

Beer Wars in Springfield

By Jim Nowlan

Beer interests are battling in Springfield during the spring legislative session over how to bring the golden product to your local bar and retailer. The three-corner tussle has global beer producers, major beer distributors and the corner brew pub all squabbling over who can distribute beer.

The fight is instructive because, like so many little-noticed conflicts in state politics, it's all about economic interests (money), with the consumer little more than a stage prop in each interest's arguments.

First, some background. There is a great pub in Kewanee, Illinois named Cerno's, with a magnificent cherry and walnut back bar, that was built by Pabst Brewing in 1898 to sell only its product. There is even a wrought-iron pay window at the swinging front door that used to cash the factory workers' pay checks. Some say Prohibition was brought on in part by these brewer-owned saloons that pushed beer too aggressively onto the tipplers.

After the nation's ill-fated try at Prohibition, states were given responsibility for regulating a new three-tier system comprising brewer, distributor and retailer. No longer would brewers own saloons that pushed only a single brewer's suds.

The system has worked fairly well. The middlemen distributors store the perishable commodity, keep the retailers supplied with just enough fresh stock, and collect the taxes for the state.

But the system isn't perfect, certainly not in the eyes of at least one of the global giants, Anheuser-Busch InBev, now a Belgium company. Indeed, the other big players are also foreign owned—Miller (South Africa) and Coors (Canada). Pabst is the largest American-owned beer company, and Miller brews beer for them on contract.

Although independent, distributors are aligned with the big brewers, known as the “AB” or Miller distributors. Small distributors handle most all other beer labels.

Outside the U.S., the three-tier system doesn't generally exist. The big brewers distribute directly to the retailer and see no reason why it shouldn't be so here.

But the beer distributors in Illinois have a strong lobby, which has raised nearly \$2 million in campaign cash since 2008. Distributors fight efforts to eliminate a system that has provided very comfortable livings for their families.

In the third corner in this fight are the relatively new brew pubs, which produce beer for consumption on their premises. The brew pubs would like the same authority that Illinois gave two small Illinois craft brewers to self-distribute their beer. And so would AB InBev, which brought suit in federal court, saying if the craft brewers could self-distribute, why couldn't AB, or why couldn't AB at least buy a big distributorship in Chicago?

A federal district court agreed in part with AB, saying that it couldn't be discriminated against, but the court did not go along with AB's desire to buy a big distributorship, suggesting that would upset the three-tier system. The court has given the state lawmakers time to respond with new legislation, and thus we have beer wars.

The distributors back a bill that gives craft brewers the right to self-distribute small amounts of beer, thus eliminating huge AB from that right. AB opposes the bill,

and has hired a dozen lobbyists to make its case. Failure of legislation would simplify AB's appeal of the federal court decision.

The several score brew pubs also oppose the bill, which excludes them from self-distribution as well. The brew pubs think they could distribute their beer more cheaply than have to pay distributors to do it for them, so and they want the right to self-distribute.

So who do you go with? Clearly, AB would like to self-distribute or buy out the middlemen distributors. Maybe the beer drinker would end up paying a little less, but would AB become even more dominant.

The brew pub owners think the traditional three-tier system is archaic, while the distributors think they provide a valuable service and AB shouldn't be allowed to muscle in.

I will bet on the distributors winning in the short-term, because they have long-standing relationships with the lawmakers, and AB is now a big bad foreign entity. But distributors have to pass a bill that provides a rationale to satisfy the court, such as self-distribution limited to a relatively small number of barrels. Passing a controversial bill is always difficult.

In the longer term, I think the days of the independent but aligned distributors may be numbered. AB and probably Miller will seek federal court relief through the present court case or others, claiming restraint of trade by the distributors. Beer wars will continue.

