BREWING AN ECONOMIC BOOM IN BROOKLYN?

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# Table of Contents

Background .......................................................................................................................... 1

New York State Process ........................................................................................................... 1

Licensing Fee Breakdown ....................................................................................................... 2

New Legislation for New York ................................................................................................. 3

Tourism and Marketing Campaigns ....................................................................................... 3

Issues ....................................................................................................................................... 5

Recommendations .................................................................................................................. 6
**Background**

Craft breweries, cideries, distilleries, and wineries are more popular than ever before.

In 2015 alone, the craft brewery industry in the United States produced 24.5 million barrels, and saw a 15 percent increase in the number of breweries, totaling 4,269, with small and independent brewers accounting for 99 percent of breweries in operation.\(^1\) There are approximately 760 distilleries in operation across America and about 200 more under construction.\(^2\) Sales of distilled spirits in the year 2015 reached almost $72 billion, supporting 1.4 million jobs.\(^3\) The United States has had the highest wine consumption of any nation since 2010 and wine sales have increased for 23 years in a row. The year 2015 brought in $38 billion in wine revenue, a 1.3 percent increase from 2014\(^4\), while the cider industry generated $1 billion in retail sales in 2015 and sold 30 million cases compared to 2009 when only 4.2 million cases were sold.\(^5\)

In New York, the wine industry in 2012 provided 25,000 full time jobs, $553 million in sales, and an economic impact of $4.8 billion.\(^6\) In 2014, the craft brewing industry had an economic impact of $2.9 billion, leading to 208 craft breweries in 2015 that brewed nearly 1.1 million barrels of beer.\(^7\) The craft beverage industry is also growing New York State’s agriculture industry thanks to an increased demand for hops crop because of its popularity in craft beer. More than 400 acres of hops are now in production with 50 to 100 acres being added each year.\(^8\) In New York City, there are three cideries, 11 wineries, 19 craft distilleries, and 27 breweries\(^9\).

This proven growth across the United States — and within New York State in particular — points to an industry that will continue to thrive, but one that also faces challenges if taxpayers are to take full advantage of its potential. This report serves as a comparison between New York State and craft beverage policies throughout the country, and intends to draw attention to the barriers to growth and highlight potential recommendations that can be made to improve the business climate in New York City to fully capture the economic benefits and opportunities specifically to the craft brewing industry.

**New York State Process**

Unlike any other state, New York State issues farm licenses for breweries, cideries, distilleries, and wineries. While the New York State Liquor Authority (SLA) offers a farm license for these businesses, the craft beverage maker does not have to actually be located on the farm, but rather must use a certain percentage of ingredients from New York State. The license also allows for tastings and sales of other New York State-labeled beer, cider, liquor, and wine, a perk that no other state provides.\(^10\) The other licenses available to New York State breweries, distilleries, and wineries are traditional licenses, which by and large permit manufacturers to produce unlimited volumes with no limitation on the origin of the ingredients, and micro licenses, which put a limit on the volume of product and require the use of New York State ingredients. Only a traditional license is available for cideries. Traditional licenses cost businesses thousands of dollars while...
micro licenses are at least a couple of hundred dollars less expensive. While the regular licenses allow for unlimited production, the micro licenses do have a cap on production. This limit allows for micro licenses to produce 75,000 barrels per year for microbreweries, 75,000 gallons per year for microdistilleries, and 1,500 gallons per year for micro-wineries.  

License fees in New York State are much less expensive than in other states, but there remain areas to improve the ability of business to grow. For example, the varying levels of licenses are an asset for small producers because it can save businesses money on fees. However, if these producers wish to expand their businesses, they may have to purchase the much more expensive regular license to expand capacity. For example, while Colorado and Oregon do not have access to the benefits of tastings at the production location or sales by the bottle or glass on premises, they also do not have limits on production allowing for growth of their businesses without having to re-apply for an additional license.

Oregon has general licenses for breweries, distilleries, and wineries, while Colorado just has a manufacturer license that encompasses breweries, distilleries, and wineries. Both states do have a separate license for brewpubs. Having the general licenses allows licensees to make as much alcohol as it would like without worries of producing over the license limit. In other states, to have no limit on alcohol production, the license fees are much more expensive. Oregon is unique in that its licensees have unlimited production capacity while also having one of cheapest license fees in the country.

**Licensing Fee Breakdown**
(Not definitive because all states did not provide the same information)
New Legislation for New York

Beginning in 2011, New York State began an aggressive push via the legislative process to expand the distillery industry.

