

LATE TESTIMONY

LIQUOR COMMISSION CITY AND COUNTY OF HONOLULU

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KIRK CALDWELL
MAYOR



March 12, 2013

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ACTING ADMINISTRATOR

Senator Will Espero, Chair
Senator Rosalyn H. Baker, Vice Chair
Committee on Public Safety, Intergovernmental and Military Affairs

Hearing: Tuesday, March 12, 2013
2:45 p.m., Room 224

Position: Providing Comments on HB1314 HD1 Relating to Liquor

As Acting Administrator of the Liquor Commission, City and County of Honolulu ("Commission"), thank you for the opportunity to provide comments on HB1314 HD1.

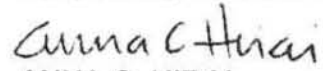
HB1314 HD1 seeks to create a new class of liquor license for distillery pubs by amending HRS §281-1 and adding HRS §281-31(r). We provide the following comments for consideration before a new liquor license class for distillery pubs is approved:

- The bill proponent should be asked to confirm that a distillery pub licensee as currently proposed would be eligible to hold an Alcohol and Tobacco Tax and Trade Bureau ("TTB") basic permit. Without the basic permit, activities conducted under the proposed distillery pub license could be considered a form of "moonshining" under Federal law.
- Like the Class 14 brewpub and the Class 16 winery licenses, the proposed distillery pub license would enable the holder to conduct a range of activities not currently permitted under a single license. Under current law, existing distilled spirits manufacturers in Honolulu County (three) would not have the ability to conduct the multiple activities contemplated by the proposed distillery pub license without holding two separate licenses.

We have no position with respect to proposed amendments to HRS Chapter 148 governing beer product labeling requirements, but note for informational purposes that HRS §281-3 prohibits the use of certain Hawaii origin words in labeling *liquor* unless the *liquor* is wholly or partially manufactured in Hawaii, and all of its primary ingredients are wholly rectified or combined in Hawaii.

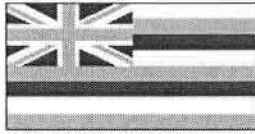
Thank you for the opportunity to provide comments on this matter.

Respectfully submitted,



ANNA C. HIRAI
Acting Administrator

ACH:



LATE TESTIMONY

CAPITOL CONSULTANTS OF HAWAII, LLP
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March 12, 2013

Senator Will Espero, Chair
Senator Rosalyn H. Baker, Vice Chair
Committee on Public Safety, Intergovernmental and Military Affairs
Hawaii State Capitol, Room 224
Honolulu, HI 96813

RE: HB1314 HD1 Relating to Liquor

Dear Chair Espero, Vice Chair Baker and Members of the Committee:

I am opposing this bill for the following two reasons. The original bill was amended to include two distinct sections:

- 1) Section 1 is directed at a separate brew pub license. By itself that's not objectionable but this bill continues to permit brew pubs to purchase liquor that they don't manufacture to buy direct from another manufacturer. This violates the 3 tier system. They should be allowed to see their own products direct but not buy direct from other manufacturers.
- 2) Section 2 incorporated the contents of HB1126 which is directed at the Kona Brewing Company and their labeling of bottled beer. The issue of where the beer is produced and bottled was addressed last year and the labels have been revised since then. The current labels reflect where the beer is brewed. Its either in Kona, Woodville Washington, Portland Oregon or Portsmouth New Hampshire. All owned by Kona Brewing Company.

The issue is one of a marketing issue by competitors and should be not legislated by the Hawaii legislature. Kona Brewing Company originated as a local company, they have not relocated to the mainland. They pay local taxes and employ over 175 employees in Hawaii with a payroll of over \$4.4 million.

The labeling requirement meets federal standards so why this bill? We believe its to force Kona Brewing to do something it has already done. They are a contributor to Hawaii and continue to give back to the community and therefore see no need for this bill to move forward.

Please do the right thing and hold this bill.

Respectfully Submitted,

John H. Radcliffe

LATE TESTIMONY



MAUI BREWING CO.

11 March 2013

State of Hawaii, Committee on Public Safety, Intergovernmental and Military Affairs
Rep. Will Espero, Chair, Rep. Rosalyn H. Baker, Vice Chair

Re: STRONG SUPPORT, HB1314, Relating to Liquor

Aloha,

I appreciate you taking the time to review this very important measure. My name is Garrett W. Marrero. I am the Founder of Maui Brewing Co. I started MBC in 2005 with my wife, Melanie, with the main goal of making authentic Hawaiian craft beer. Our first year we brewed approximately 320 barrels of beer in Lahaina, in 2012 we brewed over 19,000 barrels. We are Hawaii's largest craft brewery.

