

Testimony Submitted by: Collin Castore

Founder and Owner of Seventh Son Brewing Co. Columbus, OH

President of the Ohio Craft Brewers Association

“How COVID-19 is Impacting Small Businesses Across the Food System”

House Committee on Small Businesses

United States House of Representatives

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Chairwoman Velazquez, Ranking Member Chabot and members of the Committee, thank you for asking me to testify today. I look forward to speaking on the behalf small and independent brewers about the impact of COVID-19 on our businesses and our supply chain.

My name is Collin Castore, and I am the founder of Seventh Son Brewing Company and Antiques on High, both located in Columbus, OH. I also serve as board president of the Ohio Craft Brewers Association, representing the 351 breweries in the Buckeye state.

Seventh Son been producing exceptional beers in our historic Italian Village neighborhood of Columbus since 2013. We will brew around 7000 barrels of beer this year- we are in the medium size range of the “long tail” of smaller breweries that comprises the Brewers Associations membership of independent craft brewers across this country. In the past seven years we have watched our business grow to the point where we have two locations, roughly \$5,000,000 million in combined wholesale and taproom sales, and employ 70 Ohioans.

In addition to the people employed directly at Seventh Son, our brewery helps to support countless jobs throughout Ohio from the people our wholesalers employ to help sell our beer to the farmers that grow our hops and barley. A smooth supply chain is imperative to the success of our brewery and is equally beneficial to our partners. I have always been proud of the fact that for every new job created by our brewing industry, there are twenty-four jobs generated in the industries that help us brew and sell our beer.

Unfortunately, this goes both ways. According to a recent report by the economic firm Dunham and Associates, 651,000 jobs supported by the U.S. beer industry will be lost by the end of the year due to the COVID-19 pandemic.

Running a brewery has always been a capital and time intensive business, and that is true now more than ever. As a small business we are constantly planning and constantly adjusting these plans to meet our suppliers needs, pay our employees, and continue to make great beer. We are always aware that unexpected issues arise and we do everything we can to prepare for them, but we were not prepared for COVID-19. I don't know that anyone could prepare for COVID-19. This virus and the measures taken to contain it have had an unprecedented impact on Seventh Son and other small and independent breweries across the country.

Prior to the coronavirus changing the world as we knew it, Seventh Son sold our beer through our taprooms, as well as other restaurants, bars and retailers throughout Ohio. We participated in festivals and events and were an active part of our community. Our two taprooms serve as places for people to taste and enjoy our beer but also as event based and community gathering spaces. We have hosted countless celebrations like weddings, anniversary parties, and even baby showers. In seven years of business we have raised upwards of \$400,000 for local charities and neighborhood groups ranging from habitat for humanity to local homeless shelters. In the Ohio Craft Brew Associations most recent 2018 economic impact study Ohio's breweries accounted for more than 1.15 million in direct dollar contributions to charities and over 13,000 volunteer hours.

We understood the need to close our tasting rooms early on for the health and safety of our employees and our customers but the uncertainty over the past six months has made it extremely difficult to run a hospitality focused industry.

Summer is patio season in Ohio and for Seventh Son and the majority of breweries in the country it is our busiest time. This year we were limited to roughly 40% of our normal capacity and we have had a 10pm curfew imposed since reopening began in May. Even with those rules I consider Ohio breweries to be lucky as certain other states have guidelines that have made it literally impossible to operate on-premise tasting rooms due to COVID restrictions being applied with irrelevant and outdated food sales requirements. Many would welcome federal guidance and consistency to help with these issues.

According to the Brewers Association, the trade association that represents small and independent brewers, the majority of the 8,300+ breweries across the United States make the majority of their revenue from taprooms/tasting rooms or “own-premise” sales. Estimates by the association taken from surveys suggest that small brewers have seen a reduction of on-premise sales revenues of close to 30% in the six months since March of 2020.

It is also true that the majority of breweries get most of their wholesale revenue from on-premise sales to restaurants, bars, concert and sporting venues, which have of course been severely restricted over the past 6 months. These outlets sold nearly 20% of the total U.S. beer volume annually. Data from mid-September shows draught sales still around a third lower than this point last year. Aside from the ongoing disruption, the unexpected speed and magnitude of these closures resulted in an estimated \$900 million dollars’ worth of beer that became unmerchantable and needed to be destroyed. The health and success of the brewing industry is directly tied to these outlets and larger hospitality industry. Neither of us will get back to full strength until COVID-19 is eradicated.

At Seventh Son we have our own canning line and some existing relationships with grocery chains that helped us to pivot quickly and absorb most of this volume loss into cans. We pushed hard to get our retail partners to try new traditionally “taproom exclusive” beers in cans and literally overnight on March 16<sup>th</sup> we began a home delivery business and began embracing carryout sales models in our shuttered taprooms. These measures were a lifeline but our head is barely above water.

