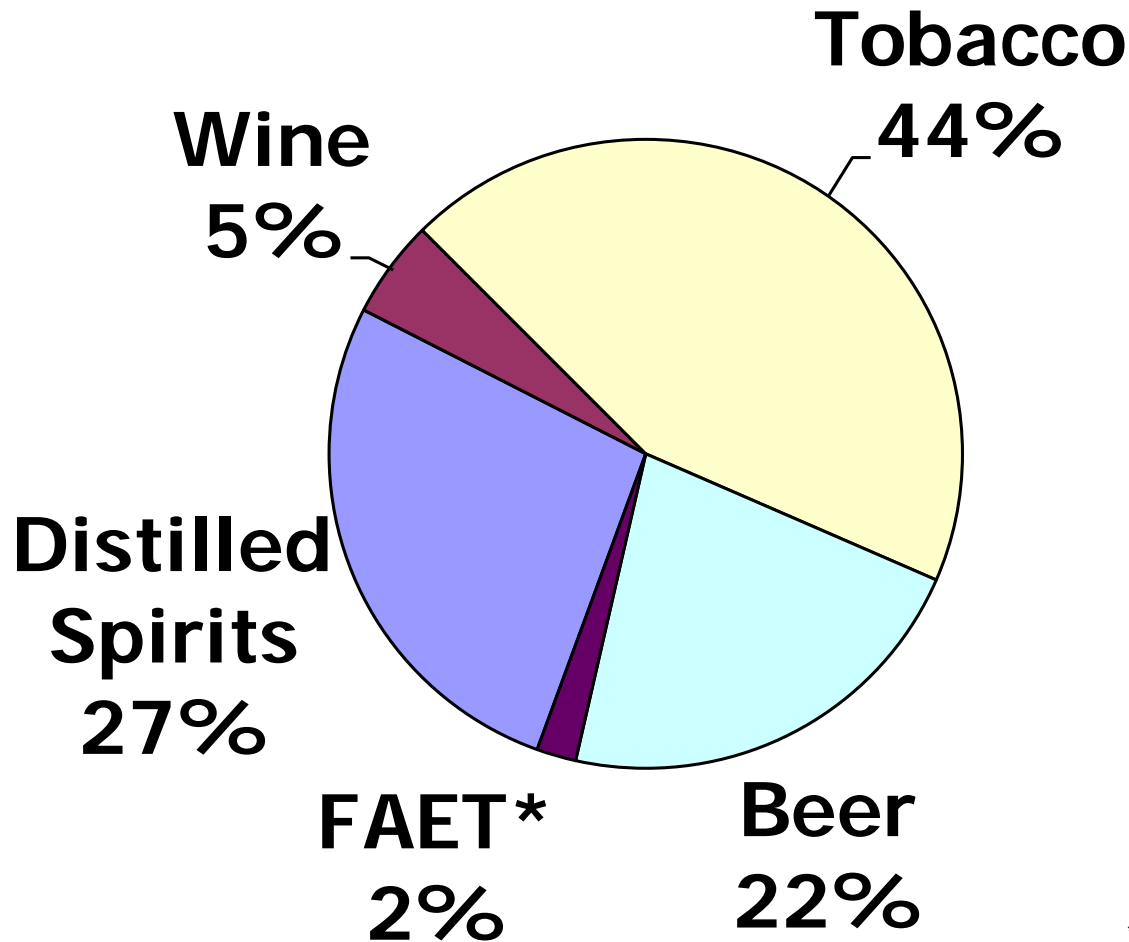
The Distilled Spirits Industry

- The beverage alcohol industry in the U.S. contributed almost \$448 billion to U.S. economic activity in 2006
- 29% (\$131 billion) was from distilled spirits

All Excise Tax Collections

(Domestic and Imported)

