



## HIGHLIGHTS

**National** – President Bush and Massachusetts Senator John Kerry were cordial after Kerry emerged the victor on Super Tuesday, but no one expects the warm words to continue. With the race now clearly on, the President has to reassure voters that he's still the best man for the Oval Office and Kerry has to give voters an explicit reason to vote for him. Among other things, both will be tested over the current crop of divisive issues, such as how to define marriage, whether going to war was the right thing to do, and what's needed to keep the economy moving forward. There are eight months to go before the polls open and the only thing we can count on is the roller-coaster ride that awaits. ★ Spurred by Janet Jackson's controversial Super Bowl performance, the House voted to increase penalties on television broadcasters and performers who violate federal standards and similar legislation is moving through the Senate. Though neither measure contains provisions aimed at advertising, it's best to continue reminding lawmakers that we advertise responsibly and that the government agrees. ★ Meanwhile, a hearing on underage drinking in which Anheuser-Busch participated, seems to have allayed some Members' concern on the topic... for now.

**State Affairs** – While we're not out of the woods yet, many of the New Year tax threats have subsided. Grassroots coordinators are on the ground in several states to help mobilize action when necessary. This section highlights some of the resources available on AB-LINK.com that can help you assess exactly how a tax increase would affect your operations. A handy *beer tax calculator* and *fact sheet assistant* allow you to quickly create customized analysis and talking points to use when meeting with employees and other stakeholders to explain why it's important to oppose these unfair measures.

**Issues Update** – Though the economy is slowly rebounding, state budgets are still not where they need to be. After two years of recession, the revenue outlook is not terribly optimistic. While tax threats already have been defeated in several states, we'd be wise not to let our guard down just yet. A look at the spending vs. revenue picture and how pressure for tax increases affect us.

## Tax Fights and Other Issues Make It a MUST-Attend NBWA Conference!

If you have not done so, please make plans to attend and participate in this year's

### **NBWA/Brewers Legislative Conference April 25 - 28**

For the 14th consecutive year, this meeting will offer brewers, wholesalers and other industry representatives the unique opportunity to meet personally with elected representatives



and advocate for lower – or no new – taxes on beer; reinforce the industry's commitment to responsible advertising; and more! Registration forms have been distributed to wholesalers from the NBWA. For more information, check their website [www.nbwa.org](http://www.nbwa.org). ★

**Mark Your Calendars!**

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## The Race for the Presidency Heats Up



After John Kerry emerged the obvious victor of “Super Tuesday” earlier this month, President Bush placed a congratulatory call to him to say he looked forward to a spirited debate. While that was a gracious thing for Bush to do, it’s probably the last time the two will exchange pleasantries as they move toward election night. In fact, it’s expected to be a very contentious fight until the bitter end. The Democratic party is solidly behind Kerry and the party is more unified than ever; they have to be if they want to topple Bush. Meanwhile, the President’s credibility and standing in the polls continue to waver, due to weapons of mass destruction and a jobless recovery. Those and other issues including same-sex marriage, education and healthcare have the potential to make voters angry and impassioned come November. But it’s not just about the issues; a candidate’s character and personality also affect which way a person votes. That means Bush and Kerry will have to strategically and consistently manage all of these challenging factors during the long campaign trail so they drive people to the polls, instead of turning them away. ★

## New Emphasis on Television Controls?

Until recently, the only control most of us had over indecent network programming was the remote control. But the remote offered no control in the case of Janet Jackson’s surprise Super Bowl halftime show. So now Congress is getting into the act with proposals that could impose on the networks more stringent standards of decency and good taste, standards that may spill over to advertising. The House recently approved sharply higher fines for broadcasters and entertainers who break indecency rules and, at press time, similar legislation was moving through the Senate. Though neither version contains advertising-specific provisions, this effort does signal that all aspects of our advertising –



from content, to placement, to effect – will remain on the minds of lawmakers. Which in turn means it’s an ideal time to reinforce that the beer industry’s approach to advertising works. Specifically:

- Our advertising is placed on programs where more than 70% of the audience is over the age of 21.
- Beer advertising is one of the most regulated forms in the country. In addition to our own codes, it is subject to those of the Alcohol and Tobacco, Tax and Trade Bureau (TTB, formerly BATF), the Federal Trade Commission (FTC), state liquor control authorities and the television networks’ standards and practices departments.
- The government agrees that we approach our advertising in a responsible manner. In fact, in a report issued last fall, the FTC found that the industry’s method of self-regulation is working. In addition, the agency complimented the industry on its alcohol awareness endeavors and encouraged brewers to continue with these efforts. ★