We completed a \$5 million dollar expansion in 2018 and have a wonderful facility but also a not wonderful amount of debt to go with it. When we sell a can of beer to our distributor, we get \$1 for that can, when we sell a can direct to consumer through carryout or delivery, we get roughly \$2 for that can, when we sell a can of beer in our taproom, we get \$6 for that can. We built our expansion for future wholesale growth but taproom revenue and taproom profit margins are essential to support it.

While taprooms and brewpubs continue to limp along at a variable pace wholly dependent on regulation and consumer sentiment many of my fellow Ohio small brewers and fellow small brewers across the country have little to no packaging capability, and have been unable to take

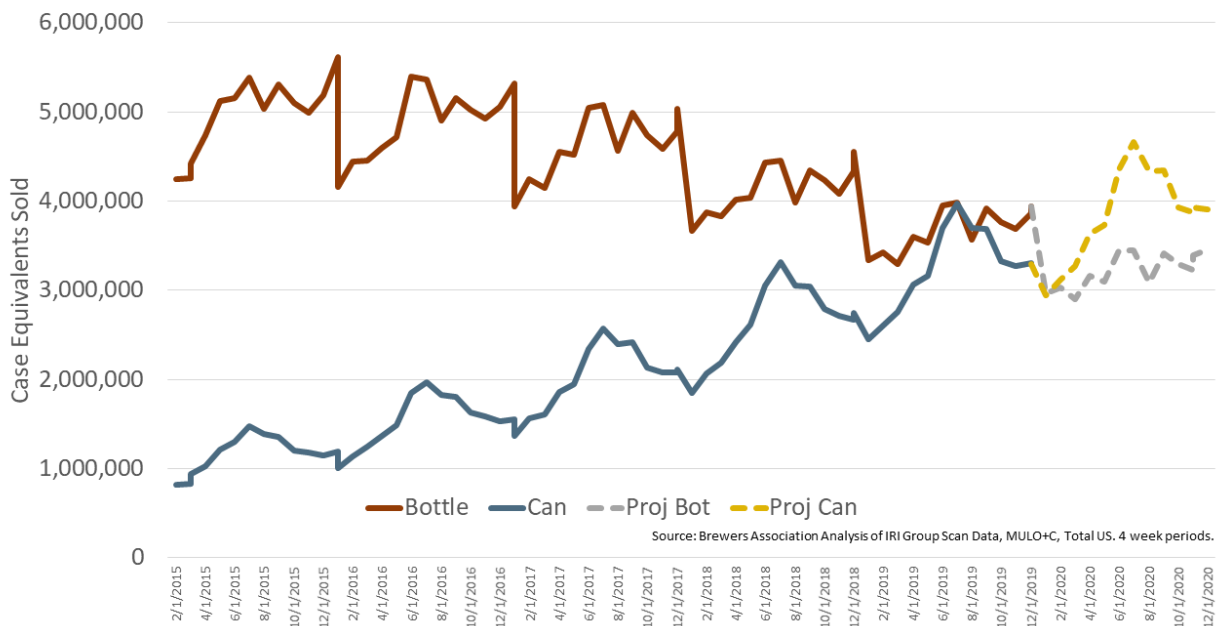
advantage of the rise of packaged sales and offset the lost revenue at their breweries. Many are quite literally hanging on by a thread at this point.

I'm sure you have seen the sensationalist headlines referencing increased alcohol sales. More accurately they should say that there are increased alcohol sales at retailers like grocers, convenience stores, big box retailers, and liquor stores. Those increases must be offset against the massive decline in sales at on-premise channels like restaurants, bars, hotels, and sports and entertainment venues. The size of the overall pie has not shifted even as the individual slices appear different. Moreover, sales of packaged product don't come without a cost. Packaging our product increases our overhead costs and breweries make less per barrel than we would through other types of sales.

To make matters worse, breweries are sharing that they are unable to get the bottles and cans they need to fill their packaging needs. The increased demand for cans both in and outside our industry has caused a canning shortage in the United States. All can sizes have had periods of shortage—16-ounce, 12 ounce, and slim 12 ounce, at various levels at various times, making the materials we need harder to find and more expensive.

Cans sales were already predicted to outpace bottle sales for the first time in 2020, this situation is made even worse by the increase in demand for packaging materials due to the coronavirus