Fiscal Year ending September 30, 2008

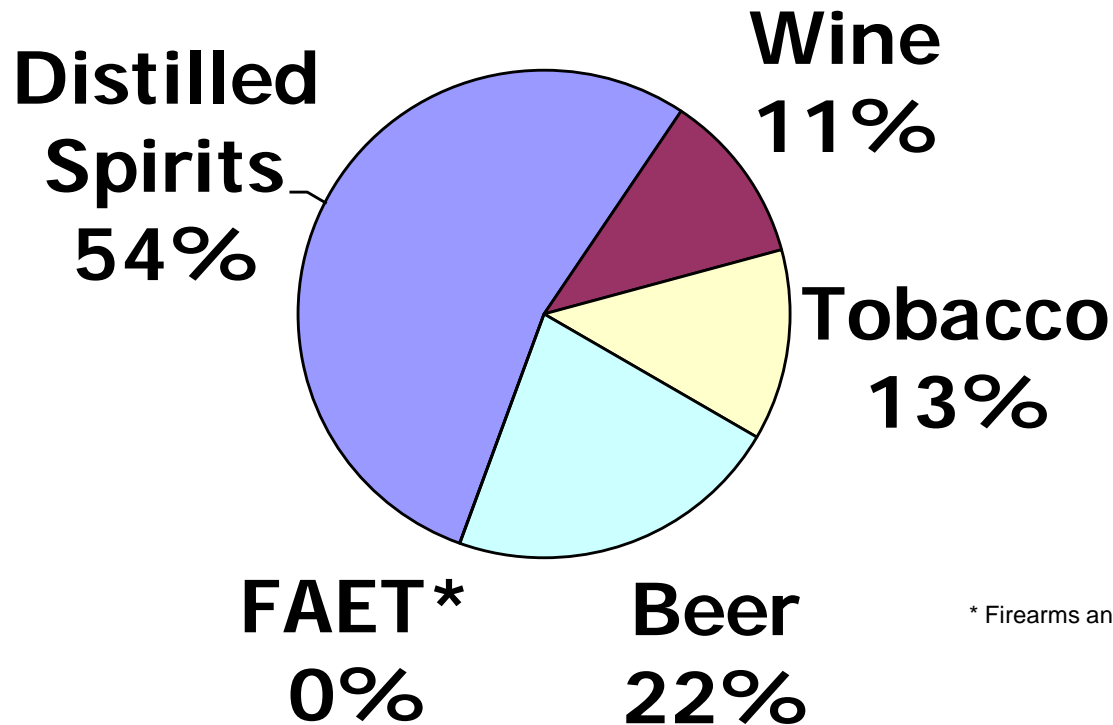


* Firearms and Ammunition Excise Tax

Tobacco is top tax category; Distilled spirits account for 27% of collections.

