

## Testimony in support of HB1265

As an owner of a small microbrew pub that would be strongly impacted by this bill, I would like to encourage the committee members to support and pass this HB1265.

Like the rest of the country, the craft beer industry is growing in North Dakota with a 2019 economic impact of \$267 million (as per the Brewer's Association). However, despite having one of the highest beer consumption rates per capita in the country, craft beer production in our state is the lowest in the country. The reason for this discrepancy is associated with the difficulties in starting a brewery in our state. As a small microbrew pub owner, one of the biggest potential growth areas which we have difficulty accessing is getting our product out to consumers that do not come in to our establishment. This has been exacerbated in the past year with the restrictions placed on indoor dining and the time is right to correct this problem.

The difficulty in getting product out to customers is a result of the hyper-competition artificially created by current state law. Requiring all off-premise sales of beer produced at a local microbrew pub to other licensed retailers to pass through a wholesaler means that I cannot sell my product to retailers that may be interested in it. I can only tell them about it, and then ask them to remember to ask their distributor salesman when they make their next sales call. As such, I have no control over the success of my brand and have to leave it up to someone who has no personal interest in my brand to pitch it. For the distributor sales team that is responsible for selling my product, mine is only one of a wide portfolio of products that they are responsible for promoting. And as their primary concern is increasing overall sales numbers, they are going to be naturally biased towards popular, well-established brands which they see as likely to sell faster. In essence, this means our current state law requires me to compete with brand such as Budweiser at the level of my distributor before I can get my product to external customers at other retail accounts.

This built-in bias towards large, established brands (owned and operated out of state or out of country) has a severe negative impact on local new and small breweries and microbrew pubs trying to establish themselves in our state. The changes represented in HB1265 would remove this bias against small, local businesses like mine, thereby giving me and others like me a chance to succeed and grow the North Dakota economy.

It is worthy of note that allowing small microbrew pubs to succeed and grow is highly unlikely to have a negative impact on beer wholesalers in our state. They can continue to sell the established brands while I grow my business. Eventually, if my brand succeeds in gaining market popularity, it is in my own interest to then ask a distributor to takeover the external sales of my products and rely on their established sales and logistics teams. But you need not simply trust that to happen. The quota limits established in HB1265 will ensure that I hand off those responsibilities as the popularity of my brand

grows. This is also shown by other states that have allowed small breweries and brew pubs to self-distribute (usually limited based on production volumes) and still have robust beer wholesale systems in place. Indeed, taproom brewers in North Dakota have been allowed this right with no harm to the wholesalers.

It is also worth noting that the changes described in HB1265 will be limited to small companies like mine that are trying to establish themselves, not the large brewers. This is established in two ways: by the stipulated limits on how much product can be distributed without a wholesaler, as well as the definition of microbrew pub itself, which limits the volume produced.

Finally, other small businesses in North Dakota that produce alcoholic beverages are allowed to directly sell their products to retailers while they are still small, whether they produce beer, wine or spirits. The changes contained in HB1265 will allow microbrew pubs to get themselves established in the market just as other alcoholic beverage manufacturers can. The net effect is greater choice for beer consumers and increased likelihood of business success for new microbrew pubs with little to no negative impact on established systems within the state.

I therefore ask for you to support and pass HB1265.

Sincerely,

Bryan Schmidt  
Brewmaster and owner  
Souris River Brewing  
Minot, ND