## Let’s Hear It for No Beer Taxes!

In another corner of the Capitol, MADD and other anti-alcohol activists secured a hearing they had been seeking since last fall, to review recommendations in the National Academy of Sciences (NAS) report about how to address underage drinking. The House Education Subcommittee on Education Reform and 11 other Members of Congress heard from MADD President Wendy Hamilton, a representative from Students Against Drunk Driving, and Bob Newton, a former Nebraska football player, who spoke on behalf of the Betty Ford Clinic – all of whom supported NAS’ claims that alcohol advertising causes underage drinking and therefore, beer taxes should be raised as a way to stop underage drinking.

Francine Katz, A-B’s VP, Corporate Communications, testified on behalf of the beer industry, along with Susan Molinari of the Century Council. All in all, the questions posed were balanced and in the end, the Members recognized the work done by the industry to prevent underage drinking. But given the importance of the issue, we don’t expect lawmakers to cross it off their lists just yet. While the hearing allayed the concerns of some, others in Congress may continue to debate whether or not additional legislation is needed to address underage drinking. Whether or not the topic picks up legislative steam, our own plans include continuing to highlight what works. ★



# State Affairs

Joe Jedlicka

States are entering their third year of fiscal difficulties and we expect another in 2005. As this month's *Issues Update* details, this means more tax threats for the beer industry. That's why it's important to remind economists and state leaders who are surveying the fiscal landscape for revenue sources, that beer taxes are unfair, regressive and an inefficient way to raise badly needed money. Just as important, we should always correct the misconception that raising beer taxes will stop alcohol abuse or underage drinking. In fact, that faulty notion is included in a report to Congress by the National Academy of Sciences, which is being used by anti-alcohol activists to call for higher state beer taxes. But the **facts** – many of which did not make it into the report – reinforce that raising beer taxes will NOT stop underage drinking because those willing to break the law will not be deterred by higher prices. We must remain vigilant and focused on correcting these false claims. Visit [AB-LINK.com](http://AB-LINK.com), via [www.abmarketing.com](http://www.abmarketing.com), for talking points to help you oppose NAS-related tax threats.

## Put AB-LINK.com to work for you

In fact, whether it's your first time in the political trenches, or whether you're a seasoned political pro, AB-LINK.com has a variety of tips, tools and user-friendly tactics to help you manage tax fights and other issues.



▲ Beer tax calculator and fact sheet assistant from AB-LINK.com

For example, use the beer tax calculator to determine exactly how a potential tax hike could affect your bottom line. Select the state, enter the proposed rate increase, and you'll receive a detailed analysis of how that increase could affect jobs, sales, and taxes paid by consumers.

Armed with these facts and the particulars of the tax proposal, you can instantly customize and create a fact sheet that highlights the reasons why this increase should be rejected. For example, if proponents claim that a tax increase will stop underage drinking, or that funds raised by an increase should be earmarked for special programs, click on the box next to Arguments that refute that notion. The resulting one-pagers can be used as backgrounders during meetings with employees, other stakeholders, and elected officials – all of whom need to understand the harm such a tax could have on business.

## Economic benefits

It's just as important to remind policymakers at all levels of government, about the positive domino effect the industry has in states and cities where it does business. By supporting millions of jobs in a variety of sectors related to brewing, packaging and selling beer, we create an economic ripple that benefits a state's bottom line – a positive message that's especially relevant these days.

One of our ongoing priorities must be to maintain regular and consistent communication with lawmakers about the value we bring to their districts and constituents whether we're facing political challenges or not. Contact your Government Affairs Director for help in determining how to best do that. ★



Customizable print ads about your economic impact can be used in newspapers, program books or other publications that reach lawmakers. Contact your State Affairs director for assistance.



# Issues Update

Brian Bogard

## Not Out of the Woods Yet: Beer Excise Tax Threats in 2004

While the stock market is advancing, employment is rebounding slowly, and consumer confidence seems to be returning, this recovery promises to be gradual and uncertain. Budget pressures in several states could even increase in the coming year, leading to worsened beer excise tax threats. In many states, we are not out of the woods yet on beer excise tax threats in 2004. This is not a time to let down our guard.

