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**U.S. Department of the Treasury
Alcohol and Tobacco Tax and Trade Bureau
John J. Manfreda, Administrator
Before the
U.S. House of Representatives
Committee on Ways and Means
Subcommittee on Oversight**

Introduction

Mr. Chairman, Congressman Ramstad, and distinguished members of the Subcommittee, I am pleased to be here today to report on the current operations and performance of the Alcohol and Tobacco Tax and Trade Bureau (TTB). We greatly appreciate your interest in our Bureau.

TTB was created within the Department of the Treasury in 2003 as a result of the Homeland Security Act of 2002. As a successor of the Bureau of Alcohol, Tobacco and Firearms, our mandate is to collect taxes owed, and to ensure that alcohol beverages are produced, labeled, advertised, and marketed in accordance with Federal law.

TTB administers Federal tax laws on alcohol, tobacco, firearms, and ammunition. Specifically, TTB is charged with the administration of Chapters 51 and 52, and sections 4181 and 4182 of the Internal Revenue Code of 1986 (IRC), as well as the Federal Alcohol Administration (FAA) Act and the Webb-Kenyon Act. Under these authorities, TTB is chiefly responsible for: (1) collecting alcohol, tobacco, firearms, and ammunition excise taxes, and classifying alcohol and tobacco products for excise tax purposes; (2) reviewing applications and issuing permits for distilled spirits and wine operations and for tobacco product manufacturing, warehousing, importing and exporting operations; (3) regulating the production, packaging, and storage of alcohol and tobacco products; and (4) ensuring that the labeling and advertising of alcohol beverages are not misleading and provide adequate information to the consumer. (Attachment A provides a more in-depth discussion of TTB's statutory authorities).

We recognize that the industries we regulate have a significant economic impact domestically. For example, the annual economic impact from the wine, distilled spirits, and beer industries is approaching \$500 billion, and represents 3 to 4 percent of the Gross National Product.

When TTB was created in 2003, it was authorized to have 559 employees, but began with only 326 employees. Most of these positions were in our headquarters in Washington, D.C., our laboratories, and our National Revenue Center (NRC) in Cincinnati, Ohio. At the time, TTB had no field offices or CFO operation. In order to maximize our FTE allocations, we established a skeletal internal management staff, and contracted with the Bureau of Public Debt Administrative Resource Center (BPD ARC) to handle our accounting, travel, procurement, human resources and financial management support services. This allowed us to concentrate our FTEs on our primary mission.

Currently, TTB has approximately 150 employees working in our headquarters office and 180 employees working at the NRC. The remaining employees are located in field offices that have been established in several major U.S. cities, and at TTB's laboratory facilities in Maryland and California. The primary components that comprise the TTB organization include the Administrator, the Assistant Administrators for Headquarters Operations, Field Operations, Management/Chief Financial Officer, and Information Resources/Chief Information Officer. (Attachment B includes TTB organizational chart). TTB reports to the Office of Tax Policy in the Department of the Treasury.

TTB has transitioned its information technology support services from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) to the private sector. The migration of IT support to the private sector includes the hosting of our custom business applications at a commercial site and the implementation of our office automation applications on our IT infrastructure.

In the 2007 Partnership for Public Service and Institute for the Study of Public Policy Implementation survey, "The Best Places to Work in the Federal Government," TTB ranked tenth on its rating of 222 programs in terms of best places to work, second for its family friendly environment, and sixth in strategic management. Human capital management remains the highest priority at the Bureau, along with fostering an environment of performance excellence and leadership continuity. The use of such human capital flexibilities as telework, flexible work schedule arrangements, student educational employment programs, student loan repayment program, health improvement program (which provides employees time for exercise), and performance system are the primary factors contributing to TTB's recognition as one of the best places to work. TTB's implementation of these initiatives not only enhances the recruitment and retention of highly skilled employees, but also provides facility cost savings to the Bureau that are invested in improved services to stakeholders.

The financial resources to support TTB core business activities under the FY 2009 President's Budget are \$99,768,000, including \$96,900,000 from direct appropriations and an estimate of \$2,868,000 in offsetting collections, mainly from the Puerto Rico cover-over program.

Mission

TTB's mission is to collect alcohol, tobacco, firearms, and ammunition excise taxes that are rightfully due, to protect the consumer of alcohol beverages through compliance programs that are based upon education and enforcement to ensure a fair and even marketplace; and to assist industry members to understand and comply with Federal tax, product, and marketing requirements associated with the commodities we regulate. TTB has two primary strategic goals: (1) Collect the revenue and (2) Protect the public. These goals are closely integrated and the resources attributed to these functions are evenly distributed.

