



October 7, 2021

Mr. Chairman and Members of the Committee,

On behalf of the Kansas Beer Wholesalers Association (KBWA), thank you for this opportunity to testify before you today on matters related to liquor law modernization. I am Jason Watkins and I have the honor of serving as the executive director of the KBWA. The KBWA membership consists of 24 different and independent beer wholesalers serving every community in Kansas. These are Kansans employing Kansans, while also collecting taxes for the state, ensuring a safe supply of product and they are the critical component in insuring a competitive alcohol market place.

The Three-Tier System is Working

Debbi Beavers, Director of the Kansas Alcoholic Beverage Control, did a great job detailing the three-tier system utilized in Kansas. Therefore, out of respect for your time, I will not provide another overview. However, it is important that I reaffirm to you that the system is the best alcohol marketplace model in the world and its stated goals and objectives are being met. Consumers have more choice than ever. Pricing is competitive. Kansans are not dying from drinking counterfeit alcohol as the system ensures a safe supply of product - something that cannot be taken for granted as the deaths of Americans in Mexico has proven. Taxes are being collected and those taxes are substantial. Finally, the system has shown to be an incredible economic driver as the state now has more breweries and distilleries than at any time in its history. The three-tier system is not just promoting temperance and ensuring taxes are collected, it is fostering economic growth and creating jobs and prosperity.

Beer Distributors Deliver Economic Value to the State of Kansas

Every Kansas community is served by and benefits from their local beer distributors. The state currently has 46 beer distributor facilities, where 1,136 Kansans work and earn good wages and are provided excellent benefits. Wages paid by beer distributors in the state total \$87.8M annually. In addition, beer distribution activities result in \$89M in collected federal, state, and local taxes. All things considered the total economic impact provided by beer distributors is \$516.8M.

Beer distributors do not just employ members of their communities, they are active participants and are some of the most generous community benefactors. Kansas benefits from the charitable contributions made, but the state also benefits economically from the profits of this industry staying in Kansas.



Franchise Laws Promote Competition and Protect Small Business

One of the main tenets of the three-tier system is the wholly independent second tier, i.e. the distribution tier. This independence is critical in ensuring competition. Without independent distributors small brewers and distillers would have no entrance into the market. The big international brewers and distillers would simply lock them out. We must be vigilant in protecting this aspect of the system. Any measures adopted by this legislature that diminish distributor independence will result in economic losses and fewer customer choices.

One measure being floated is changing the states alcohol franchise laws. Some have incorrectly asserted that franchise laws simply protect distributors. What franchise laws actually protect is true independence. In essence they protect small upstarts and promote competition. Imagine what the market would look like if Anheuser-Busch or Molson Coors had the ability to tell those distributors selling their products that they couldn't distribute other brands. Your local beer retailer aisles would resemble the soda aisle at your grocery store where its pretty much Coke and Pepsi products.

Franchise laws ensure that small craft brewers can compete on a level playing field, that consumers have variety of choice and that large corporations don't have unfair influence on community retailers and local watering holes.

Finally, this idea of changing the franchise law in Kansas seems to a solution in search of a problem. Brands, especially small brands, change hands all the time. I am not aware of a single craft brewer in the state that has requested termination of a distribution agreement and not had it granted. In my eight years as executive director of the KBWA not a single lawsuit has been filed by a distributor over being terminated by a brewer or supplier. Again, our franchise laws are intended to prevent large, and what are now international, corporations from unduly influencing the Kansas alcohol marketplace. The number of brand registrations with the Kansas ABC proves the law is having its intended effect.

Direct Shipping Provides Challenges Impossible to Overcome

I also want to touch briefly on the idea of allowing direct shipping of spirits. Allowing for the direct shipping of spirits would be a major step in the wrong direction and the state would ultimately see adverse effects if it moved forward with such a measure. The KBWA has many concerns with allowing for the direct shipment of spirits, but chief among them are the impact on local distributors and retailers, the loss of both tax revenue and revenue remaining in the Kansas economy, underage access to the most intoxicating liquors, and the entrance into the state of dangerous counterfeit products that could kill Kansas citizens.



KBWA Stands Ready to Collaborate

In closing, I want to make clear that the KBWA is not opposed to necessary changes to Kansas alcohol laws. Not allowing CMB retailers such as grocery and c-stores to sample products to the public, while liquor retailers are allowed to is a good example of a needed fix. However, our system of laws and regulations is working well.

It has been my privilege to work with a wide array of industry members over the last eight years on a variety of updates and changes to our laws. This process, while at times heated, has always ended with good results for the industry and Kansas citizens when a collaborative approach has been utilized by all industry stakeholders. The KBWA stands ready to engage with our industry partners and this legislature to vet possible updates and changes to our regulatory system. The consequences both economically and to public health to require an approach that is not just collaborative, but also deliberate and reasoned.

Thank you and I am happy to answer questions at the appropriate time.

