

Written Statement by
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House Committee on Ways and Means Subcommittee on Trade
U.S. House of Representatives

“Expanding U.S. Agriculture Trade and Eliminating Barriers to U.S. Exports”

June 14, 2016

Chairman Reichert, Ranking Member Rangel, and members of the Subcommittee,

Thank you for the opportunity to testify. My name is Heather McClung and I am an independent craft brewer. I am here to lend the perspective of a manufacturer whose relationships with their agricultural partners are vitally important to our own success. I will testify as to how exporting beer benefits not only the urban and rural breweries and their communities, but also the hop and malted grain industries.

Background

Schooner EXACT (SE) is a relatively small producer in Washington State. SE began in 2007 as a side project to our day jobs as educators. In 2010, we hired our first employees and that fall made the leap to full time brewery owners. SE has grown from brewing on a half barrel (bbl)¹ system producing 55 bbls/year with zero employees to a 20 bbl system, producing over 3500 bbls/year and 25 employees. It has been quite the journey starting a business in the midst of a recession. Today we run a brewery restaurant and distribute kegs and package products throughout Washington, Oregon and Japan.

During 1999, a handful of brewers joined forces to advocate for the brewing industry in Olympia, Washington. This was the beginning of the Washington Brewers Guild. When I became President six years ago, there were 127 breweries in the state. Today, Washington State has the second highest number of breweries in the nation with over 300 breweries, one third of which began in the last two and a half years. The high number of new businesses has presented the Guild with interesting educational and legislative challenges. I have had the pleasure of serving as the Guild President for three terms, steering the Guild through threatening times and advancing state and federal policy and legislation, such as the Craft Beverage Modernization and Tax Reform Act (H.R. 2903), favorable to brewers of all business models, and breweries in both rural and urban centers. This legislation is also fully endorsed by our agricultural producers like the Hop Growers of America and the National Barley Growers Association. Gayle Goschie a hop grower from Oregon referenced the legislation as something that would be beneficial to hop growers in her testimony to the Senate Finance Committee in April.

¹ 1 barrel (bbl) equals 31 gallons; 2 15.5 gallon kegs

Hops take Center Stage in Craft Brewing

Beer is only as good as its ingredients. In Washington State, the apples are amazing, wine grapes are spectacular, but the jewel in the crown are the hops. I have the privilege of brewing within close proximity to the world's best source of quality innovative hops. The continuing creativity of our hop farmers fuel the passions of craft brewers as they experiment with new flavor and aroma profiles, much to the delight of consumers.

Traditional US hop rates have been in the .2 -.25 pounds per bbl range. Microbreweries fall into the high hop rate user category; showcasing the flavor and aromas of hops by utilizing an average hop rate of 1.39 pounds per bbl. Craft brewers self-report using 135 varieties of hops in 2015, up from 88 varieties in 2009. Hop varietal development increasingly allows world beer consumers to have the opportunity to taste the creativity and diversity of American hop agriculture. The hop industry's innovation is being exported as raw ingredients as well as in its final form; beer.

Exports Experience Accelerating Growth Rate

The American beer industry as a whole supports 1.75 million jobs, pays wages and benefits approaching \$7.9 billion, and generates a \$253 billion economic impact. Exports continue to contribute to the overall industry growth. Annual US Beer Exports have seen an average growth rate of 14.3% over the last 5 years to over 5,300,000 bbls². Within this larger number, craft beer has experienced an average growth rate increase of 31% since the inception of the Brewers Association (BA) Export Development Program (EDP) in 2004 to 446,000 bbls³ being exported today.