I. COLLECT THE REVENUE

TTB collects alcohol, tobacco, firearms, and ammunition excise taxes pursuant to chapters 51, 52, and sections 4181 and 4182 of the IRC. These products generate nearly \$15 billion in annual Federal excise tax revenues. The excise taxes collected by TTB come from more than 6,100 businesses, and these taxes are imposed and collected at the producer level of operations. (Note that excise taxes on imported products are collected by Customs and Border Protection). Members of the regulated industries paying excise taxes are distilleries, breweries, bonded wineries, bonded wine cellars, manufacturers of cigarette papers and tubes, manufacturers of tobacco products, and manufacturers and importers of firearms and ammunition. About 200 of the largest taxpayers account for 98 percent of the annual excise tax collected. In FY 2007, TTB collected the majority of taxes from tobacco (49 percent) and alcohol (49 percent), with the remaining two percent from firearms and ammunition. The alcohol and tobacco taxes we collect are remitted to the Department of the Treasury General Fund. The firearms and ammunition excise taxes we collect are remitted to the Fish and Wildlife Restoration Fund under provisions of the Pittman-Robertson Act of 1937.

The following table displays the amount of Federal excise taxes TTB collected from FY 2003 through FY 2007 by revenue type.

| Revenue Type | FY 2003 | FY 2004 | FY 2005 | FY 2006 | FY 2007 |
|--------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Alcohol | \$6,910,631,000 | \$6,995,366,000 | \$7,074,076,000 | \$7,182,940,000 | \$7,232,138,000 |

| | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| Tobacco | \$7,382,435,000 | \$7,434,211,000 | \$7,409,758,000 | \$7,350,842,000 | \$7,194,113,000 |
| Firearms Ammunition Mfg | \$193,414,000 | \$216,006,000 | \$225,818,000 | \$249,578,000 | \$287,835,000 |
| Special Occupation al Taxes* | \$103,781,000 | \$100,562,000 | \$10,190,000 | \$2,895,000 | \$2,808,000 |
| TOTALS | \$14,590,261,000 | \$14,746,145,000 | \$14,719,842,000 | \$14,786,255,000 | \$14,716,894,000 |

*Special Occupational Taxes (SOT) were suspended on most alcohol taxpayers, effective July 1, 2005, and repealed for all alcohol taxpayers effective July 1, 2008.

In 2007, TTB collected \$323 of revenue for every dollar spent to administer its tax-collection operation. TTB attributes this success to its professional working relationship with industry members as well as its lean administrative overhead. In 2005, TTB underwent a Program Assessment and Review Tool (PART) review by the Office of Management and Budget and received an effective rating for its Collect the Revenue Program.

In addition to the collection of excise tax, TTB administers cover-over payments to Puerto Rico and the Virgin Islands, and processes excise tax drawback claims. Federal excise taxes collected on articles produced in Puerto Rico and the Virgin Islands and subsequently transported and sold in the United States are “covered-over” (or paid) into the treasuries of Puerto Rico and the Virgin Islands. In FY 2007, TTB processed \$459 million in cover-over payments from rum to Puerto Rico and \$8 million to the Virgin Islands. Also, under current law, persons who use non-beverage alcohol in the manufacture of medicines, food products, flavors, extracts, or perfume and other non-potable products may be eligible to claim drawback of most of the excise taxes paid on distilled spirits used in their products. In FY 2007, TTB processed \$332 million in such drawback claims.

One of the reasons we have been so effective in collecting the revenue rightfully due is an active field presence. TTB’s Office of Field Operations conducts audits, investigations, and analyses to ensure the fair and uniform enforcement of all applicable laws and regulations within our jurisdiction. The staff also works to identify gaps in tax payment and any individuals illegally operating outside the excise tax system.

TTB’s audit program is based upon a risk approach. We audit those taxpayers who, based upon a variety of factors, present the greatest risk to the collection of the revenue rightfully due. As a consequence, we audit approximately 90 percent of the revenue every three years. We also identify other risk factors that indicate likely noncompliance with the tax laws and include them in our audit

schedule. From FY 2004 through FY 2007, our auditors and investigators identified approximately \$25 million in tax, interest, and penalties and saw our voluntary compliance increase substantially, as explained in greater detail below.