Best regards,

Jason P. Watkins
Executive Director



Beer Distributors Delivering Economic Value in **KANSAS**



46

Distributor Facilities

1,136

Employees

\$87.8 Million

Wages & Salaries

\$1.4 Million

Economic Impacts in Communities

Support of Charities, Local Events & Economic Development

\$89 Million

Federal, State & Local Taxes

\$516.8 Million

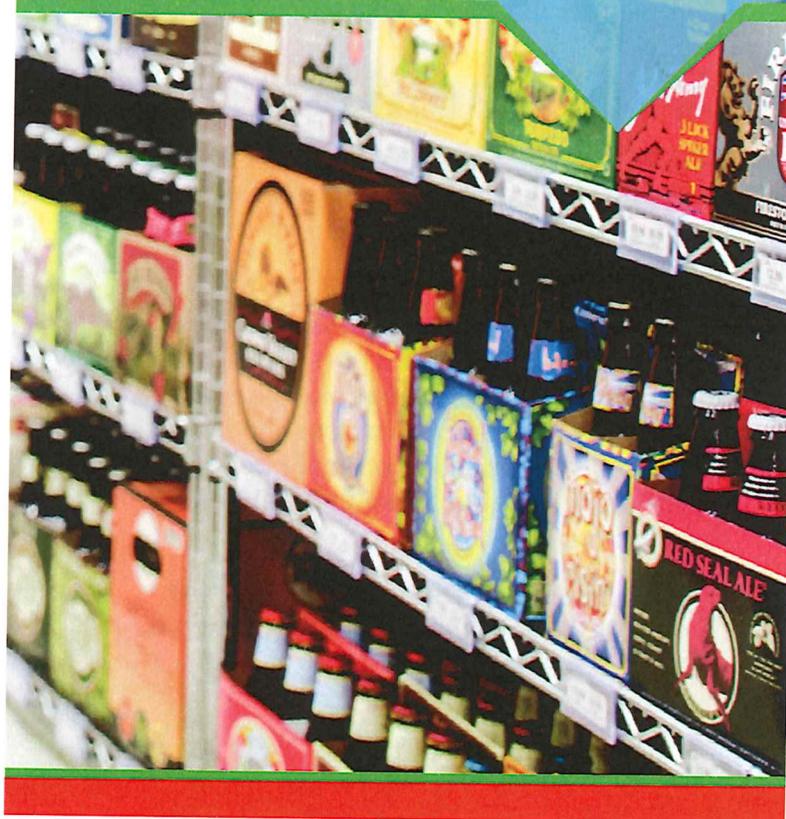
Total Economic Impact

Source of data: William Latham & Kenneth Lewis, Center for Applied Business & Economic Research, Alfred Lerner College of Business & Economics, University of Delaware, 2015



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Benefits of Beer Franchise Laws



What are beer franchise laws?

The 21st Amendment to the U.S. Constitution gives states the primary responsibility to regulate alcohol. State franchise laws are a key component of state alcohol regulations; they address the relationship between beer suppliers and distributors.

Beer franchise laws provide balance and guidance for brewers and beer distributors.

Beer franchise laws support:

- 1. Consumer Choice**
Product Diversity
- 2. Brewer Access**
Distributor Independence
- 3. Public Safeguards**
Responsible Sales

Who Benefits?

The consumer benefits because franchise laws support an independent system that generates tremendous choice in the marketplace.

The brewer benefits because they gain access to equipment and personnel provided by independent distributors, who deliver and sell beer to retailers across the country. Small brewers especially benefit because distributors are able to act independently and carry all brands.

The public benefits because franchise laws support the system that regulates and safeguards a unique product.

Consumer Choice

Product Diversity

Consumers see new products in the marketplace. Beer franchise laws encourage independent distributors to invest in new brands, allowing new brewers with new products to enter the marketplace.

Consumers have selection. American consumers access a wide selection of beer brands through an open distribution network, unlike industries where the distribution network is closed. According to the Nielsen Company, there is more selection of alcohol than any other consumer product.

Franchise laws promote consumer choice. Beer franchise laws prohibit brewers from terminating distributors for taking on new brands. Beer franchise laws inhibit forced consolidation and termination without cause. Combined with three-tier requirements, franchise laws prohibit vertical integration of the brewing, distribution and retail tiers, preventing monopolies.



Brewer Access

Distributor Independence

New brewers have increased access to market. Independent distributors provide new brewers with access to any market they choose to enter. Intense competition exists between thousands of brands of all sizes, and new brewers enter the market every day.

Investment is a key driver of brand growth. Beer distributor investments are among the primary reasons why the craft beer market has expanded so dramatically.

- **Millions of dollars are invested** by distributors each year to create and expand the market for brewers.
- **Distributors provide resources** such as warehouses, equipment, trucks, a sales force, merchandising, advertising and promotions.

Brewers can access retailers of all sizes. Retailers have access to a wide selection of brands and fair distribution opportunities allowing them to compete on a level playing field with other retailers.

Breweries in the U.S.



Public Safeguards

Responsible Sales

Franchise laws ensure compliance with state alcohol laws. Franchise laws prohibit a supplier from terminating a distributor because the distributor refuses to violate federal or state alcohol regulations such as selling to unlicensed retailers.

Franchise laws promote responsible sales and marketing by industry participants. Alcohol is by definition intoxicating. The state-based regulatory system provides a transparent and accountable chain of custody that protects consumers from alcohol-related problems experienced in other countries, including counterfeit or tainted alcohol.

Franchise laws ensure all three tiers (brewers, distributors and retailers) operate independently. This independence creates a transparent and accountable distribution system that protects consumers from abuses and counterfeit or adulterated product.

Franchise laws support fair dealing between trading partners. With franchise laws defining independent tiers, distributors are able to serve as buffers that insulate retailers from undue influence by brewers and, in turn, brewers from undue influence by retailers.



Facts About Franchise

- Beer franchise laws facilitate product diversity and consumer choice by encouraging distributors to invest capital and labor in the creation of new markets for new beers and the expansion of markets for existing products.
- Beer franchise laws, coupled with three-tier requirements, safeguard an open, accountable and transparent marketplace where brewers of all sizes can compete and access retailers of all sizes.
- Brand distribution rights can and do change frequently. Beer franchise laws allow for the transfer of brands between distributors.
- Beer franchise laws allow for distribution agreements to be terminated for cause.



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