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The Economic Impact of Farm Brewery Legislation in NYS

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What is the Issue?

Bills introduced to the New York State (NYS) legislature in May 2011 seek to support the creation of small, craft-style breweries that utilize NYS-grown hops. Rapid growth in the craft beer industry accompanied by increased demand for locally-grown agricultural products has created an environment in which NYS could experience substantial benefits from passing farm brewery legislation. The creation of a “Farm Brewery” license would allow craft brewers using NYS-grown products to operate in a similar fashion as the state’s wineries and distilleries, leading to increased demand for locally grown farm products as well as expanded rural economic development and tourism.

Proposed Legislation

The proposed bills (S5078-2011 and A7449-A), were conceptualized and promoted by the Northeast Hop Alliance (NeHA, see <http://nehopalliance.org/>) and the New York State Brewers Association (NYSBA, see <http://www.thinknydrinkny.com/>). The NeHA is a broad based coalition that was established to explore the feasibility of re-establishing commercial specialty hops production in NYS and the Northeast. The NYSBA is a strong proponent for breweries, microbreweries, brewpubs and brewing affiliated businesses in NYS. Both organizations were incorporated within the last decade, and have experienced substantial growth in membership in the last few years, due to the increased interest in locally-grown agricultural products and craft beers.



The two bills currently under review by the Commerce, Economic Development and Small Business committee would “authorize creation of farm breweries for the manufacture of beer at the premise specifically designated in the license.” The legislation is intended to “provide business and tourism opportunities...promote the creation of small craft-style breweries...[which] will help New York’s farmers develop a sustainable agribusinesses by re-localizing and revitalizing hop production and processing.” The legislation is modeled after the “Farm Winery Act” of 1976, which encouraged the increase in wine production in NYS, and supported the development of the over 237 farm wineries in NYS today.

The three main objectives of the proposed legislation are to:

1. Promote agri-tourism, particularly in rural parts of NYS, by enabling craft brewers utilizing NYS-grown products and farmers “adding value” to their raw agricultural products – the Agricultural Districts Law protects farmers against local laws which unreasonably restrict farm operations located within these districts (for more information, please visit: <http://www.agriculture.ny.gov/AP/agservices/agdistricts.html>);
2. Reduce barriers to entry for would-be craft brewers utilizing NYS-grown products by decreasing licensing fees;
3. Support NYS’ agricultural economy, and the rebirth of NYS’ hop industry, by enhancing the market for their products.

The proposed legislation would specifically allow Farm Breweries to:

- Sell NYS-labeled wine at their retail outlets, and farm wineries to sell NYS-labeled beer for consumption off-premises;
- Obtain licenses to operate restaurants, conference centers, inns, bed and breakfasts or hotels on or adjacent to the farm brewery;
- Conduct tastings of NYS-produced beer and wine at their premises;
- Sell beer making equipment and supplies, food complementing beer and wine, souvenir items, and additional products similar to those allowed under the Farm Winery statute.

In order to qualify for a farm brewery license, the licensee would be required to use increasing amounts of NYS farm-grown products in the production of their beers. By 2023, no less than 90% of the hops and 90% of all other ingredients must be grown or produced in NYS.

These ambitious requirements for NYS-grown products would necessitate the rapid re-development of a NYS hop industry. NYS was the worldwide leading producer of hops throughout the mid to late 19th century. Despite the disappearance of the crop in NYS between 1954 and 1999, today there is a resurgence of interest in growing hops. Between 1999 and 2009, the State had roughly 10 acres

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of hops in commercial production. However, in 2011, the Northeast Hop Alliance's rapid expansion in membership encouraged the NYS Department of Agriculture and Markets to award a Specialty Crop Block Grant to Cornell Cooperative Extension of Madison County to hire the State's first hop specialist. In 2012, it appears that the acreage of hops in commercial production may quadruple.

What could the economic impact be?