- In 2011, new legislation allowed farm wineries to operate off-site locations.\textsuperscript{12}
- In 2013, farm cideries were able to start making cider with 8.5 percent alcohol as well as sell other products at their gift shops.\textsuperscript{13}
- In 2014, the Craft Act passed, which raised the annual production cap for farm breweries and microbreweries from 60,000 to 75,000 barrels. Additionally, it allowed all craft producers to conduct tastings and sell, by the bottle or glass, the beverages that they manufacture, without a separate license. Small distilleries can also now serve full size pours of their drinks.\textsuperscript{14}
- Starting in 2015, distilleries were allowed to sell gift items, open retail stores, provide tastings without a manufacturer’s representative present, and microbreweries became exempt from certain tax requirements.\textsuperscript{15}
- In 2016, several legislative items were passed by the Assembly and State Senate and signed by the governor, including:
  - A farm brewery amendment that allowed the sale of New York State-labeled cider, spirits, and wine by the glass, as well as allowed farm wineries to sell New York State labeled beer by the glass\textsuperscript{16}.
  - The New York City Excise Tax Relief Act, which authorized a credit for beer produced within New York City by a taxpayer that is registered as a distributor under article 18 of the tax law.\textsuperscript{17}
  - A use and sales tax exemption that expanded the exemption that breweries receive for sampled beer to wineries as well.
  - A revision of the Sunday Blue law that allowed businesses to start serving alcohol at 10:00 AM rather than 12:00 PM on Sundays, with the opportunity to apply for a permit to start serving at 8:00 AM (except for businesses in New York City).\textsuperscript{18}
  - A provision that allowed the sale of other New York State beer, cider, spirits, and wine at farm breweries, in addition to the allowance of farm wineries to sell New York State beer and cider.\textsuperscript{19}

Tourism and Marketing Campaigns

A popular tourism campaign strategy that many states use to highlight their industries and increase visits to craft breweries are craft brewery trails. In Delaware, a brew bus takes people to multiple breweries for tastings and tours. There are pretzels and water on the bus to make sure the participants stay fed and hydrated. The tour also includes games, souvenirs, and trivia, as well as a lesson in Delaware beer history. In Minnesota, the City of Duluth promotes brewcations that involve enjoying local breweries, learning about the craft brewery industry, and taking advantage
of other local activities. As a result, there has been an increase in the number of craft breweries that have begun opening up in the city and the state.\textsuperscript{20} In the month of November in Richmond, Virginia, beeristoric tours occur, in which crowds visit historic breweries around the city to learn about the history of the location and beer all while enjoying local food and beverages.\textsuperscript{21} South Carolina recently launched the “Satisfy your Thirst Tour,” which highlights both alcoholic and non-alcoholic drinks that are fixtures of South Carolina culture. A web-based trail map and a mobile application highlight the 90 locations including breweries, dairies, distilleries, wineries, and more. All of the 90 locations on the trail offer samplings and tours of its products.\textsuperscript{22}

Beginning in 2009, San Diego launched its first beer week, which has proven to be extremely popular. The inaugural beer week lasted 10 days, with approximately 300 events. Nearly 1,000 hotel rooms were booked, bringing in $115,000 in total hotel room revenue for the 10-day event. By 2013, there was a mobile calendar application for the San Diego Beer Week website, resulting in a 54 percent increase in mobile site visits, and a 10 percent increase in social media followers during the week. At the close of the 2013 festival, nearly 6,000 hotel rooms were booked, bringing in almost $800,000 over the five-year period. The San Diego Tourism Marketing District now gives the Craft Brewers Guild money to help with the festival and increase tourism to San Diego during the slower tourism months.\textsuperscript{23}

The Kentucky State government is also using the craft beverage industry to help boost tourism to the state. The Kentucky Economic Development Finance Authority approved millions of dollars to be given to local distilleries to help expand production and provide visitor centers at distilleries to help boost tourism in Kentucky.\textsuperscript{24}

New York State has done well to highlight the craft industry as a tourism driver, supporting trail and winery tours through the \textit{I Love NY} tourism campaign, which included $2 million to promote events related to agritourism and the craft beverage industry, resulting in the number of farm wineries in New York increasing by more than 60 percent since 2010. Additionally, the number of microbreweries has grown by 285 percent since 2010, while the number of farm distilleries grew from just 10 in 2010 to 98 today.\textsuperscript{25} In 2015, the Brooklyn Chamber of Commerce received funding from the New York State Regional Economic Development Council (REDC) to create a website and maps of breweries, distilleries, and wineries in Brooklyn to improve craft beverage tourism, and the Chamber has continued that effort through ExploreBK.com, a partnership website with Brooklyn Borough Hall to improve and highlight tourism opportunities in the borough, funded through subsequent rounds of REDC grant funding in 2016 and 2017.