The BA Export Development Program receives funding from the BA, small independent brewery members of the BA, and the USDA Market Access Program (MAP). The EDP uses MAP funds to:

- Research export markets as potential target markets for US craft beer exports
- Participate in trade shows, conferences, competitions, and other events that generate exposure for the US craft brewing industry and foster interaction between importers and US suppliers
- Conduct seminars and prepare technical materials about craft brewing and the care required to ensure product quality and freshness to the consumer
- In general, maintain the US industry's position as leaders in craft brewing innovation, quality, marketing, and trade

MAP Dollars at Work: Export Development Program Benefits Small Producers

Schooner EXACT is a perfect example of how a small craft brewery can benefit from the EDP. We joined the program a little less than a year into our exporting activity. The resources, networking, and competition opportunities are invaluable to a craft brewer. Our first event with the EDP was the American Craft Beer Experience, a two-day event in Tokyo and Osaka, Japan. Over 4,200 attendees sampled beer produced by US craft brewers. The attendees included retailers, Japanese brewers, ex-pats, and people interested in beer produced by American craft brewers. In Osaka, the EDP assisted with a seminar

² Beer Institute, 2015

³ Brewers Association, 2015

educating retailers and the media on maintaining beer quality upon arrival through proper storage and serving conditions.

Besides the Brewers Association sponsored event, Schooner EXACT took the opportunity to conduct thank you visits to our Japanese retailers, hold promotional events, and participate in a collaboration brew with Ushitora brewery in Shimotsuke, Tochigi, an hour's train ride outside of Tokyo. Our experience was unforgettable. The people we interacted with were passionate about American craft brewing and eager to learn and taste more styles of beer! After our visit, our sales climbed 29%. Schooner EXACT is planning another Japan trip this year, hopefully to coincide with the next American Craft Beer Experience.

In addition to the growth in the Japanese market, our participation in the EDP has also allowed us to enter international competitions with minimal logistics. One such competition was the Brussels Beer Challenge. This competition attracted over 1,100 entries, judged by many of the same judges as the World Beer Cup which is produced by the Brewers Association. Schooner EXACT won a gold medal in the IPA category for Hopvine IPA and advanced to secure Best in Show. For an American beer, and a Northwest-style IPA at that, to win Best of Show in Belgium is truly an honor and a testament to our agricultural partners in the hop and malted grain industries.

While the exported percentage of Schooner EXACT's total production volume is relatively small, it is an important segment to our business by providing another sales channel in an increasingly competitive US marketplace, as well as attaining international recognition that raises our profile amongst US consumers. Being able to brew in a Japanese brewery and in turn receive visits and collaboration brew requests at our own brewery, provides the opportunity to engage in the global brewing community and create relationships with our brewing counterparts in other countries.

Congressional Action to Support Export Activities

Schooner EXACT has been relatively lucky in not encountering many obstacles during export activities. Feedback from other breweries and importers include: maintaining quality during shipping and customs processes, labeling requirements, inventory level fluctuations, and investing in additional equipment to support an increase in export production. Besides the equipment procurement through programs such as Small Business Administration's Export Loans, the other concerns are outside the influence of Congress.

Geographic Indicators (GI) is one area of concern that falls under the purview of the Trade Department. The European Union's push for protecting beer styles such as Kölsch and Oktoberfest are worrisome. The beer industry appreciates the continued efforts by the Trade Representative outlined in the Special 301 Report to ensure that any GI protections do not invalidate existing trademarks while granting users the ability to continue to use common names. We also support the opposition to extending the wine GIs to other products, such as beer.

Quality beer is not possible without quality ingredients. The other way to maintain and grow exports is to sustain a stable agricultural climate for the hop and grain producers. Since 1987, hop producers have seen three boom or bust cycles. Historically, the hop industry has been influenced by a few primary customers seeking alpha (bittering) hops. When these customers are acquired by another brewing entity, hop varieties and purchasing cycles can change dramatically. The rise of microbreweries and their higher hop usage rates have helped insulate the hop producers against these shifts by not only having more customers, but also by offering innovative new proprietary varieties at a premium. In the US, the hop

market is 80% aroma thereby sidestepping the need to play in the alpha commodity game. However, in light of the move for increased consolidation occurring at the largest brewing companies and the rapid increase of high hop usage rate breweries coming online, the stability of hop availability may again be called into question.

