

LOCAL BOOZE AND BREWS:
AN EXAMINATION OF THE MICROBREWERY AND
CRAFT DISTILLERY INDUSTRIES IN NEW YORK
CITY

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ABSTRACT

This study examines the microbrewery and craft distillery industries in New York City. Current state legislation passed suggests that this industry is growing, and more needs to be implemented to foster its growth. This study asks whether the microbrewery and craft distillery industry is growing within New York City, and whether there is a cluster forming which may provoke New York City to activate local legislative initiatives. The purpose of this thesis is threefold: first, to examine industry trends in NYC and the metro-area since the reemergence of microbreweries in the 1990s to present day, and the reappearance of craft distilleries in 2004 to present day; second, to analyze the effect of City and State policy on breweries/distilleries in NYC; and to further the academic conversation about economic localism and urban agglomeration economies in terms of production and distribution within the city boundaries. This thesis includes spatial analysis which identifies the significance of spatial patterns, interviews of microbrewery and craft distillery owners, and descriptive economic analysis (percent change). The interviews of the microbrewery and craft distillery owners add a qualitative layer to the data and add to the identification of factors and perceptions of legislative intervention. The economic analysis serves to identify the growth of this industry over time. The study serves as a thorough examination of a growing niche sector and will add to the current academic discourse regarding the formation of industry clusters.

INTRODUCTION

Prior to prohibition in the 1920s, New York City (NYC) housed a vast array of breweries and distilleries. Both industries were so prominent that it spurred the City to invest in the creation of the Croton Aqueduct in order to provide clean water to brewers. However, due to the passing of the Volstead Act which initiated prohibition in the 1920s, breweries and distilleries fell into decline. With the revocation of prohibition in the 1930s and a resurgence of policy in the past decade, there has been a noteworthy rise in the number of microbreweries and craft distilleries in NYC. Although the total number of breweries/distilleries across the city is relatively small, there is an interesting concentration of breweries and distilleries in select NYC neighborhoods, such as Sunset Park and Red Hook in Brooklyn. The craft distilling industry has grown across the state since 2002; therefore, legislation was passed to further this growth. From a planning perspective, this presents a unique opportunity to evaluate the extent that legislation has furthered or hindered the growth of microbreweries and craft distilleries within NYC.

NY State has made great strides to promote both breweries and distilleries throughout the state by providing tax incentives and new allowances for new entrants in the industry. Because New York City has a reputation for a burgeoning nightlife, world-renowned theatre, cultural diversity, and even a newly forming technology hub, the locale of the brewing and distilling industry within the City has the potential to contribute to the New York City's overall perception. The various firms that decide to locate within the city consider their target audience, suppliers, competitors and the city's image. Recent efforts have been directed towards locally sourced goods, also known as 'economic localism', which applies to the production and distribution of food and other products.

Ideas related to economic localism attract commentary from policymakers, consumers, place-makers and city administration, making it the focus of some policy decisions, plans, and roundtable conversations. Some scholars argue that localized capabilities set apart industries from the otherwise ubiquitous manufacturing that dominates the global economy¹. These parties are not only

¹ Norma M. Rantisi, "The Competitive Foundations of Localized Learning and Innovation: The Case of Women's Garment Production in New York City," *Economic Geography* 78, no. 4 (2009).

concerned with economic localism, as product development and distribution sparked discussions concerning agglomeration economics and whether co-location of sectors plays a role in a sector's success. In order to compete on a nationwide level, states develop "sector strategies-policy approaches that support regional, industry-specific approaches to workforce needs and are implemented by an employer-driven partnership of relevant systems and stakeholders"². The location of appropriate infrastructure and the existence of specialized labor forces and institutions³ can explain the current enclave of microbreweries and craft distilleries in NYC, particularly in neighborhoods within the borough of Brooklyn.

This study addresses the following research questions: How have the microbrewery and distillery industries in NYC responded to legislation implemented by the state over the past decade? Is there evidence of industry clusters forming within the city? And if clusters are forming, how can the city help foster this growth through local legislation?

The purpose of this thesis is threefold: first, to examine industry trends in NYC and the metro-area since the reemergence of microbreweries in the 1980s to the present day and the reemergence of distilleries since the early 2000s to the present day; second, to analyze the effect of City and State policy on breweries/distilleries in NYC; and, finally, to further the academic conversation about economic localism and urban agglomeration economies in terms of production and distribution within the city boundaries.