To resolve our audit and investigative findings, TTB either collects the full amount due, or resolves these cases through offers in compromise when doubt as to liability or collectability is present, as provided under our IRC jurisdiction. Likewise, TTB also resolves some of these matters through adverse actions resulting in surrender or revocation of the permit under the IRC and FAA Act.

To maximize our enforcement capabilities, the Office of Field Operations reorganized and established a new Trade Analysis and Enforcement Division (TAED). TAED provides intelligence analysis for the purpose of identifying and developing targets for investigation and audit that would most likely reveal compliance violations. The intelligence gathered is also used to determine trends and schemes utilized to facilitate tax diversion, including tax fraud and evasion, and to provide assistance in the investigation of substantive cases. Results of all of these activities are fed into a risk model, which provides criteria for determining resource expenditures for future audits and investigations.

TTB recently established a Tobacco Laboratory within its Scientific Services Division. TAED and the Trade Investigations Division (TID) work closely with the Tobacco Laboratory to pursue and collect the tax liability on tobacco products. Using state-of-the-art equipment, the Tobacco Laboratory analyzes tobacco product samples to assist in tax classifications of tobacco products, including cigars, cigarettes, roll-your-own tobacco, pipe tobacco, chewing tobacco, and snuff. In FY 2007, TTB analyzed 157 tobacco product samples for tax classification purposes. The Tobacco Laboratory has established collaborative partnerships with the Centers for Disease Control and Prevention (CDC) and the Canada Border Services Agency (CBSA). In addition, the laboratory has become a member of the World Health Organization's Tobacco Laboratory Network (TobLabNet), a global tobacco testing laboratory network, which extends the laboratory's contact to the tobacco enforcement laboratories of more than 100 countries.

Efficient Government

One of TTB's goals in collecting the revenue is to administer laws and regulations in a way that imposes the least burden on the taxpayer. TTB does this through various voluntary compliance efforts such as implementing electronic government initiatives, engaging in open lines of communication, and conducting industry seminars.

- **Electronic Government**—TTB has recognized the need to provide the regulated industries with the option of electronically filing tax returns, tax payments, operational reports, and certificates of label approval. To this

end, TTB has implemented a streamlined and automated process for receiving tax returns, operational reports, and payments submitted through Pay.gov, which is designed to interface with existing TTB business systems. This system reduces paper, manual processing, and errors, and speeds up the payment process. In FY 2007, 98 percent of TTB's tax receipts were collected electronically.

- **Informing Taxpayers**—An open line of communication with the taxpayer is essential in achieving our goal of collecting all the revenue due. We keep industry members and the public primarily informed through TTB's Web site, www.ttb.gov. In 2007, TTB launched a new e-mail subscription service, TTB Updates, which provides visitors to our web site the option of subscribing to more than 70 web pages for e-mail alerts when content changes. This is an electronic government solution called GovDelivery and our customers enthusiastically embraced this innovative approach to information dissemination. By September 2007, more than 23,000 people subscribed to the updates, with an average customer subscribing to about 11 pages.
- **Seminars and Other Efforts**—TTB has pursued various other measures to promote voluntary compliance with the statutes and regulations we administer. TTB maintains consistent contact with taxpayers, through seminars, communications between industry members and our auditors, investigators incident to field visits, and through specialists who respond to requests for assistance. For example, in FY 2007, the Office of Field Operations alone held 17 compliance seminars, which were attended by more than 2,100 industry members. These seminars offered plain language guidance on how to comply with Federal laws and regulations. Since its first year in existence, TTB has seen its voluntary compliance rate rise (measured in the number of timely and accurate tax payments made) from 80 percent in 2003 to more than 86 percent in 2006. We have also made efforts to simplify our regulations to make them clearer and easier to understand.

II. PROTECT THE PUBLIC

TTB's second key strategic goal is to protect the public and prevent consumer deception. TTB has implemented this mission by ensuring the integrity of: (1) regulated industries, (2) alcohol beverage products, and (3) the alcohol beverage marketplace.

- **Integrity of the Regulated Industries**—TTB is committed to ensure the integrity of the regulated industries, in which the goal is to keep ineligible persons from entering the alcohol and tobacco industries. The illicit sale of tobacco and alcohol is financially lucrative, and a known funding source for criminal and terrorist enterprises. To ensure that only eligible persons

enter into the business, TTB conducts background checks and in-depth interviews on all new applicants. In FY 2007, TTB issued 5,285 original and 22,336 amended permits.