Current US malting barley production supports demand, but in order to fulfill that malting capacity, the industry now is dependent upon the Canadian crop. Barley production has declined at a steeper rate due to the rise in corn ethanol. The ethanol plant byproduct is used as feed, greatly reducing the sales channels for barley, disincentivizing farmers to plant. As craft breweries grow, their demand for malted barley increases substantially. 22-24% of US malt usage can now be attributed to craft beer. Craft utilizes malt at a 365% higher rate than that of a light lager.⁴ The explosion of craft breweries has helped flatten the demand decline, but has not offset the loss. By implanting governmental policy favorable to the hop and barley industries, it ensures that the growing craft segment will have access to affordable US agriculture from which to create a truly American beverage.

Lastly, Congress can continue to expand US trade and exports by re-authorizing and expanding upon export assistance programs. The programs are through the USDA and made available to the agricultural community are relied upon and much needed. Looking forward, after our success in the Japanese market, Schooner EXACT is eager to investigate new markets for our beer. Canada, Taiwan, Europe... time will tell, but hopefully the USDA, MAP, BA, as well as strong and stable grain and hop industries will all be along for the ride.

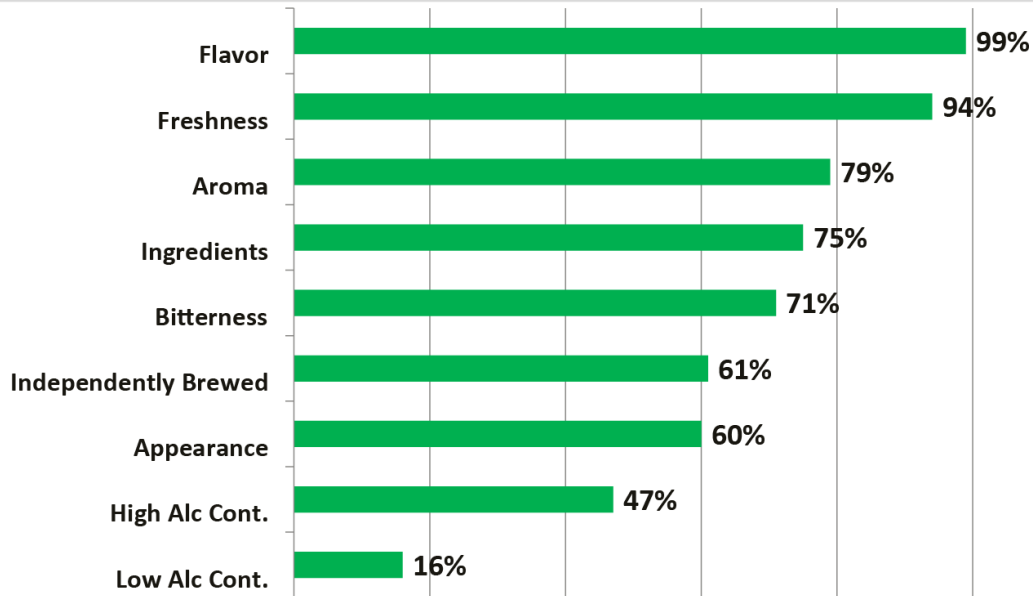
Thank you for the opportunity to appear before the subcommittee.

⁴ Briess, 2015

Appendix 1

Flavor & Freshness

How important are each of the following when choosing a craft beer to purchase?



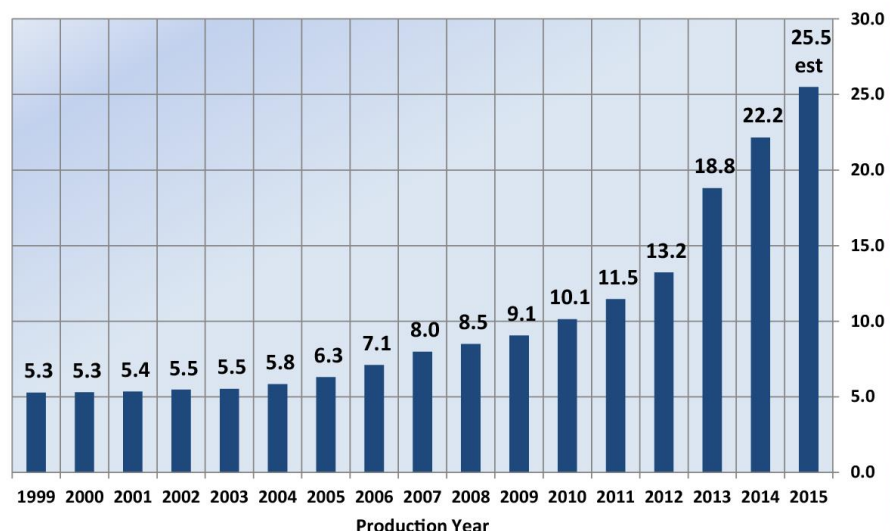
Important (very/somewhat)