² "Accelerating State Adoption of Sector Strategies: An 11 State Progress Report", 2008 (a joint project by the National Governors Association, The Corporation for a Skilled Workforce, and the National Network of Sector Partnerships)

³ Rantisi, "The Competitive Foundations of Localized Learning and Innovation: The Case of Women's Garment Production in New York City."

BACKGROUND

BREWING AND DISTILLING IN NEW YORK CITY

Historically, breweries and distilleries were noted as substantial industries within NYC. The first known brewery in the pre-colonial era was established on the tip of what is now Manhattan in 1612. During colonial times, only the wealthiest families that had relocated to the New World practiced brewing. Due to the lack of safe drinking water, beer was considered safer to drink, and was even included as a ration to soldiers. In the 1800s, the growing brewing industry drove massive civic improvements because it needed water access in order to create their products. The 19th century featured a significant focus on hops within the state. With the arrival of German Immigrants, alternative brewing practices were adopted, which increased the mass appeal of lager. Groups of German brewers congregated in Williamsburg and Yorkville, which later contributed to the cultural acceptance of beer halls and gardens¹.

Early Dutch settlements enforced taxation on beer. In 1862, a beer specific tax was excised in order to raise funds for the Civil War; this later led to the founding of the United States Brewers Association. Prohibition heavily affected the industry until its repeal in 1933. Surviving breweries, such as Rheingold, sparked beer marketing wars in order to increase demand for their products. However, it wasn't until 1984 that New York began to see a slow resurgence of microbreweries.

Similarly, NYC traditionally featured a large distilling industry presence. In the 1640s, the first still on Staten Island likely produced gin. Alcohol became the subject of pursuit beginning in the 1800s with the creation of "Temperance Societies", looking to limit and extinguish alcohol consumption. In 1840, the New York City Temperance Society reported a decline in grain distilleries from 17 to 9². In 1913, New Yorkers spent approximately \$365 million a year on alcohol, roughly twice what was spent on public teachers nationally³. The passing of the Volstead Act on October 28th, 1919 severed the bustling industry in New York, because it

¹ Beer Here: Brewing New York's History. New York Historical Society Museum Exhibit. (2012)

² NEW YORK CITY TEMPERANCE SOCIETY. Boston Recorder (1830-1849); Feb 7, 1840; 25, 6; American Periodicals pg. 22

³ Michael Lerner, Dry Manhattan: Prohibition in New York City (United States of America: First Harvard University Press, 2007)

"prohibited the manufacture, sale, transport, import, or export of alcoholic beverages"⁴. Later legislation initiated the reopening of the stifled industry.

In 2002, the Class A-1 distiller's license allowed for smaller distilleries to produce liquor with a significantly smaller licensing fee⁵. This license specifically applies to smaller firms that produce no more than thirty-five thousand gallons per year to distribute to other retail and wholesale enterprises with the appropriate licensing. While this legislation initiated the reemergence of distilleries, later legislation made bigger strides. In 2007, distilleries were afforded the opportunity to function much like small wineries through the Farm Distillery Act. This license was rumored to be in reaction to a subpar wine crop, which was unfit for decent wine, but could not be turned into brandy legally. The Farm Distillery Act only applies to firms who produce less than thirty-five thousand gallons of liquor per year, and allows distillers to offer samples of their alcohol of quantities no more than 3 oz⁶. Since 2010, the number of craft distilleries has been growing in NYC, thereby becoming a niche market. Also, this license has a localism stipulation: 100% of the grain must come from New York State farms.

Recently, New York State took notice of the growing industry within craft breweries. According to the New York State Senate, there are 90 microbreweries within the state, and the industry generates 200 million dollars annually⁷. In the summer of 2012, tax incentives were introduced to microbreweries, allowing a greater number of craft brewers the opportunity to create their beverages⁸. The legislation provides a refundable corporate franchise and personal income tax credit for beer produced in New York State. It also exempts small batch brewers who produce less than 1,500 barrels from the \$150

⁴ Prohibition and the Volstead Act http://www.mnhs.org/library/tips/history_topics/103prohibition.html

⁵ NY Code - Section 61: Distiller's licenses 1-a. NY Code - Section 61: Distiller's licenses 2-c.