Of these permit applications in FY 2007, TTB investigators conducted nearly 630 investigations of applicants to verify that they were qualified to operate under the applicable statutes. As a result of these screening and investigation efforts, an annual average of 10 percent of all original applications referred for investigation are either denied or withdrawn.

- **Integrity of Alcohol Beverage Products**—Under the FAA Act, importers and bottlers of beverage alcohol are required to obtain certificates of label approval (COLAs), or a COLA-exemption approval, for most alcohol beverages prior to their introduction into interstate commerce. The intent is to prevent consumer deception and to ensure that the label on an alcohol beverage product provides the consumer with adequate information as to the identity and quality of the product. In FY 2003 TTB's Advertising, Labeling and Formulation Division (ALFD) processed more than 100,000 COLA applications, and by FY 2007 that number had risen to over 125,000 applications annually. Of these applications, 22 percent were rejected, returned for correction, withdrawn, or surrendered. Fifty-one percent of these FY 2007 applications were received through COLAs Online, an electronic system that allows alcohol industry members to submit label application information online, saving considerable time and money in making and processing applications.

TTB performs field investigations to verify the integrity of the product to ensure the accuracy of claims made on an alcoholic product's label, based on supporting records. For example, the investigation may include on-site review of production and bottling records (such as viticulture sourcing documents in the case of wine products), varietal traces, and review of production records to ensure they match approved formulas.

Other key TTB functions that ensure the integrity of alcohol beverage products include:

- **Formulas for Domestic Alcohol Products**—TTB examines formulas for domestic wine, distilled spirits, and malt beverages and pre-import applications filed by alcohol importers to determine the proper identification of the product and to ensure that products are manufactured in accordance with Federal laws and regulations (as well as for tax-classification purposes).
- **Laboratory Support**—TTB's Scientific Services Division's (SSD) laboratories conduct analyses of alcohol beverage products to ensure compliance with approved formulas and established

standards of identity. In FY 2007, SSD analyzed more than 2,000 beverage alcohol samples for product integrity, pre-import analysis and other purposes.

- **Alcohol Beverage Sampling Program**—TTB has recently expanded its Alcohol Beverage Sampling Program (ABSP) to include a statistically valid sampling model. In the new ABSP pilot program, TTB will collect samples of alcohol beverage products from the marketplace, and review their labels and conduct laboratory analyses. The purpose is to determine if the labels accurately describe the products that are in the bottles and are otherwise in compliance with our regulations. We will then take enforcement actions as appropriate.
- **Contamination and Consumer Complaints**—As part of its mission to Protect the Public, TTB responds to contamination incidents and consumer complaints of mislabeled products. In these instances, we obtain samples of the product in order to conduct a lab analysis, and if appropriate, notify the producer to identify the extent of the problem. We take appropriate measures to ensure that the product does not present a threat to the consumer.
- **Integrity of the Alcohol Beverage Marketplace**—TTB conducts investigations of unlawful trade practices to ensure that the alcohol beverage marketplace is free from anticompetitive practices that allow undue supplier influence over retailer purchasing decisions.

In addition, to ensure the integrity of the marketplace, we monitor written or oral advertisements or other statements used to induce sales of alcohol beverage products. The purpose is to prevent false or misleading claims, which may deceive the consumer.

TTB's International Trade Division (ITD) works to protect the integrity of the alcohol beverage marketplace by educating foreign governments about the laws and regulations that TTB administers regarding the importation of alcohol. In addition, ITD has participated in the negotiation and formation of the following recent international trade agreements:

- **Agreement on Mutual Acceptance of Oenological Practices and Agreement on Requirements for Wine Labeling** —The World Wine Trade Group (WWTG) is an informal group of wine producing countries, comprised of Argentina, Australia, Canada, Chile, New Zealand, South Africa, and the United States to facilitate the international trade in wine. The group accounts for around 27 percent of world wine exports. In 2007, the United States exported \$208 million in wine to its WWTG counterparts.

The WWTG has negotiated two agreements. The first is the Agreement on Mutual Acceptance of Oenological Practices, which recognizes common winemaking practices. The second agreement is the Agreement on Requirements for Wine Labeling, which recognizes the different regulatory requirements for placement of information on wine labels.

- **United States/European Community Wine Agreement**—In 2006, the United States and the European Community (EC) signed the first phase of an Agreement on Trade in Wine, which provides for the recognition of existing current winemaking practices, as well as a consultative process for accepting new winemaking practices. The Agreement also provides for the simplification of certification requirements for U.S. wine exported to the European Community. U.S. and EC negotiators are currently meeting to establish a second phase of the agreement as provided for in the current accord. In 2007, the United States exported \$458 million in wine to the European Community.
- **United States/Mexico Trade in Tequila Agreement**—In 2006, the United States and Mexico signed an agreement that ensures the continuation of trade in Tequila without additional restrictions from Mexico.

