

Liquor's economic impact significant in the birthplace of



BY BENJAMIN HOAK

Wander the streets of almost any country in the world, mention you're from Kentucky, and you're likely to hear about two things in return: Kentucky Fried Chicken and bourbon.

KFC has been ubiquitous for decades, but the prevalence of bourbon has begun skyrocketing across the globe in the last few years. Given that Kentucky produces more than 95 percent of the world's bourbon, the economic impact of

the liquor industry on the state is significant. Wineries are also springing up as farmers look to replace lost tobacco revenue, and together, wineries and distilleries are drawing thousands of tourists to the commonwealth.

Whether you're a bourbon connoisseur, a social drinker or a teetotaler, it's hard to ignore the influence of the liquor industry on Kentucky. Here's a look at several aspects.

Kentucky born and bred

Kentucky has come a long way since settlers began growing corn and distilling whiskey in the late 1700s. According to the Distilled Spirits Council of the United States, 14.3 million nine-liter cases of bourbon were sold in the United States in 2005, generating over \$1.5 billion in revenue.

Statistics also show that the world is finally catching on—exports of bourbon increased 31 percent from

June 2005 to June 2006.

“Bourbon is now firmly entrenched alongside the finest Scotch whiskeys,” said Larry Kass, director of corporate communications for Heaven Hill, the second largest holder of bourbon in the world. “It’s never been held in higher regard than it is right now.”

In 1964, Congress declared bourbon to be “America’s Native Spirit,” and restricted its production to America. Thanks to the only iron-free limestone shelf in the United States (which filters out impurities from the water used to produce bourbon), more than 95 percent of the country’s bourbon is produced in the Bardstown–Frankfort region in central Kentucky. While bourbon can be made elsewhere, “if you want to sell it, you better make it in Kentucky,” said Ed O’Daniel, president of the Kentucky Distillers Association.

“Bourbon is becoming the dominant association of Kentucky,” said Bill Samuels, president of Maker’s Mark, which operates the nation’s oldest working distillery on its original site in Loretto. “It ... has already started to have a significant impact on Kentucky’s reputation. This is a huge opportunity for the commonwealth.”

Kass credits bourbon’s popularity to a wide-ranging appeal. “Big brands are growing as well as super-premium (small batch),” he said. “All cylinders are firing.” People feel better about buying small luxuries, and Americans—especially young people—are rediscovering the allure of the cocktail culture. Global marketing has also increased, and young professionals around the world now see bourbon as a smart, sophisticated drink.

As mandated by federal law, bourbon is produced from a fermented mash made of 51 to 79 percent corn (the remainder includes rye or wheat and malted barley). It’s then distilled at less than 160 proof and aged in new, charred, white oak barrels at a maximum of 125 proof for at least two years. O’Daniel said all Kentucky bourbon ages at least four years—any shorter and no one will buy it. Super-premium and single-

barrel bourbons mature even longer.

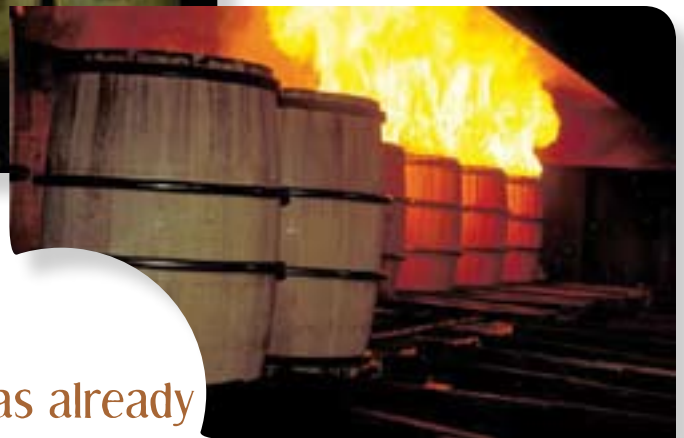
Warm summer temperatures allow aging bourbon to expand into the oak barrels; winter’s cold then causes the bourbon to contract out of the wood, bringing with it the definitive amber color and smoky flavor, including tannins, caramels and vanillas. Once a barrel is used, it can’t hold bourbon again; most are sent across the Atlantic, where they’re used to age Scotch.

In 1999, O’Daniel said distilleries put 455,000 barrels of new bourbon in storage. In 2007, they’ll stack more than one million barrels in rickhouses, adding to the four and half million barrels already aging

(Woodford Reserve bourbon) and Diageo (Bulleit bourbon). A few smaller family operations are also scattered around the state.

O’Daniel said the bourbon industry employs more than 3,000 people, and its economic impact on the state exceeds \$2.5 billion. The industry pays about \$1 billion a year in federal excise taxes. Kentucky cities, counties and school districts collect property taxes of \$9 million yearly, and Kass said the wholesale tax on bourbon brings in \$60 million a year. According to the U.S. Census Bureau, sales tax on all alcoholic beverages sold in Kentucky in 2005 reached nearly \$82 million.