⁶ For the purposes of this thesis, craft distilleries is defined as any firm that produces less than thirty-five thousand gallons of liquor annually

⁷ "Senate Passes Bills to Grow Craft Brewing Industry in New York," Majority Press June 18th, 2012. <http://www.nysenate.gov/press-release/senate-passes-bills-grow-craft-brewing-industry-new-york>

⁸ S7728-2011: Establishes a beer production tax credit for beer produced within the state by a taxpayer that is registered as a distributor; repealer. An act to amend the tax law, in relation to establishing a credit under articles 9-A and 22 of such law for beer produced within the state by a taxpayer that is registered as a distributor under article 18 of the tax law; to amend the alcoholic beverage control law, in relation to the exemption from the beer label registration fee; and to repeal subdivision 6 of section 424 of the tax law, relating to the exemption for beer produced and sold within the state by certain distributors under article 18 of the tax law

annual label fee. Additionally, the Senate passed legislation establishing a Farm Brewery license, allowing for breweries to operate like a craft distillery or winery⁹, which enables them to sell off-premise to other farm distilleries and wineries, and to open adjacent enterprises, such as a restaurant, to their facility. These licensed breweries may only produce up to 60,000 barrels of beer annually, concurrent with microbrewery licensing practice¹⁰. Furthermore, the senate signed a third bill which, would exempt farm breweries, distilleries, and wineries the sales tax information return filing requirements imposed by Tax Law 1136 (i)¹¹.

While the effects of these pieces of legislation have yet to be seen, it is evident that the state recognizes the growth of these industries, through the endorsement of this legislation. Policy on the statewide level can inform the city of the growth of these industries which would help NYC determine whether there should be interaction at the city level to encourage additional growth. Moreover, the cluster formation of these industries especially within Brooklyn has yet to be evaluated.

⁹ S7727-2011: Creates a farm brewery license. This legislation would authorize the establishment of farm breweries for the manufacture and sale of beer and cider made from crops grown in New York State and would exclude such breweries from the sales tax information return filing requirements.

¹⁰ For the purposes of this thesis, microbrewery is defined as any firm that produces less than 60,000 barrels of beer annually.

¹¹ S7019-2011: Relates to farm winery and farm distillery sales tax information return filing requirements. The bill would exclude licensed farm wineries and farm distilleries from the sales tax information return filing requirements imposed by Tax Law 1136 (i).

LITERATURE REVIEW

Many studies focus on the geospatial congregation of specialized industries and whether their co-location contributes to increased production, innovation or shared ideas. However, no studies examined the resurgence of craft distilleries and microbreweries in New York City, and whether the industry location is significant. Moreover, NYC has shifted its focus to emphasize local food production (such as GrowNYC) and this is reflected in the policies. In conjunction with economic localism theory influencing urban policy, the current academic literature suggests that specialized niche industries tend to benefit from co-location.

ECONOMIC LOCALISM AND POLICY IMPLICATIONS

Historically, industries have been able to rely on federal and state assistance to foster economic growth. As federal policy has failed to address the changing economic climate in the United States, local economic governments are stepping in to ensure economic success on the local scale. In *The Next Wave: Post federal Local Economic Development Strategies*, Susan E. Clarke and Gary L. Gaile evaluate this phenomenon and assert that, local economic development strategies, despite being difficult for communities, can encourage innovation and new businesses entering into the market. Clark and Gaile both recognize the difficulties that local economic strategies face when there is a notable absence of larger institutions, which can negatively affect small-scale operations in terms of greater risk economic ventures.

Alternatively, David Imbroscio attacks what he coins “liberal expansionism” in *Urban America Reconsidered*. Imbroscio describes “liberal expansionism” as the focus of policy beyond a local geographic sphere that considers the regional and global implications of policy in order to “solve urban problems”. He poses that although “liberal expansionism” sounds attractive in theory. In the empirical world, other solutions that focus on the “inside game”¹, are in fact superior. He discusses liberal expansionists like Dreier, Mollenkopf and Swanstrom, and their supposed position on the “limits of localism” and how this attributes to their overarching

¹ The inside game is most associated with place-oriented, community development approaches that cities often use to address urban problems. (Page 53)

position to support expansionist theory. Together, both evaluations of economic localism advocate for its importance within policy-making strategies.