Cooperation with Other Federal and State Agencies and Other Organizations

TTB partners with Federal and state agencies and other organizations to maintain the proper level of oversight to collect the revenue and to protect the public.

- **Other Federal Agencies**—TTB works along with Customs Border Protection (CBP) in administering our jurisdiction with respect to imported products. Specifically, CBP ensures that importers have a valid permit as required under current law, that taxes on imported products are paid, and that alcohol beverages carry labels that TTB has approved prior to removal into domestic commerce. TTB also works with CBP in the development of its integrated International Trade Data System (ITDS), in order to facilitate verification of the authenticity of commercial goods being shipped into U.S. ports. TTB will use ITDS to identify and pursue persons who are importing without a permit and otherwise acting out of compliance with our jurisdiction. Where we discover smuggled alcohol, tobacco, or firearms, our policy is to refer these matters to CBP, Immigrations and Customs Enforcement and ATF, and work with them to enforce our respective jurisdictions. In addition, TTB and ATF have a Memorandum of Understanding (MOU) to provide access to the information essential for the accomplishment of our missions.

TTB works with the Food and Drug Administration (FDA) for expert advice on health and safety issues related to alcohol beverages. For example, we contact FDA when we encounter potentially adulterated alcohol beverages (as determined under the Federal Food, Drug and Cosmetic Act) so that we can take appropriate enforcement action under our statutes. TTB and FDA have an MOU to coordinate responses in regard to contaminated alcohol beverages. Likewise, we have worked with the FDA on our proposed rulemaking concerning the labeling of allergens on alcohol beverages.

TTB and the U.S. Department of Agriculture (USDA) share in the regulatory control of alcohol products that bear an organic claim on their labeling. TTB and the USDA have an MOU to allow for a timely concurrent review of alcohol beverage labels that bear an organic claim. In addition, TTB has assisted USDA in its administration of the Fair and Equitable Tobacco Reform Act by providing information related to tobacco products removed subject to tax by manufacturers and importers.

In addition, TTB provides assistance to the Office of the United States Trade Representative (USTR) in alcohol beverage and tobacco matters within the ambit of the World Trade Organization, as well as in the negotiation of bilateral and multilateral free trade agreement issues related to wine and spirits.

Finally, TTB and the Federal Trade Commission (FTC) have cross-jurisdictional authority in the area of beverage alcohol advertising. TTB has worked with FTC on several occasions in response to complaints about alcohol advertisements.

- **States**—TTB has executed agreements with most state agencies responsible for alcohol and tobacco taxes for the purpose of sharing of tax information. TTB also consults with states to provide background information on permit applicants prior to the issuance of tobacco permits. We also work closely with states on matters involving our common jurisdiction.
- **Other Contacts**—TTB also consults with other organizations for the purpose of understanding the industries, to gain intelligence on unlawful activities and to effectuate an enforcement scheme that fulfills our responsibilities without undue interference in our respective operations. For example, we consult with the Federation of Tax Administrators and the National Association of Attorneys General, the National Conference of State Liquor Administrators, and the National Association of Beverage Control Administrators.

Significant Issues and Accomplishments

- **Establishment of an MOU with China's AQSIQ**—On December 11, 2007, TTB signed an MOU with China's General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), to protect the public and to establish a consistent channel for information exchange on imported and exported alcohol and tobacco products. The MOU establishes a consultative process to strengthen cooperation in the administration of import and export alcohol and tobacco regulations and compliance determinations. In addition, the MOU establishes processes to provide for the exchange of information with regard to the identity and quality of imported and exported alcohol and tobacco products.
- **New Regulations for Distilled Spirits Plants Operations**—On May 8, 2008, TTB published a notice of proposed rulemaking (NPRM) in the Federal Register that proposes to amend our primary body of regulations governing distilled spirits plants—27 CFR part 19. These regulations have not been updated since 1980 and therefore do not reflect current industry innovations and practices.
- **Cigar and Cigarette Rulemaking**—In FY 2007, TTB published Notice No. 65, Tax Classification of Cigars and Cigarettes, which proposes changes to the regulations that govern the classification and labeling of cigars and cigarettes for Federal excise tax purposes under the IRC. These proposed regulatory changes address TTB's concerns regarding the adequacy of the current regulatory standards for distinguishing between cigars and cigarettes. The proposals clarify the application of existing statutory definitions and update and codify administrative policy in order to provide clearer and more objective tobacco product classification criteria. The clarifications contained in the NPRM are intended to reduce possible revenue losses through the misclassification of cigarettes as little cigars. We are currently analyzing the comments we received in response to this NPRM.
- **Fuel Ethanol**—A major challenge facing TTB is the accelerated growth of alcohol fuel production. In 2005, total U.S. production of alcohol for fuel use was approximately four billion gallons, and in 2006 it was nearly five billion gallons. Current capacity is nearly seven billion gallons per year, and plants under construction will make an additional five billion gallons annually. Most alcohol fuel production comes from fewer than 150 large plants, but hundreds of smaller plants have applied for TTB permits in each of the last four fiscal years. Near the end of last year, TTB had 1,567 active alcohol fuel plants. From October 2007 through March 2008, TTB received 197 new applications for alcohol fuel plants. With the number of new permittees dramatically increasing, TTB is using resources