Bourbon is also considered a friend of agriculture. Kass said production of nearly a million barrels of bourbon a year requires 12,000 bushels of grain (mostly corn); farmers need 119,000 acres of cropland to grow that much grain. Each bushel used in fermentation yields 30 gallons



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The impact

Major distilling companies operating in Kentucky include Jim Beam, Maker’s Mark, Heaven Hill, Wild Turkey, Buffalo Trace, Four Roses, Barton Brands, Brown-Forman

of stillage—a high-protein animal feed—as a byproduct. The stillage produced by the bourbon industry feeds about 12 million head of livestock each year.

With a world market at their doorstep—top importers of bourbon include Australia, Germany, the United Kingdom and Japan—several Kentucky distilleries are planning to expand. Jim Beam (the world’s largest bourbon producer), Heaven Hill and Maker’s Mark have announced multi-million dollar expansions, and other companies may soon follow. The major Kentucky distilleries also now have international branches to handle their increasing overseas business.

All this is to Kentucky’s benefit,

said Samuels, whose voice radiates passion, even after 40-plus years at Maker's Mark. "It's a high-margin business, which means high-margin jobs," he said. "It's growing like crazy. Unlike all the other industries, we don't have to spend money on recruiting. It's already here."

Other industries recognize the benefits liquor has for the state, according to David Adkisson, president and CEO of the Kentucky Chamber of Commerce. "The liquor industry is a strong part of Kentucky's past, but it's also a great part of our future potential," he said. "The broader business community has a strong sense of that."

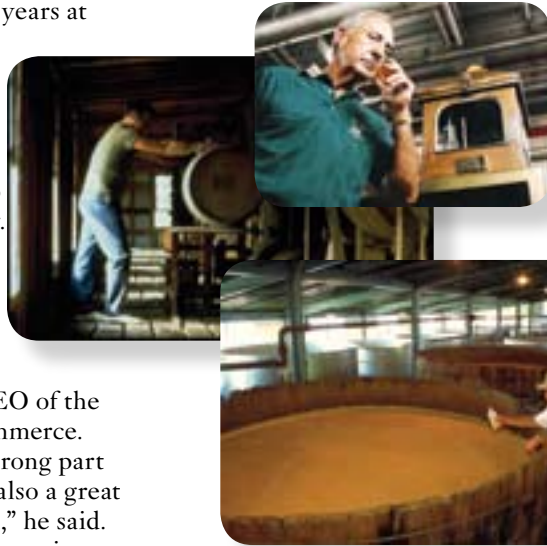
More than just bourbon is made in Kentucky. An extensive amount of other distilled spirits, including rum, tequila, brandy, vodka, Scotch and other whiskeys, are also either produced or distributed through Kentucky companies.

Kentucky Bourbon Trail

Realizing that bourbon consumers are dedicated to their drink of choice, members of the Kentucky Distillers Association organized the Kentucky Bourbon Trail in 1999. Similar to California's wine trails, the Bourbon Trail links the Bardstown-Frankfort distilleries into a grouping that allows tourists to easily visit several locations in one trip.

"We have more and more people coming..." Samuels said. Maker's Mark alone drew 75,000 visitors last year; O'Daniel said the entire Bourbon Trail attracted nearly half a million people. He expects that number to double soon. Each distillery on the trail includes a visitors' center; in 2004, Heaven Hill opened the Bourbon Heritage Center, which allows visitors to interactively explore bourbon's history and production.

Tourists enjoy watching the process of bourbon production—the fermentation vats, copper stills and rows of barrels aging gracefully are visually appealing. Visitors are also drawn by central Kentucky's beautiful natural setting. The slow pace, rolling hills and historic architecture evoke a timeless Southern charm that lets people slow down, relax and sip a little bourbon.



Plus, "the distilleries are in the right places for communities to showcase (their) hospitality," Samuels said. "Hospitality is part of the culture." Shops, restaurants and museums—particularly the Oscar Getz Museum of Whiskey in Bardstown—give people a further chance to enjoy themselves.

"It's the added energy of everybody participating at a high-quality level that's making this thing work," Samuels said. "Think about the impact 15 to 20 years from now if the bourbon companies resemble Napa Valley. It's starting to happen."

Bardstown hosts the annual five-day Kentucky Bourbon Festival the third week of September. Last year, 55,000 people poured in to take part in themed events (such as Bourbon, Cigars and Jazz), watch the barrel relay race, sample lots of bourbon and meet everyone who's anyone in the bourbon industry. Kass said the festival generated \$4.5 million for Nelson County and \$7.5 million statewide.

Cheryl Hatcher, deputy

commissioner for the Kentucky Department of Tourism, said the state is working to promote bourbon as a signature industry. Officials are incorporating bourbon into lifestyle advertising and promotions, and they point interested tourists to the Bourbon Trail.

