

BUSINESS & LABOR

EXHIBIT NO. 3
DATE 3/16/05
BILL NO. HB 517



Microdistilling:

The Next Wave



You're at a bar, enjoying a beer and staying cool with your amigos. Then in all the noise, this guy slips up next to you—a guy you vaguely recognize only he's acting kind of shifty, eyes darting around. "Try this," he says as he stealthily slips something into your hand.



You realize it's a hipflask, warm with his body heat. You're adventurous—you take a sip. Wham! It's huge, it's reeking of peat, rolling with malt sweetness. Fleeting impressions of orange blossoms and fudge flick across your tongue. "What the hell was that?" you ask.

He smiles. "It's mine," he grunts. "I made it."

Remind you of anything? If you're old enough and can remember back to drinking in the early 80s, that scene played out many times in the pioneer brewpubs and beer bars with Mason jars of homebrew. Hey, you might have been the guy with the Mason jar, right? Microbrewing was just a ripple on the surface, but it was fast becoming a wave that would roll right across the country.

by Lew Bryson

A Natural Diversion

Jay Harman at Triple Eight Distillery on Nantucket, part of a distillery-brewery-winery trifecta with Cisco Brewers and Nantucket Vineyards, definitely sees reasons to push forward with microdistilling. "We can take byproducts from the brewery and winery and distill them," he said. "In the off-season, when we weren't up to capacity with beer sales, we can keep making wash for the Triple Eight Vodka. The other products (Notch Single Malt, Hurricane Rum, Gale Force Gin) are small batch products. But at some point we'll be able to ban alcohol importation on Nantucket and supply the whole island!"

That may sound like a joke—OK, it is a joke, but the Nantucket market has been great for Triple Eight (the distillery name comes from the registration number of their deep-water well). "The local market is so supportive," said Harman, "and it's Nantucket; people come in from all over. Then they go home, and ask for the vodka there. And it's not like beer in one respect; vodka is a product that you can put a long way out there because it has a long shelf life. You don't have worry about it going bad."

Bill Graham, a partner at Ska Brewing in Durango, Colo., got into distilling because it just seemed too cool to pass up. He and two partners (including David Thibodeau, another Ska partner) started Peach Street Distillers in Palisade, the heart of Colorado's fruit-growing region.

"We thought about it a long time," he said. "We welded a stainless still together a while back that we operated, I guess illegally, back in the woods." (Strictly for educational purposes, of course.)

"We've always liked it at Palisade," Graham explained. "It's beautiful and the peaches are so good. We figured we wouldn't even have to ferment things ourselves: there are fruit wineries there, and the regular vineyards. If a winery makes fortified wines, they need neutral spirits. We can provide that, made from their own products. Palisade gets a lot of tourism traffic from the wineries, a ton of traffic in the summer. We figured if we got a tasting room, we could appeal to the wine crowd."

"Our thought was to complete a cycle there," he said. "There's so much going on with the wineries and the fruit wine. We could take the dregs from the bottom of their tanks and pull the alcohol out of that. We've got a lot of experimenting to do, we'll be playing all kinds of games. We're not out to make a lot of money on this one; this is mostly for fun. I want to see it sustain itself, and there's a great

buzz about it already. It's the next step in our lives. We're by no means done with crafting nifty things out of alcohol. We're going to do cool, exciting things. We'll be traditional with some of it, but I hope to do wacky stuff when we have the time."

There is also a great opportunity to be conservators of almost unknown and rapidly dying regional traditions. Outterson explained, passion beaming through his words, "It's the bigger picture that people miss. This is about regional differences. In the Carolinas, one side of the mountain makes a rich and smoky barbecue sauce, on the other side it's vinegary and intense. The moonshiners make their stills long and square, like a coffin; on the other side it's tall and round. And the spirit's different, but it's being swept aside by revenue enforcement. We have censored history. Part of what's going to happen with the distillation movement is the revelation of this repressed history. And these flyover areas with low employment will come back into the fold, bringing high-tech into new flavor profiles."