to ensure this industry's compliance with the laws and regulations. This growth is expected to continue.

- **American Viticultural Program**—American viticultural areas (AVAs) are designated as such under the authority granted in section 105(e) of the FAA Act to prescribe regulations concerning the labeling and bottling of alcohol beverages. An AVA is a delimited grape-growing region that is known to the public by a specific name and has distinguishing geographical features from its surrounding areas. By using an AVA name on a wine label, a wine producer may identify for the consumer the specific geographical area from which the grapes used in the wine originated.

TTB administers the AVA Program and, since TTB's inception in 2003, has approved 43 petitions to create or expand AVAs, and is currently processing 22 others. The petitions we have received since 2003 for establishing or expanding AVAs have involved grape-growing regions in the States of California, Idaho, Illinois, Indiana, Iowa, Minnesota, New Jersey, New York, North Carolina, Oregon, Pennsylvania, Texas, Washington, and Wisconsin.

In November 2007, TTB published proposed revisions to our regulations covering the approval of AVAs. The general purpose of these proposed changes was to maintain the integrity of the program, and specific proposals were made to: (1) clarify the petition submission and review process; (2) clarify the standards for approving AVA; and (3) establish a rule that recognizes both a new AVA and an existing winery's brand label(s) that might be the same as the proposed AVA but outside of the proposed AVA boundaries, by "grandfathering" existing longstanding label use for wines that would not meet the AVA appellation standard. Regarding the last proposal, TTB simultaneously published an NPRM regarding the establishment of a specific viticultural area, and that rulemaking included a similar proposal intended to minimize the adverse economic impact on an existing brand label holder. In response to this NPRM, TTB received 183 detailed comments and approximately 1,170 form-letter and postcard comments. We are carefully analyzing the comments.

Alcohol Products Labeling—On July 31, 2007, TTB published Notice No. 73, Labeling and Advertising of Wines, Distilled Spirits, and Malt Beverages, to amend its regulations to require a statement of alcohol content, expressed as a percentage of alcohol by volume, on all alcohol beverage product labels. This NPRM also proposes to amend the labeling regulations to require a Serving Facts panel, which would include a statement of calorie, carbohydrate, fat, and protein content. The proposals would also allow industry members to disclose on the Serving

Facts panel the number of U.S. fluid ounces of pure alcohol (ethyl alcohol) per serving as part of the statement of alcohol content referred to above. The proposed new regulations would also specify reference serving sizes for wine, distilled spirits, and malt beverages based on the amount of that beverage customarily consumed as a single serving. The NPRM proposes to make these new requirements mandatory three years after the date of publication of a final rule.

The comment period on Notice No. 73 closed on January 27, 2008. TTB received approximately 800 comments on Notice No. 73, and we are currently in the process of reviewing these comments.

Allergen Labeling—On July 26, 2006, TTB published T.D. TTB-53 setting forth interim regulations allowing voluntary labeling of major food allergens used in the production of alcohol beverage products. Under the interim regulations, producers, bottlers, and importers of wines, distilled spirits, and malt beverages may declare on a product label the presence of milk, eggs, fish, Crustacean shellfish, tree nuts, wheat, peanuts, and soybeans, as well as ingredients that contain protein derived from these foods, if any of those substances or ingredients were used in the production of the alcohol beverage. Once a producer decides to engage in allergen labeling, the interim regulations require the listing of all allergens used in production and specify how that labeling must be carried out. The interim regulations also set forth a petition procedure whereby a producer may obtain an exemption from the labeling for a particular allergen. On the same date, TTB published Notice No. 62, which proposes to make mandatory the voluntary allergen labeling regime.