In order to estimate the potential economic impact of the proposed farm brewery legislation, we conducted surveys of members of the NeHA and the NYSBA during the summer of 2011. Those surveyed included 37 of the 75 members of the NYS chapter of the NeHA and 20 of the 66 members of the NYSBA, for a total of 57 surveys.

Key Findings:

- 60% of the NYSBA and 73% of the NeHA members are interested in expanding and obtaining farm brewery licenses for one or more locations;
- 40% of the members of the NYSBA have (or plan to have) businesses located in "rural" locations that they feel will require farm brewery legislation in order to expand (many due to the benefits associated with being located in an Agricultural District);
- NeHA members interested in adding value to their hop production envision smaller facilities, with the majority planning to produce under 15,000 barrels annually;
- 90% of NYSBA members currently have some type of tourism component to their business (tastings, tours, etc.) and 100% of NYSBA members believe that farm breweries will be *significant* tourism attractions;
- 75% of the NYSBA members interviewed are currently producing under 7,000 barrels annually: of these 30% are interested in expanding their current business to include a "farm" location, with production increases between 7,000 and 60,000+ barrels;
- 78% of brewers reported that using locally-grown ingredients in their beer was important to them and 56% of brewers reported that their customers were willing to pay a premium for beer produced with locally-grown ingredients.
- 81% of growers surveyed will increase their hop acreage with the passage of the farm brewery legislation (by 5 acres on average);

In addition to the surveys, we conducted several in-depth follow-up interviews with key members of the NeHA and the NYSBA. According to the results of the surveys and interviews, there are currently 40 breweries in the planning/expansion stages in NYS. However, it is unclear how many of these breweries would choose to

obtain a "Farm Brewery" license, as opposed to one of the current license options. Because of this uncertainty, we chose to estimate the economic impacts of the legislation using three separate scenarios—one in which 10 farm breweries open, another in which 20 open, and one in which 30 open. The economic impact analyses were conducted using an input-output model. NYS data from 2009 were used, but translated into 2011 U.S. dollars.

Based on the survey responses and interview data collected, we anticipate initial capital investments of \$7.9 million if 10 farm breweries open, \$15.9 million if 20 open, and \$23.8 million if 30 open. Given these scenarios, the statewide impacts in the short-run, which is most easily understood as one year, are \$46 million, \$92 million, and \$138 million, respectively. These numbers include the multiplier effects associated with the creation of new breweries, and thus the total output impact to the state. In addition to output increases, the farm brewery legislation is anticipated to generate between 52 and 417 jobs in the short-run across various industries including brewing, glass manufacturing, real estate services, metal/can/box/other container manufacturing, truck transportation, and the management of companies and enterprises.

Over time, production and employment gains attributable to the farm brewing industry may rise even higher if consumer demand for local agricultural products and craft beer continues to increase. It is expected that in the long-run the legislation will have a wider impact on the hop and barley/wheat/oat agricultural sectors than reported in this analysis since the estimated impacts do not account for future demand (i.e., investors, farmers, and entrepreneurs who are currently not affiliated with either the NeHA or the NYSBA, but who will capitalize on enacted farm brewery legislation).

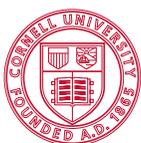
Conclusion

On March 9, 2012, NYS Governor Andrew Cuomo's office issued a press release entitled: "Governor Cuomo Proposes Legislation to Support New York State Craft Breweries and Farm Wineries Bolstering Local Economies" (to read the entire press release, visit: <http://www.governor.ny.gov/press/03062012Legislation>).

The strong support demonstrated by Governor Cuomo for this legislation has growers, brewers, and residents throughout the State cautiously optimistic that farm breweries will be officially sanctioned this calendar year. Meanwhile, farmers are planting more hops, as members of the NeHA and NYSBA vie for the opportunity to become NYS' first licensed farm brewery. Based on our surveys, interviews, and economic impact analyses, we believe that farm breweries have the potential to contribute significant numbers of jobs, tax dollars, and economic benefits to NYS.



Hop kiln owned by William and Stephanie Lipsey, Earlville, New York.



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