CLUSTERS AND AGGLOMERATION

When policy is created to encourage localism, do industries follow suit? The following literature discusses industries and co-location. The *Fourth Edition of Planning Local Economic Development* defines a cluster as related industries that:

- Are geographically concentrated in a particular region
- Gain a competitive advantage because of their proximity to each other in the region
- Share specialized supplier and buyer (marketing) advantages because of their location, and
- Are supported by advantageous infrastructure in the region, such as physical resources (e.g., a port or access to minerals), educational and research advantages (e.g., universities), financial institutions (e.g. venture capital), or labor advantages (e.g., training programs).

In some instances, clusters, or more specifically agglomeration has been known to occur in order to maximize production materials and spark new collaborative innovation. In *The Selective Nature of Knowledge Networks in Clusters: Evidence from the Wine Industry*, Elisa Giuliani discusses the origination of cluster analysis, its importance within an economic context and its potential to spark innovation within firms of the same industry. She examines the wine industry in Chile and Italy, and using empirical evidence examines whether geography is responsible for the diffusion of knowledge and innovation in this field. She does not yield any compelling evidence, to suggest that geographic location of firms will result in knowledge sharing and innovation.

Alternatively, Olga Khessina and Elaine Romanelli delve into the notion of regional industrial identity “as a social code that 1) arises from the shared understandings of residents and external audiences about the suitability of a region for particular kinds of business activity and (2) influences decisions about where to locate investments”². The authors argue that regional economic development and cluster development occur due to perceptions of regional economies held by both residents and external audiences. The

² Khessina, Elaine Romanelli and Olga M. “Regional Industrial Identity: Cluster Configurations and Economic Development.” (344)

research begins with the establishment of the concept of regional industrial identity, which affects the audience’s perception of a region. They argue that cluster dominance and cluster interrelatedness contributes to the identity strength and further helps to influence predictions about heterogeneity of resources that regions will attract and retain.

Norma Rantisi, in *The Competitive Foundations of Localized Learning and Innovation*, highlights the importance of localized industries with regards to the Garment District in New York City. She focuses on the way in which designers draw influence from the district’s specialized services and how the cluster formation of this industry helps to facilitate shared practices and conventions. This empirical study showcases “local” in terms of sharing innovative practices with others in the same industry, and suggests that cooperation can invoke innovation in lieu of competition against fellow designers.

Christopher Wheeler, in *Search Sorting and Urban Agglomeration*, aims to propose a model that formalizes search costs and work-firm matching in order to assert “the theory indicates that larger local markets, by generating more productive (albeit stratified) matches, will simultaneously exhibit greater output per worker, wage inequality, and expected returns to a worker’s skill”³. The purpose of this article is to first provide evidence that clustering or location agglomeration supplements productivity by enabling labor market search, and second, demonstrates that variances in the ability of firms and workers to isolate and establish productive matches may help to explain variances in a number of additional outcomes—patterns of inequality, expected returns to skill, and, thus, distributions of worker skill or human capital—observed across local geographic markets.

Additionally, the automotive industry is an example of an industry cluster. Robert Lewis, in *Local Production Practices and Chicago’s Automotive Industry*, proposes that the automotive industry clustered within Chicago due to certain advantages the city had, such as “well-developed production factors”, which “promoted industrial growth”, and the automotive industry’s inner workings, which “encouraged metropolitan expansion”⁴. The automotive industry exponentially grew between 1900 and 1930 because the industry’s needs fell within the bounds of the city (e.g. financing, innovation, servicing, etc.). Lewis argues that despite high volume business transactions that spanned across the country, the “localities continued to matter, and business remained rooted in local face to face relations

³ Wheeler, Christopher H. “Search, Sorting, and Urban Agglomeration.” (88o)

⁴ Robert Lewis. “Local Production Practices and Chicago’s Automotive Industry, 1900-1930.” (611)

based on trust”⁵. Moreover, suppliers were drawn to the locality based on the “industry’s commodity chain”⁶. Lewis contends that the local network of supporting industries, in conjunction with the clustering of the automotive industry itself and its inter-firm connections propelled its success in the early 20th century.