**Excise Tax Collections for Imported Cased Goods,
Taxes Collected by CBP**

Fiscal Year ending September 30, 2008



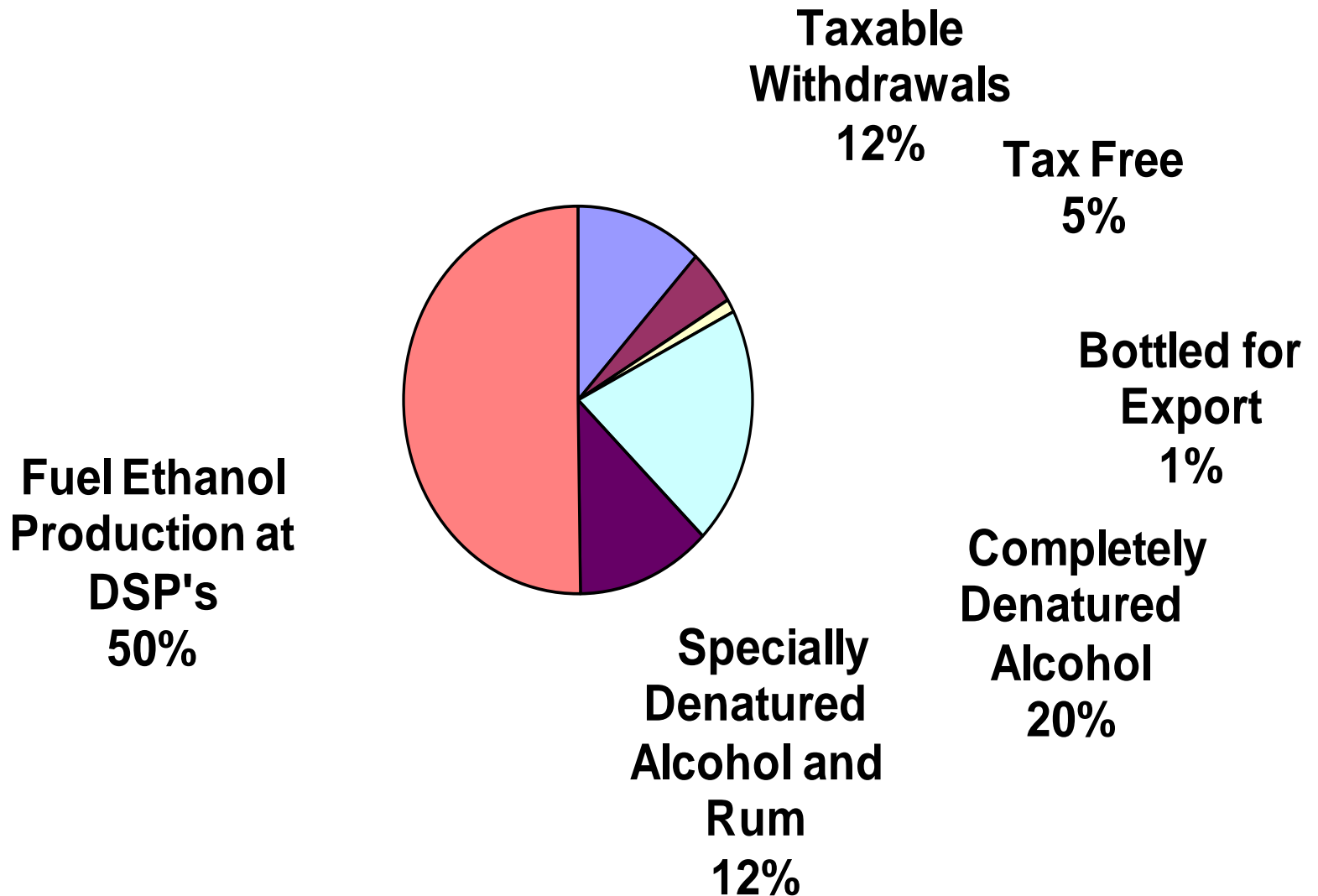
* Firearms and Ammunition Excise Tax

- Distilled Spirits is the top revenue producer on importations.
- For October 2008 – January 2009, Distilled Spirits accounted for 57.6% of import collections.

The Distilled Spirits Industry (Continued)

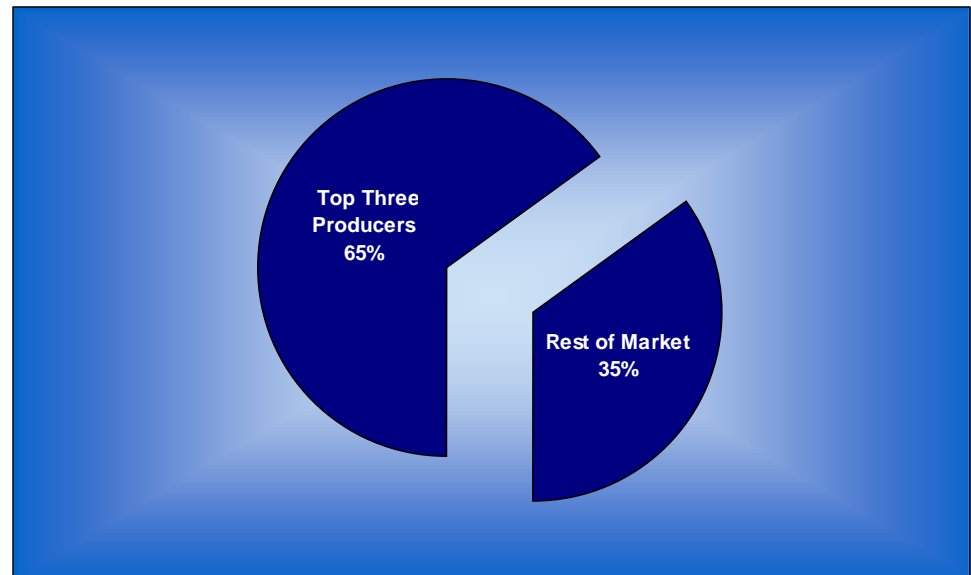
- Until 2009 the beverage distilled spirits industry had marked a total of 11 years of consecutive gains
- DISCUS estimates industry-wide volume growth of 2.8% for 2008, down from a nearly 6% increase in 2007
- Current tax receipts for the first quarter of FY 2009 show a decline in domestic excise tax collections of 2% and 5.3% imported bottled spirits, with an overall average decline of 3% .

