



Donald W. Kloth
VICE PRESIDENT &
GROUP EXECUTIVE

December 16, 2002

Mr. A. J. Yates, Administrator
Agricultural Marketing Service, USDA
1400 Independence Avenue SW
Room 3071, Mailstop 0201
Washington, DC 20250-0201

Dear Mr. Yates:

Anheuser-Busch appreciates the opportunity to comment on the proposed Hop Marketing Order. It is our belief that market forces should dictate agricultural policy not artificial controls, which sends mixed signals about supply and demand.

Please find our enclosed comments opposing any measure that would artificially restrict growing or purchasing hops.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Kloth".

Don Kloth
Vice President and Group Executive

Enclosure

A Hop Marketing Order is a Bad Idea

As both a buyer and grower of hops, Anheuser-Busch understands that the hop industry is having a tough time but a hop marketing order is a bad idea. Market forces and private enterprise should continue to be the controlling factors in agricultural policy. The imposition of government-sanctioned measures, like those proposed by the U.S. hop industry, ultimately would hurt the industry they are designed to protect. Set-asides and marketing orders send confusing signals that can negatively and artificially impact demand and price.

A marketing order on hops could limit Anheuser-Busch's ability to choose only the best hops from U.S. producers. Anheuser-Busch is one of the few remaining brewers that still uses whole hop cones in the production of our beers. Just as it states right on our label, it has been a long-standing tradition to use only the choicest hops. We are proud of the fact that we use the highest possible standards in selecting our hops to guarantee the best tasting brews to our consumers. Anheuser-Busch currently purchases approximately 16% of total U.S hop production. A marketing order may prevent Anheuser-Busch from obtaining the quality or type of hops from U.S. growers who may be restricted in the quantities they produce.

U.S. hop growers are looking to the USG to 'fix' a market problem. Hops are valued by brewers for two qualities: 1) The bitter resins in hops give beer its characteristic bitterness. 2) The essential oils in hops contribute to the beer's distinctive aroma and flavor. Most brewers are primarily interested in the bittering quality of hops, and less interested in the aroma qualities. Bittering hops are hop varieties with a higher concentration of bitter resins (called alpha acids). Varieties containing very strong concentrations are known as "high-alpha" hops. Most other brewers prefer high-alpha hops because there is a higher yield of resins per pound. However, these same brewers also tend to use hop extract or hop pellets – a concentrated extraction of the resins in hops – in their beers instead of dried cones. Hop pellets and extracts also have a longer shelf life than whole cones so less are purchased over time. The fundamental problem in the world hop market today is that higher yielding alpha varieties have been developed and hop growers around the world have converted their acreage to the highest yielding, high-alpha varieties causing a glut. Having helped create the problem, now U.S. growers want the government to artificially restrain supply on their behalf – a move that could cause serious market distortions. The market should be left to correct itself.

Other hop growers around the world will not be subject to any U.S. marketing orders or set-aside programs. According to the 2000/2001 Barth Report, U.S. hop acreage only makes up about 25% of the world's production, indicating the hop industry is a true world market. Any action by the USG to control acreage and prices in the U.S. will only encourage growers elsewhere in the world to react with additional production, as was the case in previous marketing order in the mid-1960s. Loss of the world share of market will only lead to a counter-productive cycle, ultimately hurting both the growers and the buyers of hops in the U.S. Past set-asides in other crops, such as soybeans and corn, have also resulted in acreage permanently forfeited to other countries. Free and open competition is a better solution than USG intervention when trying to stabilize the market conditions that currently exist in the hop industry.

A marketing order on hops may also affect Anheuser-Busch's farm in Bonners Ferry, Idaho. Anheuser-Busch owns the 1700-acre Elk Mountain Farm in Idaho. Our farm serves both as a source of aroma hops and as a research facility for new or test varieties. A marketing order could interfere with this farm's future production and plans, impeding us from making sound business decisions.

Hops is not a 'commodity' like corn or wheat. Anheuser-Busch purchases specific varieties from specific regions due to taste and quality characteristics inherent in those varieties. A hop marketing order could unnecessarily restrict us from obtaining our supplies and at the same time cause lasting damage to the industry the marketing order is designed to protect. We encourage the USG to let the market correct itself and reject the proposed hop marketing order.