

EXHIBIT ←←

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**UNITED STATES DEPARTMENT OF AGRICULTURE HEARINGS
REGARDING THE WISDOM OF A PROPOSED HOP MARKETING ORDER**

**COMMENTS BY DON KLOTH, VICE PRESIDENT AND
GROUP EXECUTIVE, ANHEUSER-BUSCH COMPANIES, INC.,
AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BUSCH
AGRICULTURAL RESOURCES, INC.**

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Judge Clifton, Ms. Deeskin and other representatives of USDA, growers, other participants, thank you for the opportunity to testify at this hearing to consider whether to issue a hop marketing order (I'll refer to this as the proposed "HMO" during the rest of my comments). The proposed HMO would primarily consist of volume control measures in the form of grower allotments of saleable hop alpha. As you have seen in the comments submitted prior to these hearings, and as I believe you will see during the course of these proceedings, many other growers, as well as other interested parties such as brewers and handlers, are opposed to the proposed order.

Anheuser-Busch is the world's largest brewer. We operate 14 breweries, 12 of which are in the United States. We are also the largest hop purchaser in the US, purchasing approximately 16 percent of total US hop production. For these reasons, we have a vital interest in a thriving, vibrant US hop industry, an industry that encourages private farmers to respond freely to market signals, and rewards them economically for doing so. Moreover, as a significant grower of hops at our farm in Bonners Ferry, Idaho, we have an understanding of the economics of hop growing as well as the issues facing hop producers today, a perspective different from most other brewers. We have studied the proposed HMO and present hop market conditions long and hard, and our examination leads us to tell you that we truly believe that the proposed HMO under current economic conditions will only damage most US hop growers and benefit foreign producers such as the Germans, Eastern Europeans and the Chinese.

My comments can be summed up with the following basic points:

1. A hop marketing order is designed to increase price by affecting US supply by forming a cartel.

Anheuser-Busch, however, has historically offered multi-year aroma hop contracts. These contracts were good and profitable for the grower ... fair returns ... extended planning horizon.

These contracts were also good for Anheuser-Busch ... supply assurance, gave us our varietal preference, met our quality standards at a competitive cost.

Our contract program formed a supply/demand equilibrium that benefited both grower and customer.

The problem with the US hop industry is not aroma hops ... it's a high alpha hop problem ... and you will not solve the high alpha hop problem with a marketing order. Keep in mind that hops move in a global market ... the rest of the world produces 70+% of the hops and will not be in a hop marketing order and will not have supply controls. Foreign producers will view a US hop marketing order as a signal to increase production ... limiting US hop producers with respect to their pricing goals on high alpha hops.

Conclusion: High alpha hops ... under a marketing order, foreign competition will force a downward spiral of eroding US market share and vanishing profitability for US growers.

Aroma hops ... since it is our understanding that 95% of aroma hops are contracted, this acreage will be forced to absorb higher costs (purchase of saleable allotment, plus fixed costs spread over fewer hop pounds) ...

forcing a higher price or driving their customers to foreign sources.

2. Previous marketing orders failed when:

- Markets changed
- Supply controls misjudged demand
- They created additional costs of production for the grower
(producer forced to buy allotments to increase production)

Conclusion: Producers and consumers responding to prices set by market supply and demand in a free enterprise environment have succeeded ... government control of any business is not the way America was built ... and past hop marketing orders have categorically failed. Instead of constraints, the industry needs to work on technology, cost effectiveness, improved market outlook and longer-term contracts.

3. Under normal circumstances Anheuser-Busch could self-protect its supply needs by growing more hops ourselves, but under the order, we could be forced to cut back production of our own hops ... given our view of the drastic cut needed in saleable allotment under the proposed HMO to significantly impact the world supply/demand situation.

Conclusion: In the late 1980's, Anheuser-Busch invested significant capital to grow a portion of its hop requirements. To be potentially forced to cut back production of our existing operation for our own brewing use is grossly unfair. In addition, the 1% annual saleable allotment increase allowed in the proposed HMO for new entrants and expansion of existing operations is totally insufficient.