These efforts stem from the passage of the Food Allergen Labeling and Consumer Protection Act of 2004, which amended the Food, Drug and Cosmetic Act by the inclusion of major food allergen labeling standards for products subject to that Act. The House Committee Report (H.R. Rep. No. 608, 108th Cong., 2d Sess., at 3 (2004)) accompanying the Act noted that the Committee expected TTB to issue regulations on allergen labeling for beverage alcohol products, and to work in cooperation with the FDA in this regard.

- **TTB Import Safety Measures**—An Interagency Working Group on Import Safety was established in July of 2007 to conduct a thorough review of U.S. import safety practices and to determine where improvements could be made. As a result of TTB's involvement in the Working Group, where it served as a Treasury representative, we devised a number of recommendations meant to highlight the importance of import safety and work towards preventing and minimizing potential safety concerns. Of the eight recommendations, TTB has already implemented three: (1) implementation of a statistically valid alcohol beverage sampling program;

(2) enhancing information-sharing with counterpart regulators in foreign countries; and (3) advising importers and producers to be vigilant about product safety. TTB is continuing efforts to implement the remaining recommendations.

- **Laboratory Accomplishments**—In 2007, two TTB laboratories obtained ISO 17025 accreditation from the American Association for Laboratory Accreditation (A2LA), an accreditation body in the United States. ISO is a non-governmental organization that promotes the development of standardized methods to facilitate the international exchange of goods and services.

In 2006, TTB opened a new compliance laboratory in Walnut Creek, California. This laboratory provides support to TTB through routine product integrity testing, monitoring the regulatory compliance of both beverage and non-beverage alcohol products, and onsite and online technical assistance to regulated industries, TTB investigators, and auditors. Laboratory personnel test samples collected by TTB field personnel from on-site investigations and audits to determine if the products are in compliance with the correct tax class and standard of identity.

- **Mission Impact on Trade**—TTB has been instrumental in helping domestic producers overcome foreign trade barriers based on the expertise of our laboratory to verify that domestic products (destined for export) comply with U.S. requirements. For example, when the European Union (EU) proposed setting a limit on the presence of Ochratoxin-A, a naturally occurring toxin in wines obtained from certain grape harvests, TTB provided an advanced screening process that demonstrated U.S. wines met the EU's standards, and were properly labeled as wine. In addition, in November 2005, German customs officials detained a bulk shipment of Rose Cabernet Sauvignon because they claimed that it was mislabeled. TTB assisted in U.S. government efforts to respond to German concerns. Eventually the European Commission determined that the wine was properly labeled as Cabernet Sauvignon and entitled to be sold in Germany pursuant to the United States/European Community Wine Agreement. In June 2006, the shipment was released for sale.
- **TTB Tightens IT Security and Tests Continuity of Operations Procedures (COOP)**—The protection of sensitive data has become a high priority for all Federal agencies. To minimize the risk of such a breach, TTB encrypts the hard drives of all employees' computers. All data stored on TTB computers are both password protected and encrypted, providing maximum privacy for all sensitive TTB and industry data. This encryption provides the most aggressive level of protection for personally identifiable information (PII), minimizing risk to Bureau

personnel and our regulated industry members. As an additional security measure, TTB uses two-factor authentication for remote access to TTB resources. TTB also encrypts auxiliary/portable devices.

In FY 2007, we tested the reliability of our IT Infrastructure. The Bureau continued to operate through seven planned and unplanned power outages at our major data centers in Cincinnati, Ohio, and Washington, D.C. The data center monitoring and alerting equipment, robust backup power supplies, and personnel recall procedures were put to the test during each of the power outages. Equipment was restored with minimal damage and TTB productivity was uninterrupted. TTB's disaster recovery and COOP procedures were also tested when the TTB Headquarters building was flooded, during which the data center and several network wiring closets were covered with water. All TTB IT operations were up and running just four hours after the flooding incident occurred. Personnel could work remotely from their homes in the days following the incident and Bureau operations continued normally.