Hotels, especially in Manhattan, exemplify agglomeration, but also highlight the necessity for differentiation in order for a new entrant into the established market to succeed. Joel A. C. Baum and Heather A. Haveman investigate the differentiation and agglomeration of hotels in Manhattan in order to expose whether “fear of direct competition pushes firms far apart from similar competitors while benefits of complementary differences pull firms close to dissimilar competitors” or if agglomeration in fact attracts similar competitors due to potential spillover effects⁷. Baum and Haveman assert that through multi-dimensional founding location decisions in the Manhattan hotel industry, they prove evidence of differentiation through size of establishment despite their close proximity and similar price structure which allows for benefits from the agglomeration economy.

SUMMARY

By examining each industry and its reaction to agglomeration individually, a pattern emerges. Industries like the automotive industry benefitted from the supply side of their economy due to the “industry’s commodity chain”, which led to its overall success. In contrast, the fashion and hotel industries respectively benefit from agglomeration on the demand side; both industries benefit from their consumers’ needs for similar but different products. The literature suggests that industries can benefit from a singular side, and certain outcomes, such as resource sharing via an established commodity or competitive, will occur.

The economic localism literature touches on the surge of policy-making strategies centered on this theory. However, the literature does not address whether there is an

5 Robert Lewis. “Local Production Practices and Chicago’s Automotive Industry, 1900-1930.” (614)

6 Robert Lewis. “Local Production Practices and Chicago’s Automotive Industry, 1900-1930.” (614)

7 Joel A. C. Baum and Heather A. Haveman. “Love Thy Neighbor? Differentiation and Agglomeration in the Manhattan Hotel Industry, 1898-1990.” (304)

implication for policy implementation on the form of clusters within an industry. It also fails to address whether the implementation of a regional policy can help to explain an industry cluster within a specific locality. In order to examine a potential industry cluster forming in New York City, it is important to understand the agents that sparked the cluster formation and whether this was coincidental or purposeful, and whether policy played a role in the firms’ location. Provided there is such an industry cluster, looking at the ways in which agglomeration affects the microbrewery and craft distillery industries further adds to the overall literature regarding agglomeration and its benefits or drawbacks. With this understanding, it is possible to uncover opportunities to foster a potential a craft alcohol industry cluster from a more localized frontier within New York City.

METHODOLOGY

This is a study of an industry cluster analysis of the microbrewery and craft distillery presence in New York City. This study will rely on spatial data analysis, a case study cluster analysis of these two industries (using percent change analysis, etc.), and interviews of brewery and distillery owners. This information collectively aims to answer the question of whether there is an industry cluster forming within New York City and what factors led the industry to locate within the five boroughs of New York City.

In order to undertake an industry cluster analysis of the microbrewery and craft distillery industry, these terms must be defined.

Microbrewery: any firm that produces less than 60,000 barrels of beer annually.

Craft Distillery: any firm that produces less than 35,000 gallons of liquor annually.¹

This definition incorporates multiple licenses, including the Farm Distillery license and the Farm Brewery license, which simultaneously target additional goals other than firm size. Using this definition, survey questions and spatial analysis address the criteria, put forth by the Fourth Edition of Planning Local Economic Development which defines industry clusters, in order to provide evidence of a cluster within New York City, specifically Brooklyn. Data culled from the New York State Liquor Authority's public query and aggregated for analysis informed the percentage change analysis of both the firms in NYC and the firms in New York State.

The spatial analysis uses spatial statistics nearest neighbor analysis in ESRI ArcGIS in order to determine the significance of firms nearest to other firms. This analysis is conducted at the state, city and borough level for the purposes of comparison. The focus of proximity adds another layer of analysis, but also addresses the contrast between proximity and location choice. This approach examines a homogenous dimension of geographic location and does not consider other dimensions within the spatial analysis model.

The research subjects include owners of microbreweries and craft distilleries within New York City's five boroughs. Currently, legislation has been passed at the New York State level in order to ease the opening of both craft distilleries and microbreweries and research has not been conducted thus far on a citywide level. Examining the microbrewery and craft distillery industries in New York City may inform policy makers of potential interventions that could be taking place. The study examines the history of microbreweries from their re-emergence in the 1990s until 2012, and that of craft distilleries from their revival within

New York City in 2010 to 2012. The 15-year study provides a framework of the economic condition prior to legislation passing, and its current effect within New York City.