4. Central Committee management will consist of eight growers. What happens if this committee, because of inaccurate forecasting or over-optimism, misjudges the marketplace?

Conclusion: Central Committee management simply does not work. Growers are individual businessmen and women who are best-equipped to make production decisions and should be free to make their own decisions on what to grow and how much to grow.

5. Value creation of saleable allotments. We believe that many of the proponents of this HMO simply view the HMO as a way to exit the industry and receive artificially created value while doing so. We believe this will place intolerable cost burdens on the remaining growers, growers who presently grow all or the majority of their hops under contract.

Conclusion: No government-sponsored program should be created that leads to the artificial creation of value.

I would now like to respond to some additional points that the proponents initially set forth as the basis for implementing the HMO.

Point 1: Proponents have argued that an HMO would increase long-term contracting. In fact, we believe based on our own experience that an HMO would have the opposite effect. In the 1980s, Anheuser-Busch began a "direct to growers" program under which we began to make substantial purchases

directly from growers. During the past decade, direct purchases in the form of multi-year and forward contracts have come to fulfill a substantial majority of our US hop requirements.

Our reasons for initiating the direct-to-growers program included our desire to establish long-term relationships with growers that have efficient operations and that are prepared to make investments in growing the varieties we require subject to our quality control standards.

The proposed HMO would create an environment that would challenge our ability to continue to achieve the objective of long-term relationships with efficient US growers. Under a HMO, Anheuser-Busch has no incentive to offer multi-year contracts ... no assurances US hop sources will be competitive with alternative sources. Since our current long-term contracts expire with the 2003 crop, we are prepared to maintain our aroma hop contract volume by offering new three-year contracts. However, we will wait to see the final outcome of the proposed HMO before we move forward.

Point 2: US growers have, acting independently, failed to limit production, which justifies a central planning mechanism. Again, Central Planning Committees don't work. Many growers read the market signals correctly ... entered into long-term contracts ... and gained a fair return.

Point 3: Availability of more accurate information will aid the Central Committee to wisely monitor the supply of hops. Free market forces, aided by the ever-increasingly accurate information available to growers that proponents have identified, will always result in better decision-making than any centralized planning committee. In this case the central committee would be made up of

eight growers who would be very unlikely to have enough market information or vision to make better decisions than the marketplace.

Point 4: Lack of previously common German crop failures have not materialized to fix the problem of oversupply. Production plans based on the potential demise of a competitor's ability to supply is risky. However, we currently have a German hop crop which is reported to be down about 40% . . .the point being that crop shortages still occur and prices will adjust accordingly.

From a policy perspective, it is undisputed that the proposed order would, once again, establish a government-mandated hop cartel (albeit, an unsuccessful one), which would run counter to the Bush Administration's recently stated agricultural policy that recognizes that (quote) "the marketplace is the best guide for allocating resources and provides the most objective reward for efficiency and good management." (unquote) (cite the United States Dept. of Agriculture, Food and Agricultural Policy—Taking Stock for the New Century, at 51 (Government Printing Office 2003)).

The proposed order would also contravene America's international trade policy agenda. The US has long advocated that its trade partners, such as the European Union, move away from the government subsidy and quota programs of the past, and allow the free market system to ensure that supply meets demand. For the US to adopt domestically the same policies that it is condemning internationally would significantly undermine both our credibility as well as our international negotiating position. It would be particularly ironic to give the EU an example of American government intervention to use against the US while shifting US hop production to EU growers.

In conclusion, Anheuser-Busch believes that free enterprise and free trade are the only way to allocate resources efficiently. They are cornerstones of our way of life, and they are the prevailing policies of the present Administration. They are also the best remedy for the US hop industry. Past hop marketing orders have categorically failed, and there is no reason to believe that a new order would work any better. In fact, there is every reason to anticipate that the proposed HMO would fare much worse than the old ones.

Again, Judge Clifton, Ms. Deeskin and all other USDA representatives, and all of the growers present here, I appreciate the opportunity to comment today.