There are a lot of unknowns...but you didn't get into brewing because you wanted a solid, safe job. "It's hard to tell what's going to happen," said Graham. "The market for higher-end spirits is getting younger. Microdistilled spirits are going to appeal to younger people, and it's going to explode. Hopefully there's not a lot of crap being made or a lot of good stuff will be created before a lot of crap gets made. We could create a whole new market. I can't imagine 1,400 of them, but these stills are so little...I don't even know what the future holds, I just want to be at the forefront. It'll be great if everything works. And I hope it does. It's exciting." A bit breathless, maybe, but definitely passionate. Maytag and Owens should approve.

Lew Bryson recently published his second book, *New York Breweries*, a companion volume to his well-reviewed *Pennsylvania Breweries*. He is managing editor of *Malt Advocate Magazine*.

INFORMATION RESOURCES FOR THE MICRODISTILLER

"I recommend Bill Owens and his Web site," says Sam Calagione. "He takes the time to answer questions." Details: **American Distilling Institute, www.distilling.com, P.O. Box 577, Hayward, CA 94543-0577, 510-886-7418** or contact Owens by e-mail: bill@distilling.com. There will be another conference in 2005 in Indiana; contact Owens for information.

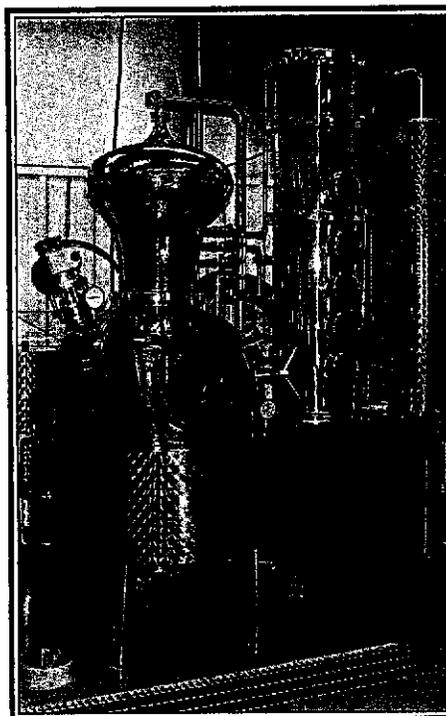


Photo courtesy of Bill Owens

Donald Outterson sells a lot more information than he graciously gave away in this article. He consults for the microdistilling industry on regulatory and manufacturing issues. Details: **Woodstone Creek Winery, 3641 Newton Ave., Cincinnati, OH 45207, 513-569-0300** or www.woodstonecreek.com.

Alltech's Alcohol Division has since been acquired by Lallemand and combined with their Specialty Yeast and Bacteria Division to create **The Ethanol Technology Institute**. Details: 6120 West Douglas Ave., Milwaukee, WI 53218, 800-583-6484 or by e-mail: info@ethanoltech.com.

Christian Carl Ingenieur GmbH is a German company that makes stills. They have a U.S. office in Philadelphia. Details: Contact Nicolas Haase, 215-242-6806, e-mail info@brewing-distilling.com or go to www.brewing-distilling.com, or you can visit the main Web site: www.christiancarl.com.

There's a new wave starting to curl, and it's all about microdistilling. Most of the pioneers will admit, with a bit of pressure, that they tried a bit of illicit distilling before starting the legal proceedings, and there are many more out there now, at the quart-capacity still and hipflask stage. If you've been thinking about trying something different from brewing, something with different challenges, why not see what these guys have to say?

The funny thing is that one of the very first microdistillers was the very first microbrewer: Fritz Maytag. He has never been satisfied with the success of Anchor Brewing. He makes wine and some impressive port, olive oil and, since 1993, distilled spirits: Old Potrero rye whiskey and Junipero gin. "I wanted to distill in the early 1970s," Maytag said, "but I didn't do anything about it."

Even now, he says, "It's a small thing, a very small thing. It reminds me of the Anchor Brewing Company. When people ask me 'How's it going?' I love to say the same thing every time. 'It's going great. We're not selling very much, but we have the world by the tail. The world doesn't know it yet, but we do.' It's just like the brewing business in the early 70s when we were making a wonderful beer, and making it well, and it really was delicious. Almost nobody wanted that kind of beer, but by golly, we just knew a whole lot of people would want it as soon as they knew about it."

