

Report Highlights

Study of the Economic Impact of the Brewery Industry in the Commonwealth

Senate Resolution 2012-216 directs the Legislative Budget and Finance Committee to conduct a study of the economic impact of the brewery industry in the Commonwealth, including legislative recommendations to promote the growth of Pennsylvania's brewery industry.

The study found:

- The brewery industry accounted for about \$223.8B, or 1.5% of GDP of the U.S. economy in 2010. In the last decade, the craft beer industry has grown and now accounts for about 5% to 7% of the total American beer market.
- As of December 31, 2011, over 100 breweries were licensed and operating in Pennsylvania, almost double the number active in 2001. Breweries are located in 34 of the 67 counties in Pennsylvania.
- Pennsylvania has a three-tier system for the distribution of malt and brewed beverages. Generally, breweries (manufacturers) sell to distributors and distributors sell to retailers who sell to the public. However, Pennsylvania law permits in-state breweries to distribute their own product. Out-of-state breweries are required to use an importing distributor. A distinction between the activities of in-state and out-of-state manufacturers, as it related to wineries, was held unconstitutional in Granholm v. Heald. Although no specific case involving malt and brewed beverages has been adjudicated in Pennsylvania, it is likely that a court would use an analysis similar to that in Granholm.
- The PA Liquor Code requires the agreement between the brewer and the distributor to be in writing and substantially similar to all such agreements the brewer has with its other distributors. The agreement cannot be modified, terminated or rescinded by the brewer without good cause. Other states have less restrictive requirements allowing a brewer to "buy out" the agreement for fair market value in certain situations.
- Pennsylvania breweries had an estimated direct economic impact of \$1.1B in 2011. This figure was calculated using an agreed upon percentage of the data from the Beer Institute to identify the direct impact of only the product produced and sold in Pennsylvania.
- Based on the responses to our survey of all breweries licensed and operating in Pennsylvania as of December 31, 2011, we found that capital investment in plant and equipment has grown 318% over the last 5 years with investments and other expenditures by the breweries totaling \$782M over that period. In 2011, the breweries responding to our survey employed approximately 1,900 full-time and 760 part-time workers. Employment has grown 10% annually over this period.
- Breweries, brew pubs, wholesalers, and distributors have paid the state an average of \$41M a year over the last 5 years in malt beverage and business taxes (taxes are not solely the result of beer produced in PA). The fees collected by the Commonwealth from breweries and brew pubs have averaged \$116K over the last 3 fiscal years.
- An estimated 2M tourists with total expenditures of \$306M visited Pennsylvania breweries in 2010. Our calculations were based on DCED reports that included surveys of visitors to Pennsylvania.
- Breweries participate in numerous beer festivals and events and offer brewery tours, all of which attract tourists. They also participate in charitable events. Responses to our survey listed 300 unduplicated charitable and community events.

Recommendations:

1. The General Assembly should consider amending the Liquor Code to address the Granholm decision as it relates to malt and brewed beverages. Approaches to be considered include: require all manufacturers to use an importing distributor; allow all manufacturers to self-distribute; or allow all manufacturers to self-distribute a specified percentage of their product.
2. The General Assembly should consider amending the provisions of the Liquor Code related to the franchise agreements to reflect the change in the industry due to the growth in the number of smaller craft manufacturers. Approaches taken in other states include payment of fair market value to the distributor when the manufacturer's product accounts for a specified percentage of the distributor's business.