This bill will protect Hawaiian manufacturing and jobs in the State. Although there is an extremely high cost to produce in Hawaii we, as do many others, believe that a product marketed should be true to what it says it is. We have an enormous fan base here and abroad that support us for our innovation and further for our commitment to our local community.

Here is some very basic information on Maui Brewing Co.

- Maui Brewing Co. has over 60 employees currently (soon to be 120+)
- We provide family level wages, comprehensive healthcare, 401k with matching, and profit sharing
- A locally owned domestic corporation, established in 2005
- We are distributed in 11 States, 5 Countries, and growing fast
- We sold over 19,000 barrels of beer (over 250,000 case equivalents) across these markets, 100% of which was brewed in Hawaii. We will more than double this in 2014.
- Hawaii's first Regional Craft Brewery and a "Craft Brewer" by the Brewers Association definition.
- We are an innovating leader in renewable energy, our 105kw PV array is just a small piece.
- We host many events across the globe, actively bringing attention to Hawaii. We've been featured on many TV shows, magazines, newspapers, and the like.
- In progress on building new facility on Maui creating more than 80 jobs.

Maui Brewing Co. is a leader in supporting local agriculture and manufacturing. We primarily use locally raised vegetables and greens at our brewpub, we exclusively serve locally raised beef, we make our own root beer from local cane, honey and even big island vanilla. Many of our beer styles use local ingredients as well, Breadfruit, Guava, Mango, Tangerine, Ginger, Coffee, Chocolate, KonaRed coffee fruit and even Maui Onions to name just a few. We purchase 100% of our aluminum cans from Ball Corp, in Kapolei, where the cans are manufactured.

Although Malt and Hops must be shipped in, the same for nearly ALL breweries around the world, this in no way detracts from what makes an authentic Hawaiian beer. Our competitors, producing an overwhelming majority of their beer in the mainland, would have you believe that it is not environmentally responsible to brew locally and export. I'd ask, why then do they brew foreign and import to Hawaii? We have proven that responsible manufacturing can be successful in Hawaii. Further, we chose to can our beer as we can fit approximately 40% MORE cases of beer in a container than bottles, this is just one additional measure to reduce carbon footprint and

HANDCRAFTED ALES & LAGERS BREWED WITH ALOHA
910 HONDAPILANI HWY #55, LAHAINA, MAUI, HI 96761
877.628.4273 • 808.669.0191 FAX

increase sustainability. Due in no small part to our growth and commitment, our cardboard tray manufacturer has announced plans to build a new plant in Kapolei to bring jobs back to Hawaii.

Shipping ingredients in and beer out or vice versa can be an interesting discussion. We can ship one 40' container of ingredients and produce 4.6 containers worth of finished product. In prior opposing testimony the statement "there is no 'True Hawaiian Beer' has been made, because malt and hops must be shipped in and water isn't considered a "local" ingredient. They have said "we brew the water before we brew the beer" in regards to brewing on the mainland, this is done to make the water similar to the water in Hawaii. Again, if water is not a vital local ingredient, then why go through the effort? This is the proverbial "having cake and eating it too" argument. Additionally the more we produce here (sell locally or ship abroad) the more cans we buy from local labor, the more cardboard we'll buy from the new local plant, the more jobs we'll create to make, sell, deliver, maintain and etc. We accept that we may never be as big globally as Kona/CBA, and that is perfectly fine to us.

Nearly everything I mention above, although important and noble in its own right, DOES NOT MATTER in this debate. We are not very dissimilar. We are not here to debate who makes better beer, who supports the environment more, who has a bigger payroll, who pays more taxes, how big my PV array is versus yours. We are here today to debate Labeling. Simply put, should the label reflect the actual place of manufacturing. The media and others love to "brew" up a war, in our mind that is not what this is. This is about the facts behind a product's marketing giving consumers the right to choose based on accurate information and protecting products made locally in Hawaii.

We believe that the same protection offered to other Hawaiian products like coffee and koa, etc., be given to protect the appellation that is "Hawaii" or "Hawaiian", to all authentic local products, not just beer, but wine, spirits, and etc. We, as a State, are proud; This pride deserves to be protected against profiteering by marketers of products that merely "look" local.