ExploreBK.com can be a model to be exported to the rest of New York City to highlight the growing craft beverage industry and encourage tourism throughout all of the five boroughs, especially if dedicated funding can be identified to support the outreach efforts operations. In addition, more remains to be done to tap into other markets such as cider enthusiasts and history
buffs, as well as to expand craft beverage tour logistics in New York City to improve access to a growing industry and product.

In addition, a new legislative trend across the country is allowing breweries, distilleries, and wineries to alert consumers to where its products are sold, including through the use of social media. Recent legislation was passed in California, Michigan, and Oregon, and while there are usually restrictions within these laws, such as listing more than one retailer that sells the product and not including any prices on the announcement, the laws are proving popular with the industry. California passed legislation on October 2, 2015 amending the Alcoholic Beverage Control Act by removing the requirement that a craft beverage company list information in response to a direct inquiry from the consumer and broaden the classification to include social media, which frees up smaller operations that are at a disadvantage compared to larger alcoholic beverage companies that often own distribution networks as well.

**Issues**

Despite the increased support for this industry at the state level, many challenges remain for craft beverage companies located in New York City that don’t exist upstate.

In 2002, then-New York City Mayor Michael Bloomberg requested the New York City fire code (FC) be revised to comply with the international building code, resulting in a new fire code for New York City in 2008 with updates every three years. The most recent revision in 2014 resulted in the New York City fire code requiring combustible and flammable liquids to have a New York City Fire Department (FDNY) permit, but the code does not specifically list distilled alcohol, grouping it instead with combustible and flammable liquids. The major issues surround FC Chapter 34, which puts limits on how much distilled liquids can be stored and where, as described in a subsection (FC 3404), although it doesn’t apply to alcohol if packaged in individual packages not exceeding 1.3 gallons. Beginning in August 2016, New York City distilleries began receiving violations from the FDNY, giving violators 10 days to file an application for the Certificate of Fitness to comply with the fire code. The permit is required under FC 105.6 and the fees start at $210. As a result, the Office of the Brooklyn Borough President convened a meeting between distillers throughout New York City and the FDNY to assist with compliance and registering New York City Department of Buildings (DOB) plans with FDNY, but institutional problems of communication across agencies remain.

Another issue for New York City brewers and distillers is waste management. Many manufacturers of alcohol across the country sell their agricultural waste to farms. This waste is used for fertilizer or can serve as food for farm animals. Scottish whisky producers combine spent grains and woodchips to make steam-generated electricity. This electricity is used to provide power to local communities. New York City does not have as close a proximity to farms as other distilleries and breweries do nationally, resulting in much of its waste product being
thrown out when it could be put to beneficial uses. Only a few businesses in NYC even compost its organic waste.

Some new companies are trying to streamline the composting process, however, and a system is being created by a company called Industrial/Organic, which ferments waste resulting in a process that breaks down food waste in a week as opposed to three months. The process produces biomass pellets that can be used as fertilizer and wastewater, which could be cleaned and reused. This method has already been used on a small scale by some community gardens and homesteaders. The startup, which is based in Red Hook, has mechanized and scaled the process up.\textsuperscript{31}

New York City has been moving to incorporate composting into waste streams, but the New York City Department of Sanitation (DSNY) has done little to support brewery and distillery businesses looking to reduce their overhead through composting, due in part to hurdles in the composting disposal sites in the region and the contamination of compost with non-organics, as well as high carbon plant matter that cannot be processed at the City’s anaerobic digester.