Grapes on the vine

Kentucky wine is also a fast-growing segment of the liquor industry, as many farmers are applying their agricultural skills to grapes. There is precedent for making wine in Kentucky. According to the Kentucky Department of Tourism, the winemaker for the Marquis de Lafayette planted America's first commercial vineyard in Kentucky in 1798.

Chuck and Mary Smith's families have been farming in Henry County for eight generations. The Smiths have continued the tradition, but they changed their focus from tobacco to grapes almost five years ago when they opened Smith-Berry Winery in New Castle (author Wendell Berry is Mary Smith's father). The Smiths are currently growing five acres of grapes; they also buy grapes from other farmers.

Smith-Berry has produced 16 different wines, ranging from dry whites to sweet reds. Chuck Smith learned to make wine by reading and meeting with other winemakers, including a two-week internship in California. "You have to have a good palate, too," he said.

A recent report issued by the University of Kentucky's Cooperative Extension Service says 583 acres of grapes were grown in Kentucky in 2006. John Strang, a horticulture professor at UK, said 42 wineries are making wine, up from just six or eight wineries a few years ago. Kentucky growers have invested \$7 million in their vineyards, and the UK report projects the annual gross return from the grapes to be \$22.1 million.

Kentucky wine production increased 83 percent from 2005 to 2006, bringing the total to more than 60,000 cases. Another 45 percent increase is expected in 2007. Smith-Berry's sales jumped 40 percent from 2005 to 2006; Smith said they're more than making up for lost tobacco income.



Smith is also president of the Kentucky Vineyard Society (the nation's oldest such society, established in 1927). The society has worked with the state legislature to change laws regarding alcohol; for instance, if a winery wants to operate in a dry county (such as Henry County), the law now allows a dry precinct to hold a local option election to decide the matter. A judge has also recently ruled that Kentucky wineries may now ship wine to out-of-state customers even if they don't visit the winery.

In 2005, the Cooperative Extension Service used a grant through the Kentucky Grape and Wine Council to hire enologist Tom Cottrell and viticulturist Kaan Kutural to provide professional guidance to the state's wine industry. Smith said the men have been helpful, especially in determining the best varieties of grapes to grow in Kentucky. French hybrids seem to be working best so far.

Wine sales are only part of the story, though. "This is a viable agritourism business," Smith said. "We probably had about 22,000 people come through here last year." Visitors enjoy tours, tastings, concerts, dinners and other events as well as visits to other wineries.

According to the UK report, the state's vineyards should produce a tourism value of \$442 million a year. The tourism department's web site promotes wineries as a part of Kentucky's agritourism, and Hatcher said the agency continues to actively promote both the wine and bourbon industries.

Challenges

Challenges still face Kentucky's liquor industry. While O'Daniel estimates that 60 percent of bourbon is consumed in the United States, sales here aren't accelerating at the same rate as around the world. "Domestically, we're working hard to build awareness," Hatcher said.

A law that became effective this January took away small wineries'

Vineyard Industry

Kentucky's vineyard industry has boomed recently, but four wineries have been open since the early 1990s when they were first legalized by the state legislature. Bravard Vineyards and Winery near Hopkinsville is one of the originals.

In 15 years, owners Jim and Janet Bravard have progressed from operating out of a spare room to growing six and a half acres of grapes, which they process in a bottling facility and store in a wine cellar. They've designed their operation to be small (both have other full-time jobs), turning out about 10,000 bottles of 11 different wines each year. An annual harvest celebration and planned monthly events give visitors a chance to enjoy live music, plays and the wine.

Bravard predicts the recent statewide increase in wineries will be of enormous benefit to Kentucky's economy. "Wineries are tourist attractions," he said. "They bring people from everywhere. The more wineries there are, the more people come in to see."

Although running a winery requires a significant investment and lots of physical labor and paperwork (including a federal permit), Bravard has a passion for what he does. "You have to love this or you'd never survive," he said. "You have to love it, and I do."


right to self-distribute their wine to retailers; it's too early to tell how much of an effect the law will have, but it doesn't make the work any easier. Also, growing grapes in Kentucky's climate requires perseverance. "You don't know whether it (the wine) is any good for up to three years – that's the challenge," Smith said.

And all of this work is taking place in a religious culture that tends to frown upon a "sin" industry. "There's a delicate balance in Kentucky between our distilling heritage and the Bible Belt religious culture," Adkisson said.

Samuels said the issue even affects politics; he would like Kentucky's policy makers to move past the idea that "bourbon and sin are the same thing." He cited last year's attempt by the legislature to significantly raise the

tax on distilled spirits as evidence politicians don't yet see bourbon as a signature industry of Kentucky. Still, "It's going to come around eventually," he said.

After all, Heaven Hill's premium bourbon is named in honor of Elijah Craig, a Baptist minister and businessman who is credited (among

others) with inventing bourbon. He was the first to age whiskey in the charred oak barrels that provide bourbon's inimitable color and flavor. If Craig could successfully reconcile two of his loves, perhaps the rest of Kentucky can as well. 

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