ANHEUSER BUSCH
Companies

Patrick T. Stokes
PRESIDENT AND CHIEF
EXECUTIVE OFFICER

Via Facsimile and Overnight Delivery

July 18, 2003

The Honorable Ann M. Veneman
Secretary, U.S. Department of Agriculture
c/o Docket Clerk
AMS Fruit and Vegetable Programs
Marketing Order Administration Branch
USDA Mail Stop 0237
1400 Independence Ave. SW
Washington, DC 20250-0201

Dear Madam Secretary:

Anheuser-Busch Inc. ("Anheuser-Busch") welcomes the opportunity to comment on the proposed Hop Marketing Order. Public comments were solicited in AMS notice 156-03, dated July 1, 2003.

With gross sales exceeding $15 billion in 2002 and over 23,000 full-time employees, Anheuser-Busch is the world's largest brewer. It operates 14 breweries, 12 of which are in the United States and two overseas. The Company currently offers United States consumers approximately 30 beers, including the Budweiser and Michelob families of beer, as well as a variety of specialty beers. Anheuser-Busch is also the largest hop purchaser in the United States, purchasing approximately 16 percent of the total U.S. hop production. For this reason, Anheuser-Busch has a direct interest in a thriving, vibrant hop market—a market that encourages private farmers to produce hops, and rewards them economically for doing so. As a significant grower of hops, Anheuser-Busch also has a keen understanding of the economics of hop growing as well as the issues facing hop producers, and wishes to encourage policies that will alleviate problems and improve the economics of hop production for farms of all sizes.

I can personally assure you that the continued, long-term economic well-being of hop growers is a vital interest to our company. We rely on these growers, and strongly support their economic success. We are thus committed to work with USDA, this Administration, and the growers directly, to find workable and sensible ways to promote and improve the growers' financial fortunes. Anheuser-Busch believes that mandating a new government cartel, however, is not the answer.

In general, Anheuser-Busch believes that free enterprise and free trade are the only way to allocate resources efficiently, which is why they are the prevailing policies of the United States, this Administration and USDA. Marketing orders, in contrast, involve government-mandated supply cartels that create significant inefficiencies and market disruptions. 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 a new marketing order will not impose equilibrium on the global market for hops. A new cartel would, however, severely frustrate contractual arrangements that serve the interests of producers and growers alike.

Significantly, Anheuser-Busch believes that a new hop order limiting and allocating production would also directly contradict U.S. international trade policy, and this Administration's efforts to open up foreign markets to U.S. agricultural exports by encouraging other countries and regions – particularly Europe – to adopt free market agricultural reforms. Anheuser-Busch frankly believes that implementation of the proposed order would give the European Union an example of American agricultural subsidies to use against the United States, while shifting hop purchases to European producers.

With regard to the precise issue posed in AMS' July 1 notice, Anheuser-Busch feels that any discussion of the specifics of an allotment system is premature. Focusing on fine-tuning the specifics of an allotment distribution under a marketing order presupposes that a marketing order is the best method for dealing with the structural economic forces that have created an oversupply of hops. Anheuser-Busch believes that such a supposition is incorrect. For this reason, rather than making suggestions for fine-tuning a flawed approach to the problems faced by hop producers, Anheuser-Busch writes to express its strong opposition to the proposed marketing order altogether. Our primary reasons for opposing the marketing order follow.

I. The Proposed Order Reflects a Failure to Learn from the Past

The proposed marketing order would be the fourth attempt since 1938 to correct problems of oversupply in the hop industry through restraints on distribution. The three previous marketing orders were all terminated because they failed to achieve their desired objectives. The most recent marketing order was in effect starting in 1966 and was terminated in 1986. After seeing the disastrous effect it had on the hop industry, the Secretary of Agriculture terminated it altogether, explaining that it "did not function to correct the marketing conditions in a time of declining market demand . . . [and had] not functioned so as to be responsive to changing market conditions . . ." The Secretary concluded that it was completely "unable to adjust supply, *even with its allotment provisions*, to meet actual market needs." Federal Register, Vol. 50, No. 126, July 1, 1985 (emphasis added).

The proposed marketing order is functionally indistinguishable from the order terminated by the Secretary in 1986. Like the previous order, the proposed order establishes a Hop Administrative Committee, and empowers the Secretary of Agriculture to establish a salable quantity and allotment base. Similarly, it contains a "bona fide effort" requirement, and again allows hop farmers to transfer their allotment base. Though it may differ in a few minor respects, it is essentially a mirror image of the failed orders of the past, and will have the same negative side-effects: creation of a barrier of entry for new participants, inability to match supply with demand, and the development of a secondary market in allotment base.