The recession has been somewhat mild because the Fed pushed interest rates down aggressively, Federal fiscal policy has been expansionary and consumer spending has proven resilient. However, the recovery might turn out to be less vigorous than we would like because capital spending remains stagnant, record high household debt levels raise doubts about continued consumer spending growth, and foreign economies are still in the doldrums, resulting in a dramatic U.S. trade deficit and consequent downward pressure on the dollar. Many economists look for interest rates to begin rising by next spring.

### **The Spending Picture in the States**

Most state budgets are coming out of this recession severely weakened because of successive years of spending cuts. Forty states made either across-the-board or selective program cuts in fiscal 2003. The cuts totaled \$11.8 billion, the second highest in history after fiscal 2002, when 38 states cut their budgets by nearly \$13.8 billion. Additionally, in fiscal 2004 more than two-thirds of states have budgeted expenditure growth below 5%, with 13 states enacting negative growth budgets.

Medicaid spending is a significant state budget threat that lurks just over the horizon. The Kaiser Commission on Medicaid and the Uninsured recently found that Medicaid spending increased 9.3% in fiscal 2003, after increasing by 12.8% in fiscal 2002. While Medicaid spending has increased about 23% over two years, state revenues have declined by 0.3% during the same period. The Medicaid spending crunch appears already to have arrived. Thirty-two states assume they will have a shortfall in their fiscal 2004 Medicaid budgets. In fact, climbing Medicaid costs may constitute the single greatest state budget problem area. The Federal government provided \$10 billion in additional aid to the states for fiscal 2003 and 2004 by providing a temporary increase in the federal Medicaid matching rate. However, the end of this additional aid in fiscal 2005 will put renewed budget pressures on the states. Over the next decade, Medicaid spending is projected to increase at an average annual rate of 8.5%, according to the Congressional Budget Office – a rate that would far outstrip state revenue growth even after a full economic recovery is underway.

### **BEER EXCISE TAXES VIOLATE Three Basic Principles Of Fair Taxation**

- collect the lowest possible rates on the widest possible base of taxpayers;
- impose only those taxes that raise the most revenue with the least economic disruption possible;
- assess the greatest tax burden upon those best able to pay, giving those citizens with more modest incomes the opportunity to save and invest for the future.

### **The Revenue Picture in the States**

After two years of recession, the revenue outlook in the states is not terribly optimistic. Sales, personal income, and corporate income tax collections all failed to meet projections in fiscal 2003. For fiscal 2004, 36 states enacted tax and fee increases totaling \$9.6 billion, while at the same time making massive budget cuts, using reserve funds, and employing a broad range of other budget balancing strategies. Fifteen states increased their cigarette and tobacco taxes, a net increase of \$751 million, and four raised taxes on alcoholic beverages, resulting in a net increase of \$46.5 million. States also enacted \$3 billion of revenue measures that enhance general fund revenue but do not affect taxpayer liability, such as deferrals of tax phase-outs, tax amnesty programs, and accelerated remittance of sales tax by vendors. If these revenue-enhancing measures do not allow state revenues to keep pace with required expenditures, we must expect further pressure for tax increases.

### **Tax Reform – Roll Back the Beer Tax!**

In many states, the realization is slowly beginning to dawn that the revenue problems of late may not be merely the result of a cyclical downturn in the economy. In many states, systemic tax reform is beginning to be considered seriously. And when people start thinking about theories of taxation and tax systems as a whole, it is an excellent time to remind them of some of the most basic precepts of fair and efficient taxation: collect the lowest possible rates on the widest possible base of taxpayers; impose only those taxes that raise the most revenue with the least economic disruption possible; and finally, assess the greatest tax burden upon those best able to pay, giving those citizens with more modest incomes the opportunity to save and invest for the future. As we know, beer excise taxes violate ALL THREE of these precepts. Tax reform? Yes. And while you're at it, roll back the beer tax! ★

## Public Affairs Update

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Additional copies of the Public Affairs Update may be obtained by contacting the Anheuser-Busch Government Affairs Department. Call (314) 577-4620, fax your request to (314) 765-9190 or contact us through the A-B Intranet.

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