- **TTB Expo**—In June 2008, TTB will hold a new educational event called TTB Expo 2008. While TTB staff have an excellent reputation for holding industry-specific seminars, this event will be on a much larger scale than anything we have attempted in the past. The Expo, which will span two full days, will be comprised of over 40 different educational seminars presented by TTB and other Federal and state representatives and is designed as a unique way to educate people about how to comply with the myriad laws, regulations, and policies affecting the alcohol, tobacco, and firearms and ammunition industries. Also, 16 exhibition booths will be open throughout the Expo, allowing attendees to spend one-on-one time with TTB experts and to obtain guidance and informative brochures regarding TTB regulations and requirements. Our goal in hosting this event is to “build bridges” between government and regulated industry members and to establish an ongoing and open dialog. Attendees of TTB Expo 2008 will have the opportunity to meet the TTB employees who process their tax returns and other TTB forms and to have all their questions answered by subject-matter experts. The Expo is open to all TTB regulated industry members as well as to persons interested in entering one of those businesses.

Conclusion

I appreciate the Subcommittee's interest in TTB and the opportunity you have afforded me to report on our progress since the Bureau's creation and on the challenges that still face us. I look forward to continuing to work with the Subcommittee as we strive to meet industry and public expectations for responsive, fair, and efficient government. I will be happy to answer any questions that you may have.

TTB's STATUTORY AUTHORITY

TTB is responsible for overseeing a comprehensive scheme of statutory provisions with respect to the regulation of alcohol, tobacco, firearms and ammunition under the Internal Revenue Code of 1986 (IRC), as well as additional authorities under the Federal Alcohol Administration Act (FAA Act) and the Webb-Kenyon Act.

Chapter 51 of the IRC contains the excise tax provisions relating to alcohol and the authorized operations of the various segments of the alcohol industry, including manufacturers of nonbeverage products, as well as tax-free and denatured alcohol. Specifically, TTB oversees the qualification and operation of distilleries, wineries, breweries, and industrial alcohol producers and users. TTB administers the tax classification of alcohol products and the collection of excise taxes on these products. TTB also administers the production, packaging, bottling, labeling, and storage requirements related to alcohol products under the IRC.

With respect to tobacco, TTB administers chapter 52 of the IRC, relating to the manufacture, importation, exportation, and distribution of tobacco products. Specifically, TTB qualifies and issues permits for tobacco product manufacturers and importers, and export warehouses, and oversees their operations. TTB classifies various classes of tobacco products for tax purposes, and collects the tax on such tobacco products, as provided under the statute and implementing regulations.

Under the FAA Act, TTB is responsible for regulating the authorized operations, labeling, advertising, and trade practices for those engaged in the alcohol-beverage industry. The FAA Act requires a permit for all persons engaged in the business as a producer (other than breweries), importer, or wholesaler of alcohol beverages, and provides for the suspension and revocation of those permits upon failure to comply with the laws relating to alcohol. The permit system ensures the integrity of the industry by preventing persons who are not likely to operate in accordance with the law from entering the trade.

The FAA Act also requires approved certificates of label approval (or exemptions from label approval) for most alcohol beverages bottled or sold in the United States. This labeling requirement, along with related advertising provisions, ensures that consumers are provided with adequate and non-misleading information about the alcohol beverages they purchase. In addition, the FAA Act contains trade practice provisions, which regulate such practices as exclusive outlets, tied house arrangements, commercial bribery, and consignment sales. These provisions are intended to ensure fair dealing within the industry and to

protect the consumer by prohibiting sales arrangements that result from anti-competitive practices.

In addition to the FAA Act and the IRC, TTB also administers the Webb-Kenyon Act, 27 U.S.C. section 122, which prohibits the shipment of alcohol beverages into a state in violation of its laws. This law was amended in 2000 to give states the authority to seek injunctive relief in Federal District Courts to enjoin shipments of alcohol in violation of state law. TTB also enforces the Alcohol Beverage Labeling Act, which requires that the Government Warning Statement appear on all products for sale or distribution in the United States.

Finally, TTB administers the excise tax on firearms and ammunition under IRC sections 4181 and 4182. Here the IRC imposes taxes on the sale or use of firearms and ammunition by the manufacturer, producer, or importer. Tax is imposed on the sale or use at the rates of 10 percent on pistols and revolvers and 11 percent on firearms (other than pistols and revolvers) and shells and cartridges. The Pittmann-Robertson Wildlife Restoration Act of 1937 requires that an amount of all of the revenue collected under Section 4181 (firearms, shells, and cartridges) and Section 4161(b) (bows and arrows) be covered into the Fish and Wildlife Restoration Fund, hunter safety programs, and maintenance of public target ranges for execution of programs.

The Alcohol and Tobacco Tax and Trade Bureau



