

Good Afternoon. Thank you very much for inviting me to speak with you today about “What’s Brewing in Massachusetts.” There is a lot of exciting news in the local brewing community.

Rich Doyle and I founded the Harpoon Brewery in the summer of 1986 – way back before there was a craft beer industry. Back then we were called microbrewers and people had no idea what to do with us. Were we like the imports? Were we trying to be like an “old regional” such as Narragansett? Or were we like the crazy upstart coffee guys or the oddballs putting all kinds of stuff in ice cream in Davis Square?

Well, we were a little bit of all those things – and more. One of the great things about the beer industry is its enormous pedigree. People have been brewing and drinking beer for thousands of years. The history, the styles, the traditions, the toasts, the national, regional and local loyalties, all of these things make for a richness and variety unmatched by other consumer products.

From 27 breweries operating in Boston in 1890, there were none in business after the famous Haffenreffer's closed their brewery in Jamaica Plain in 1964. The last company brewing in Massachusetts had been Carling in Natick which closed in 1975. Jim Cook started selling contract-brewed Sam Adams in 1985 and we obtained brewing permit No. 1 from the Commonwealth in 1987. Thereafter, Boston quickly became a center for microbrewing and craft beer, like such places as Seattle, Portland and Northern California.

From 1987 to 2007, the number of breweries in Massachusetts slowly grew to more than 20 spread throughout the Commonwealth. Names like the Northampton Brewery, Ipswich Ale, Wachusett Brewing, Berkshire Brewing, Cisco Brewers, and Cape Cod Beer became well-established in their local markets. Sam Adams went on to establish national distribution, buy large breweries in

Pennsylvania and Ohio, and – after Budweiser sold out to the Belgians - vie with Yuengling for the title of the largest American-owned brewery. During this span, we consistently rang in as the 9th or 10th largest craft brewery in the country as the number of brewers grew from under 100 to more than 1,500.

When we established the Massachusetts Brewers Guild in January of 2007, we reached out to the 20 or so breweries operating in the Commonwealth at that time. Today there are 47 producing breweries and at least 18 contract brewing companies, or 65 brands, that claim Massachusetts as home in one form or another. So, in just seven years the number of brewers has tripled. More than 1,300 great people are employed by the members of the Massachusetts Brewers Guild and the number is growing quickly.

To give you a sense of the wonderful diversity now on tap, here is a sampling of some of the great beers being brewed today by Massachusetts brewers. Let's see hands raised if you have ever had one of these beers. This will really identify the craft beer aficionados.

- Daniel Shays Best Bitter
- Five Mile Pumpnickel Rye Porter
- Fenway Fungo Scottish Wee Light Ale
- Dean's Beans Coffeehouse Porter
- Baggywrinkle Barleywine, and of course
- MassWhole Heffeweizen

When we started Harpoon 27-years ago we had great ambition and lofty goals, but we had no idea that we were going to help start a true revolution in beer drinking in the United States. From being the joke of the beer drinking world 30-years ago, America today is the best place in the world to be a beer consumer and we can be proud that Massachusetts, like in so many areas, has played a leading role.

What can the Commonwealth do to maintain or even grow its position as a leader in craft brewing? First there are a few “only-in-Massachusetts” business costs that should be addressed.

Brewing beer requires a decent amount of energy. We are very efficient, making use of several heat exchangers, a heat stack recovery system, and a combined heat and power generating system, but we still have to buy a lot of electricity and natural gas.

- Due to restricted pipeline capacity and other causes, industrial users in Massachusetts pay the 3rd highest natural gas prices in the country, more than 100% above the US average. This puts us at a direct competitive disadvantage versus brewers from other parts of the country.
- The cost of electricity for industrial users in Massachusetts is the highest in the United States, more than 90% above the national average. Questionable decisions – even based on admirable goals – are hurting businesses in the Commonwealth and holding down job growth. We need balanced generating sources, including hydro-Quebec, and more transmission capacity.
- Lastly is unemployment insurance. As Scott Lehigh of the Globe pointed out in a recent column, there are three problems with our current system leading to higher costs and bad incentives. First, one need only work 15 weeks to qualify for benefits, rather than 20, as is the case most everywhere else. That means people who take what are clearly meant as seasonal positions are eligible for unemployment benefits when those jobs end. Second, Massachusetts pays 30-weeks of benefits as opposed to 26, the maximum in 48 other states. Finally, companies with low-layoff records end up subsidizing firms that have much higher layoff rates. Those features help make the program one of the most expensive in the nation.

In each of these areas, state government should work aggressively to find fair solutions to help make Massachusetts businesses more competitive.

Let me end by spending a couple of minutes discussing an unfortunate industry disagreement. It is particularly unfortunate because reasonable compromise is readily available and it is never attractive to see business people abandon free market principals when they can get government to give them an unfair advantage.

Right now we are locked in quite a battle with the beer wholesalers of Massachusetts. Back in 1971, there were more than 60, small, family-owned beer wholesalers in Massachusetts. Most of these wholesalers covered small geographic areas and carried only one or two brands. Carling was the only brewery operating in the state. 99+% of the beer sold here was made by a big company from out of state. In that environment, the wholesalers went up to Beacon Hill and asked for some help. They asked the legislature to protect their small local businesses from these big, bad out-of-state brewers by passing restrictive franchise legislation making it very difficult for a brewer to change wholesalers.

Forty-two years later the situation is very different. There are now more than 60 small craft breweries headquartered in Massachusetts and more than 2,500 in the rest of the country. At the same time, the number of beer wholesalers in the state has fallen to less than fifteen as the result of consolidation. Now most markets have two or three very large wholesalers who carry hundreds of SKU's. In almost every situation, these wholesalers are much, much larger businesses then the craft brewers whose products they carry.

Unfortunately, the franchise law is unchanged, meaning the state gets in the middle of the relationship between these two private businesses and significantly tips the scales in favor of the wholesaler. To show you the reality of what happens as a result of this law, let me relate a story for you of our own experience not so long ago in western Massachusetts.

For many years, we sold Harpoon in the western part of the state through a large wholesaler that also sold wine and spirits. They promised us that their limited beer portfolio would allow them to focus a great deal on our brand. Several years later they basically gave up on beer and resumed focusing on wine and spirits. We approached them with a fair offer from other beer wholesalers in that market to buy the rights to our brand. They simply said “no” leaving us with one option: to sue them and spend hundreds of thousands of dollars on legal fees with a lengthy and uncertain outcome. We could not afford that. Very few craft brewers can. 2½ flat sales-years later they changed their mind and sold our brand rights. The next year our sales increased by 60% in a market where we had been selling for more than 20-years. Simply put, they held us hostage because the current law allowed them to do so. And remember, at the time they were a business perhaps twenty-times larger than we were. That is wrong. It is a perversion of the original intent of the legislation. It is unfair and it cost us jobs and the Commonwealth tax revenue.

Massachusetts Craft Brewers have filed a bill to update this antiquated law to allow small brewers to move their brands after paying fair market value. If the two-sides cannot agree on a fair price, it establishes arbitration procedures to do so. The update allows two private businesses to terminate their relationship fairly and move on with their brands. Again, remember that state law currently intrudes in this relationship and forbids contracts from governing such a termination. Please join us in making your support of beer franchise law reform known to the legislature and the governor.

Well, it has been a wonderful, exciting and rewarding journey these 27+ years in the craft brewing business here in Massachusetts. I guess you can finally say that we are reaching business maturity since we are involved in a fight in the legislature. Let me assure you, we would all rather be brewing, selling and drinking beer!

Thank you for having me today and Happy Holidays.