I would encourage you to also consider that some breweries that brew "Hawaiian Themed" beer in the mainland do in fact label the true origins. It is a good choice to demonstrate integrity and true origin and ultimately give the consumer a chance to vote with their dollars.

Keep in mind that the sole opposition to this bill, still has yet to outline "why" they oppose the bill. It is not a matter of "can" they put a statement of origin on the label, it is do they "want" to? We believe this is to conceal the truth behind the product image.

HB1314 protects consumers, small business, and manufacturing jobs in Hawaii by protecting the appellation that is "Hawaii".

In Craft Beer we share a belief that what we do is about integrity, innovation, and having a "sense of place". We want to protect our home, our State, and our economy from confusing marketing practices that serve to discount the value of true locally made products.

Mahalo,



Garrett W. Marrero



LATE TESTIMONY

March 12, 2013

Senator Will Espero, Chair
Senator Rosalyn H. Baker, Vice Chair
Committee on Public Safety, Intergovernmental and Military Affairs
Hawaii State capitol, Room 224
Honolulu, HI 96813

RE: HB1314 HD1 : OPPOSITION TO PART II, SECTION 4 ON LABELING

Dear Chair Espero, Vice Chair Baker and distinguished members of the Committee on Public Safety, Intergovernmental and Military Affairs:

My name is Mattson Davis and I'm the President of Kona Brewing Company and live in Kailua-Kona, HI. I OPPOSE PART II, SECTION 4 REGARDING LABELING ON PAGE 23-25 IN HB1314 HD1.

In 1997 I was asked to move and manage a small struggling brewery in Kailua-Kona. The Kona Brewing Co. My job was to run the brewery, open a restaurant/pub and get the company profitable and sustainable. Annual sales were less than \$1M.

The first thing I realized was the fragile nature of the islands environment and the extreme cost of manufacturing in Hawaii. This has challenged our exceptional team of employees for over 19 years and they've done well, supported by the community and the consumer- local and visiting. We've created a successful and stainable business model that respects Hawaii; it's residents and the visitors.

Beer; brand names. The Tax Trade Bureau of the Federal government requires that a brewer either put his primary place of business or the locations where the beer is produced. In 2012 we modified our label to list all 4 locations where we brew instead of the primary place of business. Our goal was to be transparent and make all the labels the same – The label of ours that's been called out -found in Texas - was changed in March of 2012 with the rest of them.

Beer; name and address of bottler. Our beer is not brewed by any other bottler- we own all the breweries where are beer is brewed- Kona, HI- Woodinville, WA- Portland, OR- Portsmouth, NH.

Beer; appellation of origin. Beer is made from Malt, Hops, Yeast and Water, with water being the largest part in VOLUME and less than 1% the COST. In Hawaii- all Malt, Hops and Yeast are imported. Water is not, however it's a very limited resource – The USDA has declared many areas of Hawaii to be in a DROUGHT- Water isn't considered a Agricultural Product in the State of Hawaii and doesn't qualify as a Local Product .

By Volume	Approximate %	By Cost	Approximate %
Water	93	Water	1
Ethanol	4		
Complex carbs (unfermentables)	3		
Protein	0.5		
Hops Extract	0.0026		
Yeast	<.001	Yeast	4
		Malt	82
		Hops	13

We use many Hawaiian grown items to enhance our specialty beers: Lilikoi, Cacao, Vanilla, Ginger, Coffee (7,000 lbs last year) and Citrus to name a few- but these are less than .2% of the total ingredients used to make beer.

Electricity is what's left- - 90% of which in Hawaii is made from fossil fuels – oil that that- shipped in.

How does this comprise being an appellation like Napa, Sonoma, Bordeaux or Parma?

I believe that the Attorney Generals office has several concerns with this part of the bill as well.

Some Facts about Kona Brewing Co:

Our Company:

- Kona Brewing Co. was established in HI in 1994
- We are a Hawaiian LLC - our headquarters is in Kailua-Kona, HI.
- Kona Brewing Co has 175 employees in Hawaii
- Our annual payroll was \$4.4M in 2012 up 23% from 2010.
- Annual Sales in Hawaii in 2012 were over \$ 24M
- Our Hawaii Beer Excise tax in 2012 was over \$1.1M up 27% vs. 2010

Our Commitment:

- We are leaders in sustainability- one of the first companies in HI to have a Sustainability Coordinator in 2005.
- In 2010 we installed a 229kw solar system that provides our brewery and pub in Kona with 50% of our power needs.
- We divert over 80% of our total waste-