### Bottle vs Can Sales in Craft Brewing and Projected 2020 Sales

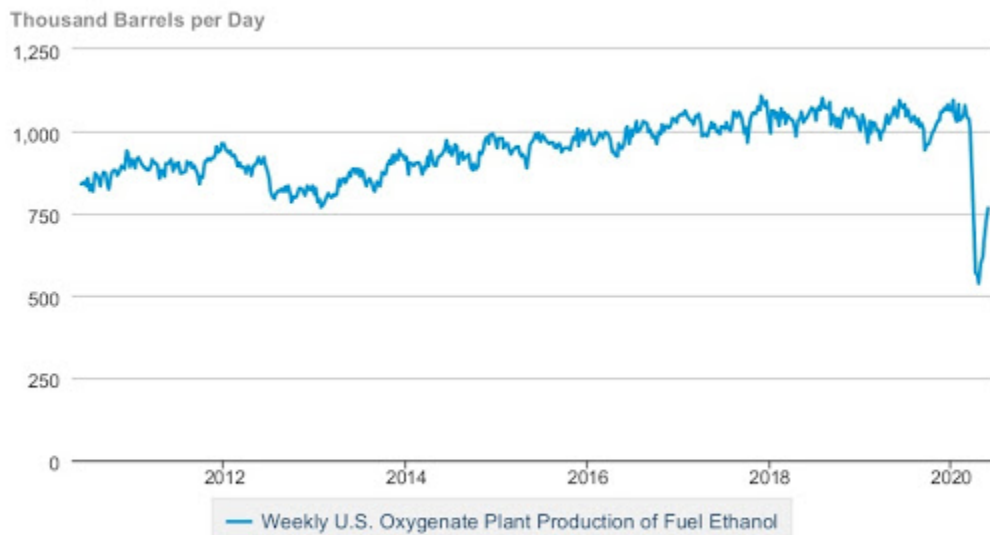


This issue is important enough that the Brewers Association has issued a can shortage advisory to their members making them aware that demand is likely to continue to outpace supply through next year or possibly longer.

Even with the increase in retail sales the brewing industry is expected to lose \$22 billion dollars in 2020. Packaging our product is integral to our survival and I am concerned about how our industry will fare if we don't have a way to package and sell our beer.

Another issue that is growing cause for concern is a potential CO2 shortage. Breweries need food grade commercial CO2 that is generally collected as a by-product from various chemical industries like ethanol. At the beginning of the pandemic when people stopped driving there was less of a demand for gas, which meant that there was less of a demand for ethanol. Many ethanol plants that captured commercial CO2 were taken offline. Though production partially has ramped back up our industry still sees signs of a shortage caused by fires, natural disasters and unexpected closures. My peers have been impacted by force majeure and in the worst-case scenarios haven't received needed deliveries, leaving them without this necessary ingredient for their beer.

### Weekly U.S. Oxygenate Plant Production of Fuel Ethanol



 Source: U.S. Energy Information Administration

### How Can Congress Help?

We know that some of these things are out of your control but you have the ability to help. For our industry to survive, breweries need certainty and we need financial assistance.

First and hopefully easiest is to pass the popular bipartisan Craft Beverage Modernization and Tax Reform Act and make the current federal excise rates permanent. If the current rates are allowed to expire my Federal Excise Tax rates will go up 100% starting in January. This would cost me \$25,000 dollars; this would cost me an employee. Lower rates create jobs. Our people need us and their hard work is keeping us afloat right now.

Second, we appreciate Congress's swift action at the beginning of the pandemic with the CARES Act, which let Seventh Son and the majority of breweries apply for and receive money from the Payroll Protection Program (PPP). I would very likely not be here had it not been for the

\$359,000 that we received. The program offered needed assistance but was not the perfect solution for breweries. Still, I encourage Congress to:

- Forgive all PPP loans of less than \$150,000.
- Add additional funds to the program and allow businesses that can show revenue losses to apply for another loan.
- Give us the ability to write off the funds we used for business expenses.
- Breweries would also benefit from a 6-month extension of the Subsidy for Certain Loan payments for the 79(a) and 504 Loan Programs.

As president of my state association I also request the inclusion of 501(c)(6)'s in the list of organizations that can apply for PPP loans. Our guild has helped us more than double the number of breweries in Ohio in the past five years and helping to create more than 21,000 jobs. As a result of the pandemic we had to cancel three events that would have accounted for about \$130,000 in revenues. That's about a quarter of the budget for our non-profit organization. Making 501(c)(6)'s eligible for PPP would help us to maintain our staff of 2 and many other state guilds are in a similar position. Our guild is the backbone of our industry in Ohio. The OCBA educates consumers and helps raise awareness of Ohio made craft beer and continually fights for fair, balanced legislation that has allowed Ohio breweries grow into a 1 billion dollar a year economic contributor to Ohio's economy.

I feel strongly that Seventh Son needs another round of PPP to survive the impacts of COVID-19. I know that many of fellow breweries need it as well; but please also consider passing the RESTAURANTS Act and the RESTART Act, both of which would provide businesses like mine with grants, rather than debt, and allow us more flexibility in how we use those funds.

We also encourage congress to consider a credit for unmerchantable (perishable) goods that had to be destroyed due to supply chain interruptions caused by the coronavirus, our industry lost millions of dollars due to beer that went out of code. In many cases, breweries and our wholesale partners bought back product that was already out in the market place to safely dispose of it. These were extraordinary business costs that were a direct result of shutdowns caused by the pandemic. We would benefit greatly from a common-sense one-time solution.

For the past decade, the United States brewing industry has been a success story in American manufacturing and job creation, we directly employ more than 160,000 people in every congressional district in the country. We need your help to weather this pandemic and continue to grow and thrive.

Thank you for your time and for having me here today, I look forward to any questions you may have.