Bill Owens is another old crest on the new wave. Owens was a pioneer with his Buffalo Bill's Brewpub back in the old days in Hayward, Calif., and now he's championing microdistilling with his new e-zine, American Distiller, and a Web site, www.distilling.com. "There are approximately 60 small distilleries in the U.S.," Owens said. "Half have opened in the last five years. Michigan alone has seen nine open in the last five years, almost all making eau de vie. These guys have the devotion of the people at the beginning of the microbrewing business."

You'd better have that devotion, if what Owens reports is correct. "The basic kettle is \$25,000," he began, "but you've got a lot more equipment you'll need. You're at about \$600,000 going in. And you can't just pick it up and do it—the level of knowledge is much higher. You've got to travel to get knowledge on how to actually make it. You can read the books, but that doesn't teach you a thing until you see it happen. There are only five equipment manufacturers in the world. It's hard to get the tech support."

Owens and his American Distilling Institute put on a conference in 2004 that attracted a lot of interested potential distillers, but there were some sobering moments. "We had a panel discussion on

how long it took people to get open," he said. "It averaged 14 months to install the distillery, plumb it and get the licensing from city, state, federal. And once you're open, the barrier to market entry is stiffer than it is with brewing: the regulatory hoops at the TTB, the level of knowledge to distill a clean product and the expense of marketing."

Owens thinks things will go slower than they did with microbrewing. "Four hundred [distilleries] would be the magic number to start a real market," he predicted, "and it will take 20 years to get there. Look, it's a new thing, a new concept. Who's going to risk their house on something like that? It's the passion."

Clearing Barriers

No one in either industry can accuse Dogfish Head Brewery and Distillery owner Sam Calagione of a lack of passion. Calagione dove into microdistilling the same way he dove into brewing: headfirst. "The biggest barrier was finding a knowledgeable distiller," he said. "We went through three before finding a star. State level regulations were the other hurdle. You're guilty till proven innocent. If you're the first distiller in your state, chances are it's not allowed. I had to write the legislation and stand up in the Delaware Senate and read it. There were senators saying 'We're going to have moonshine in Delaware, it's the end of civilization!' And it won't come out publicly, but if you try to start one in a state with a big distillery, those distillers have lobbyists who don't want small distilleries getting legal. But the feds were great. They did a great job with us. The TTB seems to care more about the 16 cases of liquor we make than the 800 barrels of beer we produce each week."

"Liability insurance is the next barrier," he continued. "Maybe it's different if you have a standalone production facility, but to have the distillery in the pub, we had to build a room to NASA specs, with no electric outlets in the room, and vacuum lights with no sparks. And the insurance company still freaked out. But the hardest part for a brewer becoming a distiller? For me, giving up smoking!"

Once you get your barriers hurdled, your money lined up and your still and distiller in place, what are you going to make? Please have a plan, says Donald Outterson, who runs the distillery at Woodstone Creek in Cincinnati and does consulting for microdistillers. "A large number of me-toos will do nothing but crowd the shelves and cloud the issue," he said. "It will be just like microbrewing. Nine out of 10 make what everyone else does, and they are too small to make money at it. A lot of them are selfish doctors and lawyers, and they want to have their 'grand wanker.' They fight to get to the mike, and when they get there, they've got nothing to say. Instead of doing their homework, they copied off someone else, and they're empty inside."

Calagione worries about the same thing, though with a typically wry twist. "People are going to see a fun thing that doesn't cost too much, and they're going to jump in," he said, "and the same shit is going to happen as happened in brewing, people getting in who are more passionate about the money than the product. There's a learning curve on this, and there are going to be people who were as cavalier as we were, and say, 'Hey, tastes good to me, throw it out there!' Hopefully consumers will stay open-minded enough to hang on through some early bumbblings."

There are a lot of unknowns...but you didn't get into brewing because you wanted a solid, safe job. "It's hard to tell what's going to happen," said Graham. "The market for higher-end spirits is getting younger. Microdistilled spirits are going to appeal to younger people, and it's going to explode. Hopefully there's not a lot of crap being made or a lot of good stuff will be created before a lot of crap gets made."