There is no reason to believe that yet another marketing order will solve the problems in the hop industry. In fact, there is every reason to believe that this order will be as disastrous as the previous order, in spite of any industry-sponsored tinkering with the allotment provision.

2. *The Proposed Order Would Be Contrary to the Free Market System and International Trade Policies Advocated by the Bush Administration*

It is undisputed that the proposed order would, once again, establish a government-mandated hop cartel. This would run counter to this Administration's recently stated agricultural policy that recognizes that "the marketplace is the best guide for allocating resources and provides the most objective reward for efficiency and good management." United States Dept. of Agriculture, Food and Agricultural Policy—Taking Stock for the New Century, at 51 (Government Printing Office 2003). Rather than letting the free market system dictate supply and demand, this would be an attempt to micromanage the nation's hop supply by creating an artificially high price of hops. The net result of the order would be a transfer of wealth from the most efficient hop producers to the less efficient ones, as well as to European hop producers.

The proposed order would also contravene our international trade policy agenda. The United States has long advocated that its trade partners, such as the European countries, 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 United States to adopt, on the domestic front, the same policies that it is discouraging in the international arena, such as in the European Union, would substantially undermine both our credibility as well as our negotiating position.

3. *The Proposed Order Would Divert Sourcing to Foreign Producers and Shift Jobs Overseas*

While a marketing order may yield an initial increase in revenues for hop producers by restricting supply, any such gains would be completely offset by long-term losses. Only 25 percent of the world's hop supply is produced in the United States, demonstrating that there is a world market for hops. Any marketing order reducing the supply of hops in the U.S. would result in producers in other countries increasing their production—precisely what happened under the prior marketing orders. Acreage in the United States, and the associated jobs, would be diverted to foreign countries that produce and export hops, such as Germany. In fact, the Czech Republic, which exports hops, currently enjoys duty-free access to the U.S. market under the Generalized System of Preferences. In short, the real beneficiaries of the proposed marketing order would be foreign hop producers—who would not be subject to this marketing order. The losers would primarily be U.S. agricultural workers.

4. *The Proposed Order Would Divert Resources to Unproductive Activities Involving Monitoring and Enforcement of the Order, and Inevitable Litigation*

The proposed order would divert the resources of hop producers away from the efficient production of hops, and would cause them to spend time monitoring and enforcing the order, and litigating over it. The previous hop marketing order, as well as marketing orders involving other agricultural products, spawned litigation by parties abiding by the order against those they perceived to be evading it. The proposed order is also likely to cause litigation by growers who do not receive a requested increase in their allotment by the Hop Administrative Committee, as well as by growers whose allotment base is decreased by the Committee.

Furthermore, base allotments under the proposed marketing order would be based on the amount of alpha acids contained in hops produced historically. However, alpha acid content is not precisely measurable, and official records are not compiled, suggesting that there may also be future litigation regarding the fairness of allotments assigned with regard to alpha acid content. Accordingly, the implementation of a marketing order would cause hop manufacturers—as well as the Department of Agriculture—to divert both time and resources in monitoring and enforcing the order. Another factor is that many brewers, including Anheuser-Busch, contract for certain varieties of hops required for beer formulation and do not purchase strictly on alpha acid content.

5. *Hops Grown under Contracts are Profitable*

Finally, hops grown under contract (generally, aroma hops grown primarily for Anheuser-Busch) have historically, and are still today, profitable for U.S. growers. The order will not help those producers whose hops are not grown under contract, and may hurt those producers with contracts because of hop purchases shifting to European producers due to market distortions. Under these circumstances, the proposed order will not achieve the objectives of the Agricultural Marketing Agreement Act of 1937, including the promotion of "parity prices."

While Anheuser-Busch is sympathetic to the changing market conditions affecting hop producers, and is also affected by them, it is concerned that the proposal of a marketing order micromanaging the nation's supply of hop would harm the interests of brewers and consumers while failing to improve the situation of the very producers it is designed to benefit. Accordingly, rather than providing suggestions on how to fine-tune an allotment system, Anheuser-Busch expresses its most strenuous opposition to any form of a marketing order based upon the injury it would cause all market players—growers, brewers, and consumers. We do not understand how the proposed hop marketing order, a cartel approach, can possibly be reconciled with this Country's – and this Administration's – economic, agricultural and international trade philosophies and policies.

We would be happy to provide you with any further information, or discuss our comments in person. We also look forward to offering our testimony at any hearing scheduled to discuss the advisability of the proposed marketing order.

Sincerely,

Patrick Stokes

Patrick T. Stokes

cc: Hon. Joshua B. Bolten,
Director, Office of Management and Budget