In order to further evaluate motivations to locate in New York City versus elsewhere in New York State, a survey of microbrewery and craft distillery owners ensued. Eleven craft distillery owners and three brewery owners were queried to participate; five distillery owners agreed. The combination of both quantitative and qualitative analysis help to inform the current conditions of both the micro brewing and craft distilling industries in New York City, and whether action should be taken to further growth within the city limits. Moreover, contextualizing the effects of agglomeration within the microbrewery and craft distillery industries within New York enriches the current literature regarding agglomeration and its outcomes.

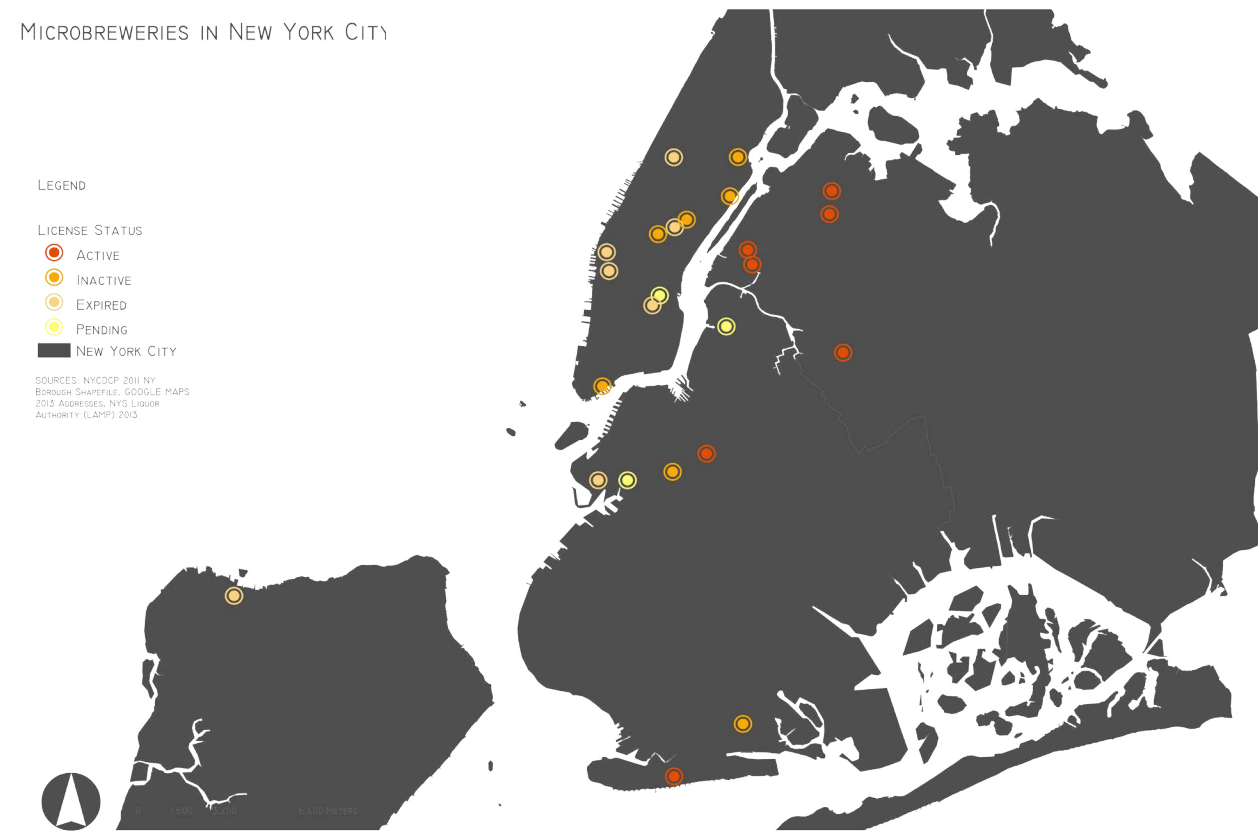
¹ NY Code - Section 61: Distiller's licenses 1-a. NY Code - Section 61: Distiller's licenses 2-c.

