

Finance Revenue and Bonding Committee

Testimony of Dwayne Kratt of Diageo in Opposition to Governor's Bill 1007, An Act Concerning the Governor's Recommendations on Revenue

March 7, 2011

Good afternoon Senator Dailey, Representative Widlitz and Members of the Finance Revenue and Bonding Committee. My name is Dwayne Kratt and I am the Senior Director of Government relations for Diageo. I am a Milford, CT resident and I work with roughly 800 colleagues out of our North American headquarters in Norwalk, CT. I am here today to testify in opposition to certain sections in the Governor's bill 1007, an Act concerning the Governor's Recommendations on Revenue.

While we all understand the new mantra around here is about "shared sacrifice," the Governor's 20% alcohol tax increase proposal would put in jeopardy as many as 800 jobs in the Connecticut hospitality industry. These lost jobs will be your favorite bartender, neighbor who waits tables, package store owners or clerks, your favorite bartender or even a potential distributor truck driver who works for a distributor.

And while many folks think that the hospitality industry has been immune to these tough economic times, I am here to tell you that isn't the case. From suppliers like us to retailers and restaurateurs, this economic downturn has been tough on the hospitality industry. Even at Diageo we experienced lay offs early in the recession. To date, the hospitality industry in Connecticut has already lost more than 15,000 jobs during this downturn, and this tax increase proposal will only worsen the state's sour job situation with unemployment still hovering around 9%.

So now we are faced with this tax increase proposal. This proposal raises alcohol taxes by 20% on a product that already has a tax rate of roughly 50%. That's right: consumers are already paying roughly 50% of the cost in taxes when they purchase alcohol at retail.

My final point has to do with cross border sales. Even without this tax increase, Connecticut alcohol sales are already at a price disadvantage to neighboring states, particularly Massachusetts. Because of lower taxes, higher discounting, more shopping days and certain price regulations that have recently been highlighted by a Connecticut columnist, many Connecticut consumers already flock to out of state stores for their alcohol purchases. In fact, based on our economic modeling, we estimate that these factors are driving Connecticut residents to purchase 2.8 million cases of beer, 37.5 million bottles of wine and 11.5 million bottles of spirits outside the state each year. What does that mean for CT? It's simple: our businesses are losing revenue, and our state is losing tax dollars. This tax increase proposal will make matters worse, costing the state as much as \$5 million in tax revenues as consumers shop across state lines.

The bottom line is that raising taxes on alcohol beverages will hurt Connecticut's CT hospitality industry, my company and CT Connecticut consumers. As the Committee knows, there are better ways to increase CT based alcohol sales that will increase CT state tax revenue.

For your information, I have attached additional information about Diageo and our economic impact here in Connecticut.

DIAGEO North America

Celebrating Life, Every Day. Everywhere

Diageo (Dee-AH-Gee-O) is the world's leading premium drinks business

About Diageo

Diageo makes and markets some of the world's leading beverage alcohol brands across spirits, wine and beer including Smirnoff, Captain Morgan, Crown Royal, Jose Cuervo, Baileys, Guinness, Sterling Vineyards and Beaulieu Vineyard wines. This means many people are more apt to know us by our brands than our corporate name.

People

Diageo North America has nearly 4,000 employees (salary and hourly combined). Globally, Diageo employs over 23,000 talented people.

Locations

- Diageo North America headquarters are in Norwalk, Connecticut
- 20 business offices across the US and Canada
- Approximately 16 supply facilities including manufacturing sites in Plainfield, Illinois; Amherstburg, Ontario; Valleyfield, Quebec; Relay, Maryland; Gimli, Manitoba (distillery), Tullahoma, Tennessee (distillery) & Menlo Park, California
- 48 facilities throughout California including vineyards and winery facilities

Route to Market:

Route to market in the US is through the three-tier system. Diageo distributes its products through a number of dedicated spirits and wines distributors, including 2,200 dedicated sales people, and over 400 beer distributors nationally.

Diageo in Connecticut

Facilities	2
Employees	856
Retirees	312
Beer Distributors	6
Spirit Distributors	7
Major Suppliers	7
Brook & Whittle, North Branford, CT	
Colangelo, Darien, CT	
Nielsen Group, Wilton, CT	
Property Taxes	\$581,510
Total Payroll Taxes	\$5.6 million

Diageo Committed to Connecticut

Diageo is a proud member of the Fairfield County community. During the 2009 holiday season over 100 local employees volunteered their time to work at the Norwalk Emergency Shelter, Family and Children's Agency, Salvation Army and the CT Food Bank. Diageo also donated more than \$20,000 to local charities.

Alcohol Beverage Industry in Connecticut

Spirits Retailers	1,138
Number of Bars/ Nightclubs selling spirits	3,143
Jobs Contributed by Industry*	100,092
Wages Contributed by Industry*	\$5.36 billion
State Taxes*	\$3.675 billion

* Source: John Dunham & Associates, Inc. 2010

* Industry: beer, wine and spirits

Commitment to Responsibility

Social Responsibility is key to the company's foundation, Diageo makes sure that responsibility is always in the mix, with a marketing code that is one of the most stringent in the industry.

Diageo has a zero tolerance policy for underage drinking and supports effective solutions to limit underage access to alcohol. Diageo is a founding member and major supporter of The Century Council, an organization funded by some of the country's leading distillers committed to developing programs to combat drunk driving and underage drinking.

Diageo launched www.DRINKiQ.com, designed to promote responsible drinking worldwide. DRINKiQ.com is a global resource for all interested parties to share programs and tools to fight alcohol misuse and help individuals make responsible choices about drinking – or not drinking.

Commitment to the Community

In 2001 Diageo founded *Spirit of the Americas* to bring relief efforts to crisis in the US and abroad. Whether it is delivering more than 150,000 pounds of food, medicine and school supplies to Baghdad, delivering 50,000 lbs of food and emergency supplies to Haiti based NGOs after the earthquake or providing funding and volunteer hours in Diageo's home state of Connecticut; *Spirit of the Americas* is there. Employees also accompany the relief supplies to the crisis zone and help distribute the aid, making sure we are there every step of the way.

Commitment to Inclusion and Diversity:

Diageo has received the following recent recognitions for inclusion and diversity:

- Top 25 Diversity Councils Award 2009, 2010
- CT Women's Hall of Fame 'Trailblazing the Corporate Corridor' 2010
- Top Companies for Executive Women by NAFE 2010
- Top 100 Companies for Working Mothers 2009, 2010
- Top Diversity Employer 2009
- 100 Companies for Diversity by Savoy Professional Magazine 2008, 2009
- Top 100 Places to Work Corporate Equality Index – Human Rights Campaign Foundation 2007-2009
- Universum Ideal Employer Among MBA's 2009 Ranked #63 (Also listed 2008, 2007, 2006)
- Kane's Social Responsibility Diversity Communications Award, 2009
- NAACP of Norwalk Community Social Responsibility Award 2009
- NY Arts and Business Partnership Award 2009
- Corporate Partner of the Year - National Black MBA Association Westchester/CT Chapter - 2007

Diageo North America Leadership

- Ivan Menezes, President Diageo North America and Chairman Diageo Asia Pacific
- Larry Schwartz, President Diageo USA

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