Distilled Spirits Plants Alcohol Usage Calendar Year 2006



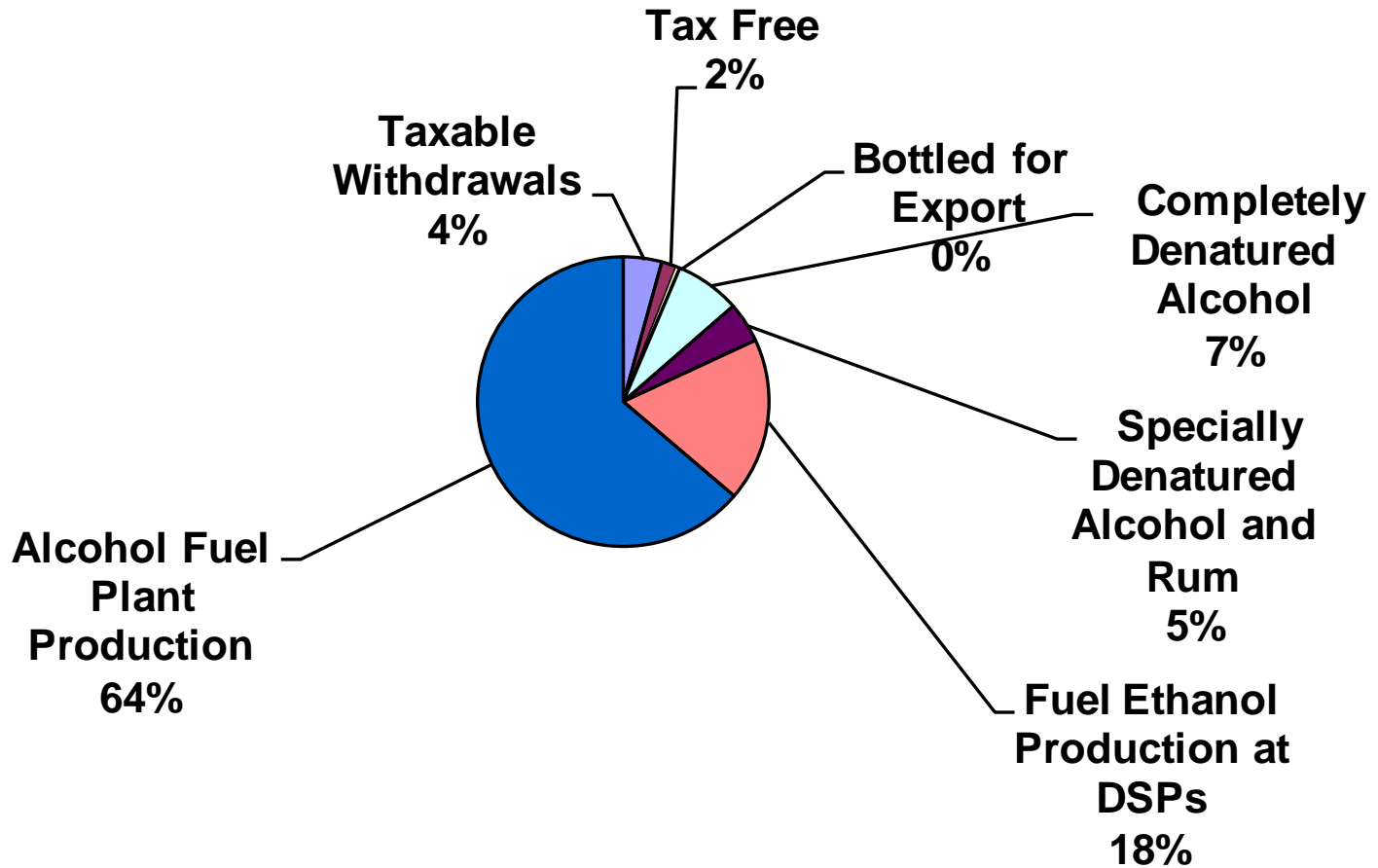
Nonbeverage Alcohol

- Ethanol consolidation:
 - After capacity under construction is completed, the top three U.S. ethanol producers will account for 35% of future U.S. ethanol production