- By using bulk grain instead of bagged- we are saving 2 Olympic size swimming pools of trash.
 - In 2012 we won the Hawaii Green Business.
 - Our Kona Pub is a 4 Star Green Restaurant Association and our Pub on Oahu is 3 star- the only 2 GRA restaurants in the state.
 - We were the first commercial business on the west side of Hawaii to have recycle pick up
 - We support numerous Hawaiian Environmental Organizations like- Malama Muanalua, Surf Rider, Kokua Foundation, Duke Kahanamoku Foundation and many many more.... Donating over \$300K in 2012. We believe in paying forward.
 - We founded the Kona Brewers Festival to celebrate our anniversary in 1995 and have raised over \$600K, this years event sold out in 72 hours and is estimated to raise over \$100K for educational and environmental causes.
 - Through our manufacturing practices we save over 2.5 million car miles a year.
- **Our Journey:**
 - We are now distributed in 35 states and 15 countries.
 - We've grown to be a top 10 national craft brewer- by comparison- Sam Adams is #1
 - We are the leader in craft beer sales in Hawaii-
 - We promote Hawaii everywhere we're sold- I just returned from a 14 day 5 state tour where I had 27 media interviews-
 - As of last week we've brewed over 140,000 bbls (2,000,000 cases) of beer in Kona, HI.
 - We glorify Hawaii wherever we go. In January we captured 368 MILLION IMPRESSIONS through the introduction of our product in the Midwest.

Question- why is this bill written for beer only? Why not wine and spirits or the rest of the market? Do you recognize the fragile balance of Hawaii's environment? Is manufacturing an industry we want to encourage with our limited resources and high cost of shipping?

This is merely competition manipulating the legislature to gain a competitive advantage.

Sincerely,

Mattson C. Davis
 President
 Kona Brewing Co.

LATE TESTIMONY

HB1314

Submitted on: 3/11/2013

Testimony for PSM on Mar 12, 2013 14:45PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Jayne Kerns	Big Island Brewhaus LLC	Support	No

Comments: Aloha Honorable Legislators, I am writing in support of SB 1314; a bill that begins to take confusion out of the marketplace of beer industry labeling. I believe if a beer is to be considered "Hawaiian" that it must indeed be brewed and packaged 100% in the State of Hawaii. The current common practice of brewing elsewhere by any brewer of Hawaiian origin or otherwise and then labeling said beer without indication of actual origin of manufacture can and does promote confusion to consumers as to its actual origin. Consumers actually value locally made products for several reasons including: supporting local businesses and families, quality and freshness versus a product made more than 2,000 miles away and then shipped potentially compromising quality or character of a food or agricultural product.

The value of creating a product locally using many local resources including but not limited to water, power, shipping, agriculture, and other related Hawaiian businesses costs more and yet supports the State's economy in a broad way. A company that is allowed to create a product posing as locally made when not in fact made locally can save the inherent higher costs of local production while selling a product that is actually not "Hawaiian" and does not support the economy of the State in the same manner a locally brewed beer does. A label requiring origin of production and packaging should be required to help preserve the appellation of "Made in Hawaii" and encourage a quality based Hawaiian brewing industry to continue to flourish. Craft beer consumers are discriminating enough to want to read the labels for this type of information. If "truthful origin labeling" is not required integrity suffers and consumers will be denied access to truthful, valuable information about the product. Thank-you very much, Sincerely, Jayne Kerns Big Island Brewhaus 64-1066 Mamalahoa Hwy. Kamuela, Big Island , HI, 96743 brewhausjayne@gmail.com 808-276-6769

LATE TESTIMONY

HB1314

Submitted on: 3/11/2013

Testimony for PSM on Mar 12, 2013 14:45PM in Conference Room 224

Submitted By	Organization	Testifier Position	Present at Hearing
Marlon Harris	Individual	Support	No

Comments: Aloha Honorable Legislators, I am writing in support of SB 1314; a bill that begins to take confusion out of the marketplace of beer industry labeling. I believe if a beer is to be considered "Hawaiian" that it must indeed be brewed and packaged 100% in the State of Hawaii. The current common practice of brewing elsewhere by any brewer of Hawaiian origin or otherwise and then labeling said beer without indication of actual origin of manufacture can and does promote confusion to consumers as to its actual origin. Consumers actually value locally made products for several reasons including: supporting local businesses and families, quality and freshness versus a product made more than 2,000 miles away and then shipped potentially compromising quality or character of a food or agricultural product.

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