\textbf{Recommendations}

In order to overcome these challenges and help grow new opportunities in the industry, I recommend the following:

1. **Single Point of Contact**: While New York State, within Empire State Development (ESD), has a dedicated Taste NY craft beverage tourism website for beer, cider, spirits, and wine, along with the State Liquor Authority (SLA), which has a dedicated single point of contact and website where people can research and submit questions about Alcohol Beverage Control (ABC) laws governing manufacturing licenses, New York City does not. Operators in the craft beverage industry must interface with varying State and City agencies — including DOB, New York City Department of City Planning (DCP), New York City Department of Environmental Protection (DEP), New York City Department of Health and Mental Hygiene (DOHMH), DSNY, and FDNY — but other than New York City Department of Small Business Service’s (SBS) NYC Food and Beverage Hospitality Council, there is not a single point of contact to help people launch and run their craft beverage business smoothly.\textsuperscript{32} The New York City Economic Development Corporation (EDC) should create a single point of contact and provide information for operators looking to enter or grow this industry. The creation of a singular point of contact for craft beverage businesses, in addition to serving as an online resource, would provide resources to businesses looking to seek new permits. Doing so will go a long way in supporting entrepreneurs and industry to grow jobs and increase the tax base in the competitive New York City business market.
2. **Waste Management**: In an effort to be more environmentally friendly, DSNY should work with craft beverage businesses and private carters to incorporate their waste streams into existing and expanding composting programs. Most notably, private carters should be required to take advantage of DSNY’s Greenpoint anaerobic digestion facility by creating new routes for businesses with uncontaminated organics waste.

3. **Tourism and Marketing**: New York City should learn from the success of the Brooklyn Chamber of Commerce’s craft beverage mapping and outreach campaigns via ExploreBK.com and create annual craft beverage awareness campaigns throughout New York City, utilizing a citywide website that can be regularly updated when new businesses come online as well as providing easy-to-use guides and transit directions. Possible partnerships with ride sharing services or the Metropolitan Transit Authority (MTA) should be explored to help connect visitors to the industry. In addition, NYC & Company should partner with local historical groups or museums to create historical tours and discuss the history of brewing and distilling in New York City.

At the state level, New York State’s Taste NY Inaugural Craft Beer Challenge should be expanded to include all breweries, cideries, distilleries, and wineries in New York State for next year’s competition. Similar to the Office of the Governor, the Office of the Brooklyn Borough President will promote Brooklyn breweries, and hopefully other craft beverage companies, via social media in order to drive participants to nominate Brooklyn based businesses. Additionally, NYC & Company should promote all participants of the various craft challenges so that New York City will not be left out of the top five finalists. In the most competitive media market in the country, with some of the highest costs to doing business in the country, these upstart craft beverage companies need all the promotion and assistance to survive and thrive.

Additionally, there should be a unit created within the New York State Department of Agriculture and Markets to conduct research initiatives in order to improve New York State farm products production for use in the craft beverage industry, similar to state resources in Colorado and Oregon that conduct research for the wine industry. New York State should also adopt similar laws to those in California, Michigan, and Oregon, to allow craft beverage companies to announce where to find their products on social media.

4. **State Liquor Licenses**: To help the craft beverage industry flourish and streamline expansion of the industry, New York State should combine its general and micro-licenses while reducing the fee to the micro-license level. This will allow the micro producers to expand its production and sales. Distillery licenses in New York State should also be updated to allow for tastings or the sale of their product directly to consumers on-site. New York State should also update the laws to allow tastings and direct sales like brewery and winery licenses allow, as well as create a new distillery pub license.
5. **Sunday Blue Law:** In New York State, the old Sunday Blue Law prohibited alcohol from being sold before 12:00 PM on Sundays. It was recently just changed to prohibiting alcohol before 10:00 AM. Businesses located outside of New York City can apply for a permit to start serving alcohol at 8:00 AM. Since weekend brunch and European League soccer is a very popular activity in New York City, people are pleased with the new Sunday blue law, but New York City businesses are put at a disadvantage by having different time allowances than other parts of the state. To increase revenue and please brunch-goers and European League soccer fans, New York State should allow New York City businesses to apply for a permit to serve alcohol at 8:00 AM on Sundays.

6. **Support for Urban Agriculture:** EDC should create an urban agriculture incubator that will support the growth of urban farming to provide a direct connection of ingredients to the brewing and distilling industry. In addition, the City Council should also develop an urban agriculture plan and framework for urban farming in New York City in line with Brooklyn Borough President Eric L. Adams and Council Member Rafael L. Espinal Jr.’s vision of a comprehensive urban agricultural business sector that supports ancillary industries. By fostering the urban agriculture industry, craft beverage companies will have access to more specialized heritage barley, botanicals, grapes, and hops to continue experimenting with various craft beverage trends that put the New York City craft beverage companies on tastemakers’ radars.

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Id.


New York State (2015, December 2). Governor Cuomo announces over 100 farm breweries are now operating in New York State. Retrieved from governor.ny.gov/news/governor-cuomo-announces-over-100-farm-breweries-are-now-operating-new-york-state