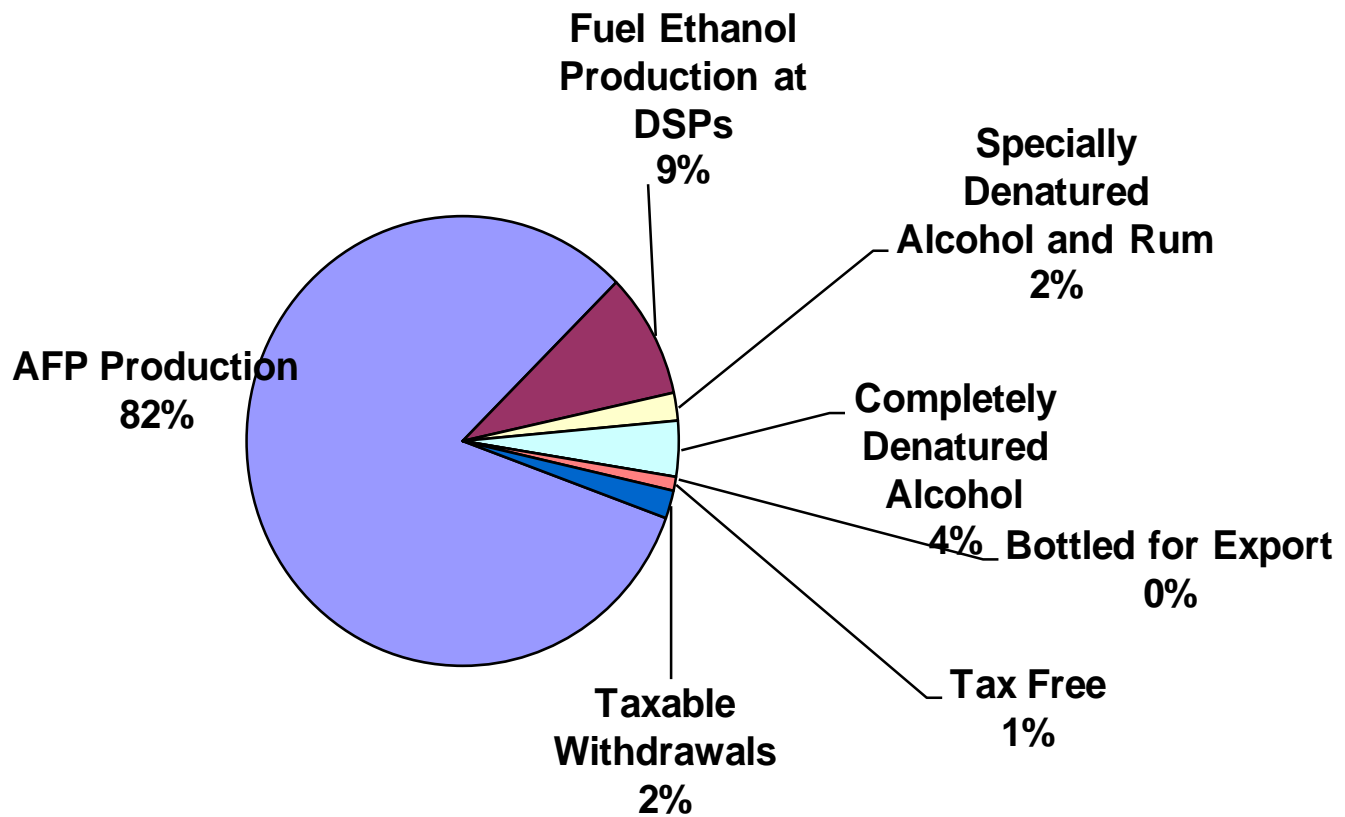


Source: American Coalition for Ethanol

Ethanol Production (2006)



Estimated Ethanol Production (2008)



Domestic DSP Activity

Production for calendar year 2008:

– Whiskey -5.0%

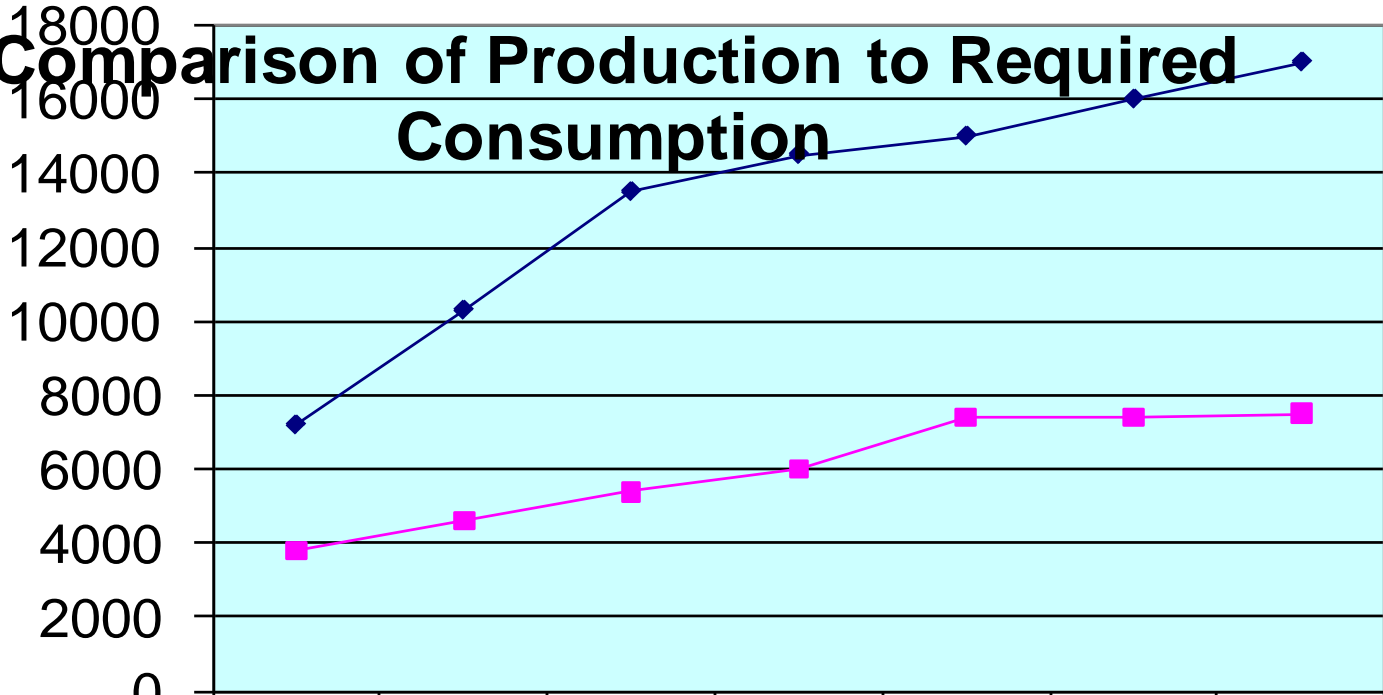
– Brandy -1.3%

– Alcohol +3.8%

Total Production +3.2%

Comparison of Production to Required Consumption

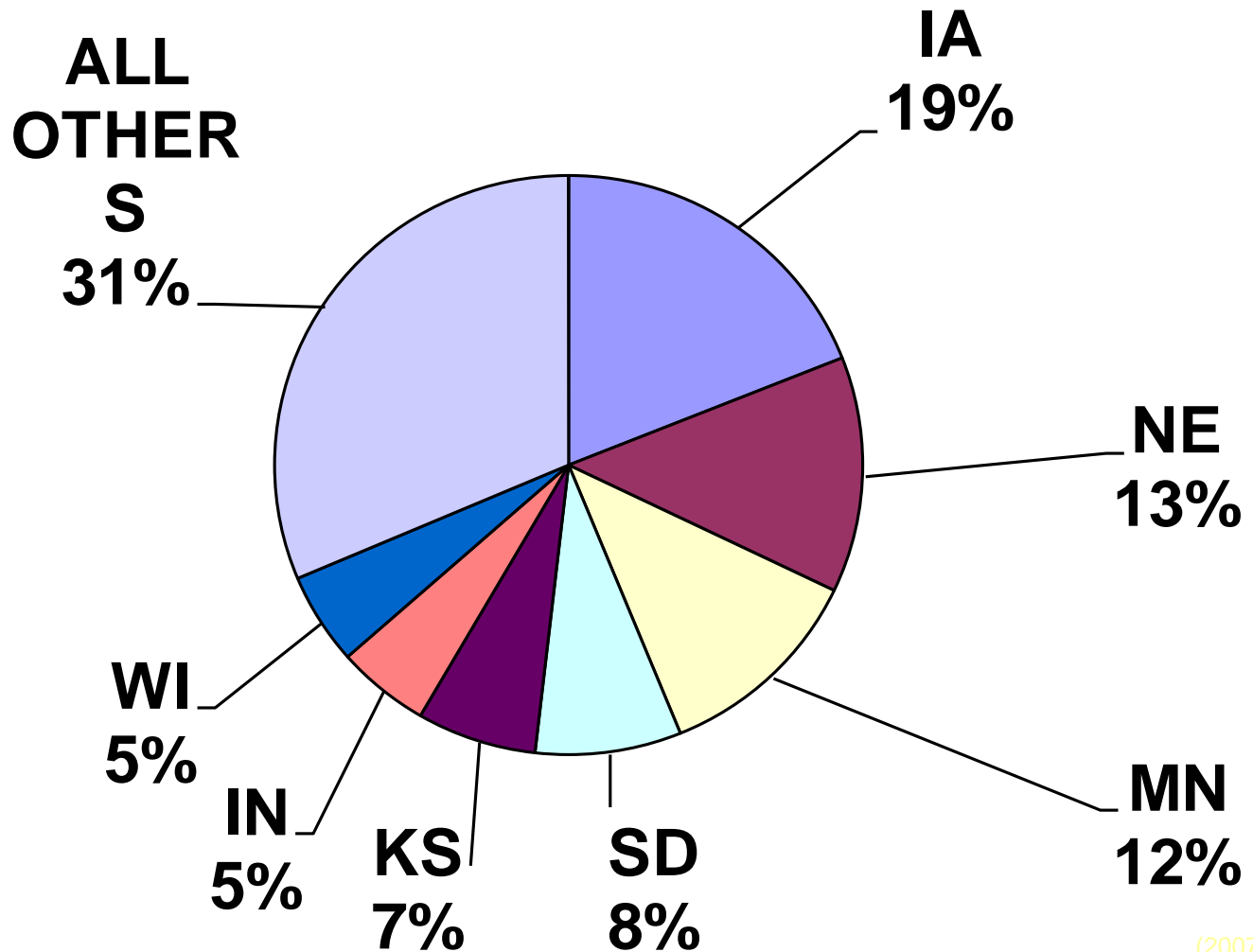
Millions of Gallons



	2006	2007	2008	2009	2010	2011	2012
◆ Production	7200	10300	13500	14500	15000	16000	17000
■ Renewable Fuel Standard	3800	4600	5400	6000	7400	7400	7500

These figures are the limits solely with the use of corn; new advances in cellulosic ethanol could produce 60 billion gallons of ethanol by 2029.

Seven States Account for 69% of Large AFPs



(2007 data)

Compliance Concerns

- Alternating proprietors
- 5010 flavor tax credits:
 - TTB Expo session Friday afternoon
- Gauging
 - Accuracy
 - Frequency
- Reporting requirements

Industry Trends

Industry Trends

- Beverage alcohol and the economy
- Alcohol fuel plants/ethanol
- Consolidation of manufacturers
- Debate on lowering minimum age for alcohol purchases

State and Local Taxes

- Increasing through much of the country

Annual Tax Revenues			
Commodity	Federal	State	Local
Distilled Spirits	\$4.6 billion	\$5.7 billion	\$529 million
Beer	\$3.7 billion	\$5.4 billion	\$1.09 billion
Wine	\$877 million	\$1.6 billion	\$219 million

The Economy Today

- Alcohol is proving not to be a recession-proof product
- Consumers are switching to value brands and larger package sizes
- Bourbon is one of few exceptions

Exports

- One bright spot for 2008 was growth in exports
- U.S. exports in 2008 totaled \$1.1 billion:
 - Primary exported products are whiskies, including Bourbon and Tennessee Whisky
 - Growth in Australia (+24.3%), Canada (+21.2%), France (+15.9%), Germany (+8.9%)
 - Emerging markets grew as well

R&D Developments

- From 2000 on, 5th still column
- Molecular sieve column
- Extractor column
- Pressure column
- Efficiencies increased 15% on yields
- Fermentation process increased alcohol content to 14-16% ranges
- Heatless distillation process — 2 columns:
 - Beer still
 - Molecular sieve/membrane column
- Hydrolysis/cracking processes
- Cellulosic ethanol production

Other Trends

- Ethanol production is operating at capacity due to energy demands
- Capital investment in ethanol plants is entering a new stage as the number of AFP's under construction is slowing:
 - Farmers are planting capacity crops
 - Corn prices are stabilizing
- New emerging industry — the Craft Distiller

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