Source: Nielsen's Craft Beer Insights Poll (CIP) conducted May 2015 by Harris Poll (n=1,014 Craft Drinkers/ n=590 weekly craft drinkers)
Prepared by the Brewers Association, 2016

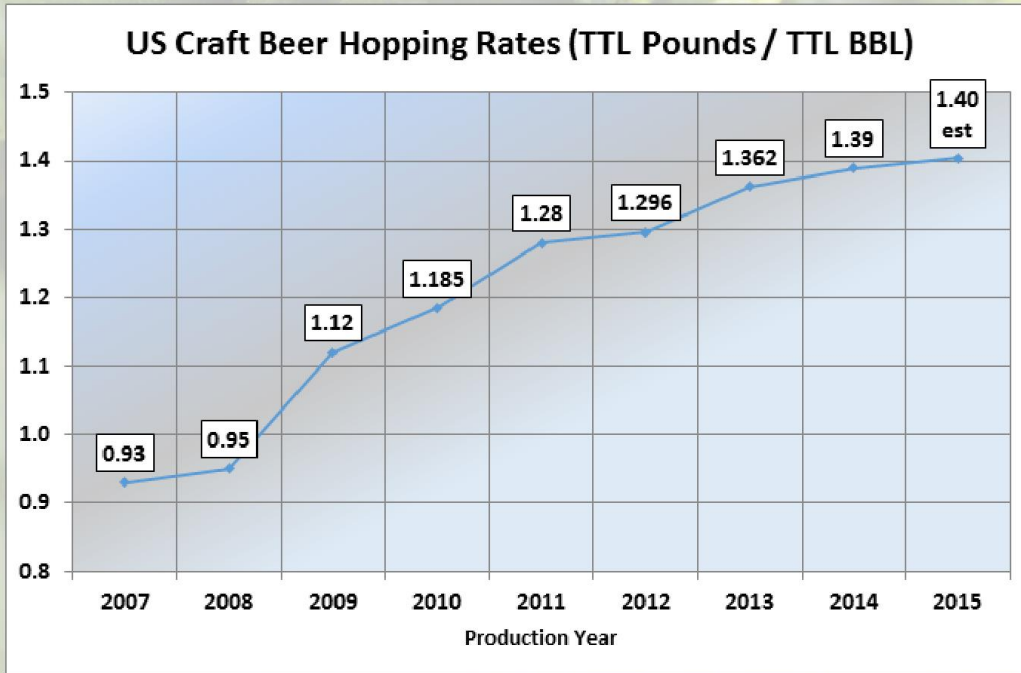


Craft Beer Production 2001 - 2015

US Craft Beer Production Volume (MM US BBL)



