

Testimony of David Fritz

Potosi Foundation, Inc.\Potosi Brewing Co.

Committee on Homeland Security and Governmental Affairs: US Senate

12:00 PM (CDT) Grand River Center in Dubuque, Iowa

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Chairman Johnson, Ranking Member Carper, and members of the Committee:

My name is Dave Fritz, volunteer president of the Potosi Foundation, Inc. and volunteer director and general manager of the Potosi Brewing Company. The Potosi Foundation was organized in 2000 to save the original building which housed the Potosi Brewing Company built in 1852 and shut down in 1972. After a \$7.5 million renovation the Potosi Brewery reopened in 2008 and is the home of the National Brewery Museum, an interpretive center for the Great River Road, brewery and brew pub. In 2010 we took beer to retail and because of the increasing beer sales; we needed to move the brewery outside of the Potosi Foundation, Inc. and formed a new company named the Potosi Brewing Company, Inc. The Potosi Foundation, Inc. is the sole shareholder and owner of the Potosi Brewing Company.

I am also the president and CEO of TRICOR Insurance, an independent insurance agency with 28 locations in Wisconsin, one in Iowa and one in Minnesota.

From 2010 to early 2015, we worked with an outside brewery and contracted the production of most of our beer that went to retail. In early 2015 we opened our new \$6 million production facility and are now brewing and packaging all of our beer in Potosi. The facility includes bottling, kegging and canning capabilities. We are also contract brewing and packaging for other breweries. We wanted the manufacturing jobs back in southwest Wisconsin and also wanted to control 100% of our quality.

Potosi produces six styles of beer year round and over 10 seasonal, limited addition and barrel aged beers. We also produce and sell draft and packed root beer. We distribute our products in Wisconsin, Iowa and Illinois through 13 beer wholesalers.

The craft beer industry in Wisconsin and countrywide has experienced remarkable growth in recent years. At the end of 2015 there were 4,269 breweries in the US representing a 15% growth over 2014. In November of 2015, the number of breweries exceeded the prior peak which was 4,131 in 1873. In 1978 the number dropped to 89 operating breweries in the US. The rate of growth is slowing a little in 2016.

The economic impact created by the growth of craft beer is significant.

Craft Breweries are a rare manufacturing success story and is fueled by the farmers providing our ingredients. 65% of the US barley crop is used by the brewing industry and of that number, 35% to 38% is used in craft breweries. Hops acres planted in the US for 2016 is at 51,000, up from 43,000 over 2015. Family farms providing the highest quality ingredients in the world allowing the craft brewers to produce the highest quality beer in the world. Potosi uses Wisconsin Honey in our root beer, pure lemon juice in our Steamboat Shandy and pure tangerine juice in our Tangerine IPA. The farmer produced products used by craft brewers is very broad.

For the Craft Beer industry to continue to thrive it is important that we are not subjected to regulations which drive up our cost of doing business. The consumer has shown they are willing to pay more for quality craft beer brewed in smaller batches by private business owners.

Some of the issues facing the craft industry include:

The FDA menu labeling issue that stems from the Food Modernization and Safety Act will be very costly to craft breweries. Restaurants with more than 20 locations are required to provide nutritional information of beer and other spirits and the cost of this would likely fall on the brewery to provide. So if Potosi wants to continue providing beer to chain restaurants, we would need to spend an estimated \$1,000 per style of beer.

Transparency in labeling allows consumers to make informed choices when purchasing beer. Consumers have an interest in knowing the name of the brewing company or parent corporation that ultimately owns the beer brand. Encouraging all brewers to disclose to consumers their ownership of beer brands, including the name of the parent brewery that owns the brand, on the brand's labeling to enable consumers to make informed buying choices.

Recently the Food and Drug Administration attempted to restrict the spent grain (the by-product after the brewing process) from being used for animal feed. Following a lot of discussion the FDA exempted brewers spent grain so it can be used for animal feed. I believe this was an example of an unintended consequence in the new regulations. This is a good example of how government worked with an industry to resolve what would have been a very expensive for the business owners.

Craft brewers pay \$7 per barrel of beer produced in an excise tax. Consideration should be given to reduce this expense to the craft industry. Reducing the federal excise tax to \$3.50 per barrel would have saved us approximately \$20,000 in 2015. Based on our production forecast we would save \$40,000 in 2016 and an estimated \$63,000 in 2016. This money would be used to hire new employees and expand our operations. The Craft Beverage Modernization and Tax Reform Act is working its way through congress.

Craft brewing is an innovative industry, growing quickly, hiring people and built by entrepreneurship. Brewers want to make the highest quality product and consumers are very informed and willing to pay for quality. It has thrived because of a light regulatory touch, and we risk swamping that success if we hit the regulatory throttle too hard.

Thank you for allowing me to testify before this group.

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