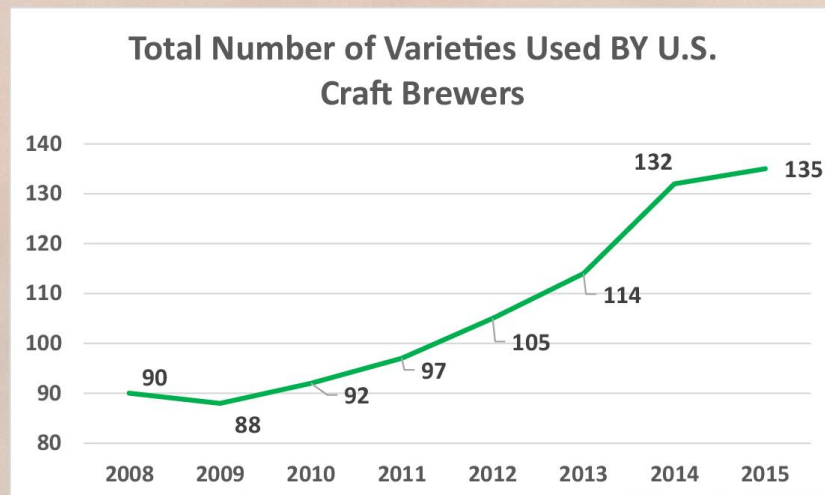
Hops/Barrel



Brewers Association, 2016



Varieties Drive Volume Growth

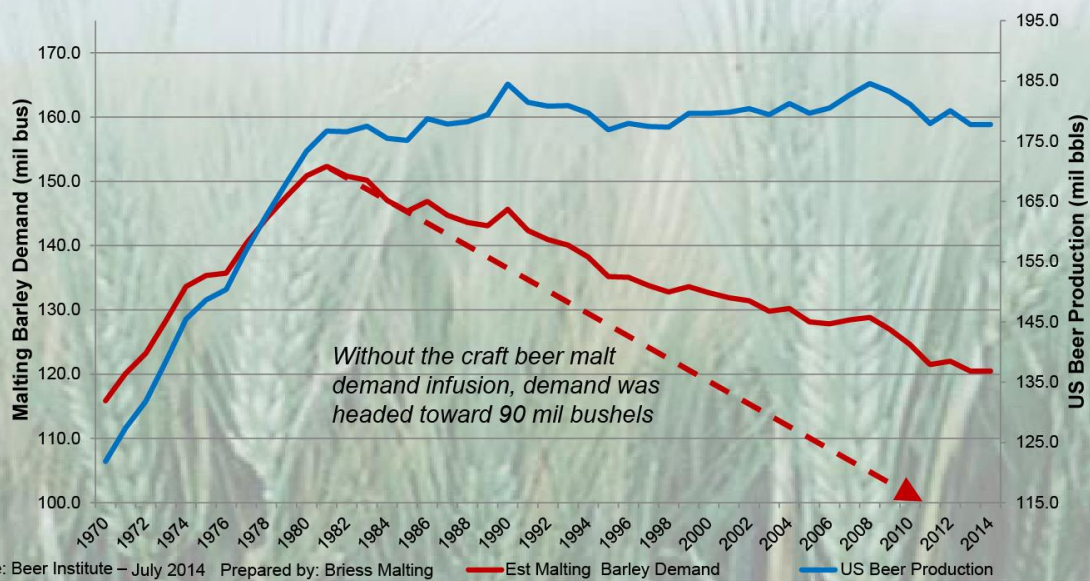


U.S. HOPS: SEASON AVERAGE PRICE & TOTAL CROP VALUE

Marketing Year	SEASON AVERAGE PRICE			U.S. Production (Lbs. x 1,000)	Total Crop Value (x 1,000)
	Washington	Oregon	Idaho		
	----- (\$ / pound) -----				
2006	\$1.98	\$2.60	\$1.61	57,672	\$118,008
2007	\$2.94	\$3.31	\$2.77	60,253	\$179,978
2008	\$4.08	\$3.75	\$4.00	80,630	\$325,092
2009	\$3.54	\$3.63	\$3.75	94,678	\$337,874
2010	\$3.11	\$3.96	\$3.89	65,493	\$214,589
2011	\$3.06	\$3.79	\$2.93	64,782	\$203,378
2012	\$3.10	\$3.91	\$2.69	58,911	\$186,876
2013	\$3.37	\$3.76	\$2.62	69,246	\$232,308
2014	\$3.73	\$4.07	\$2.72	70,995	\$260,627
2015	\$4.71	\$3.24	\$3.53	78,846	\$345,388

SOURCE: USDA-NASS. Prepared by Hop Growers of America

US Beer and Malting Demand 1970-2014 Estimated



Source: Beer Institute – July 2014 Prepared by: Briess Malting — Est Malting Barley Demand — US Beer Production

While U.S. total beer production has not changed significantly since 1981, and there have been dramatic changes in the non craft malt demand profile. Craft beer malt demand has prevented more drastic barley and malting industry corrections