FINDINGS

GENERAL STATISTICS

In order to determine the growth of craft distilleries and microbreweries within NYC, data from the New York State Liquor Authority was compiled in order to determine the number of firms within each county. The data consists of Active, Inactive, Expired, and Pending establishments in order to show the firm composition of both industries within New York City (See Map 1 - Map 2).

MICROBREWERIES IN NEW YORK CITY



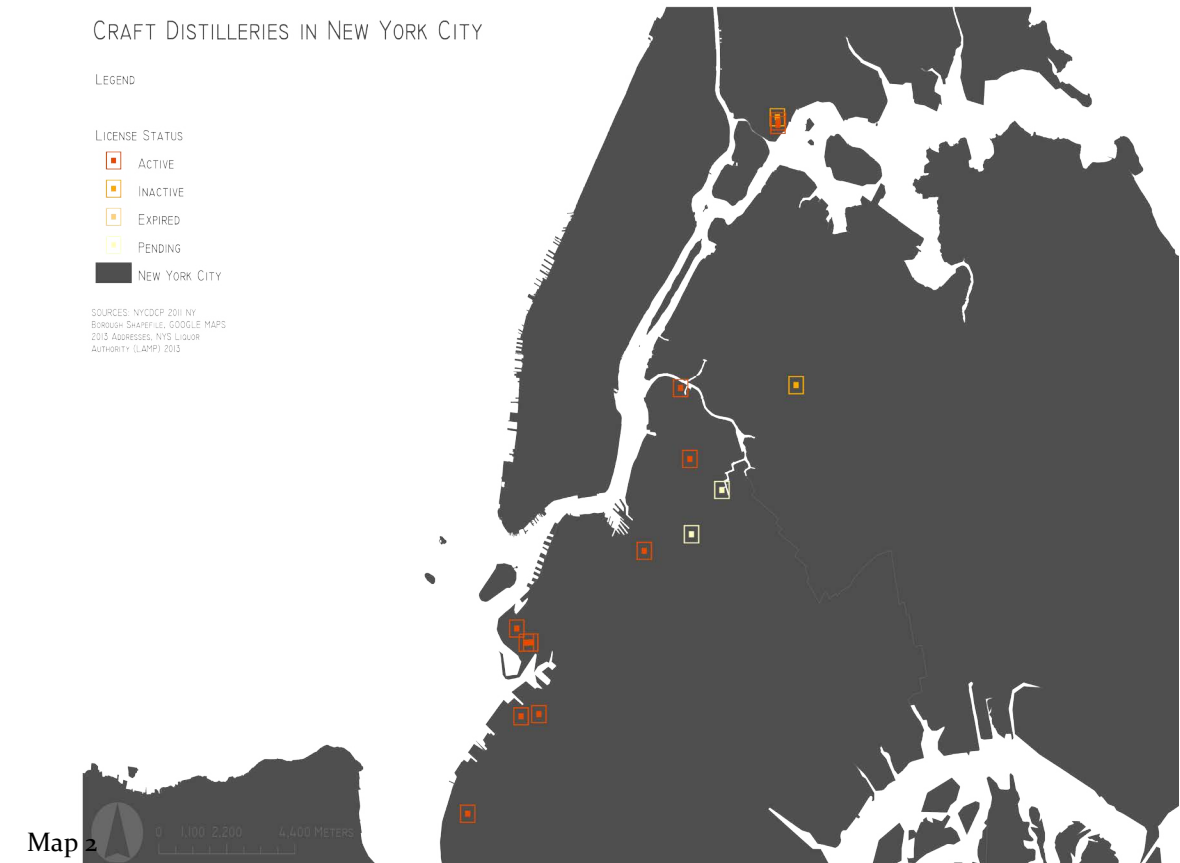
Map 1

NYC Distilleries comprise 35% of all distilleries in New York State. The majority of these distilleries are within Kings County/Brooklyn borough. Conversely, NYC breweries only account for 11.6% of the state. These numbers help to clarify the industry makeup both within NYC and New York State.

ECONOMIC ANALYSIS/GROWTH OF THE INDUSTRIES

For microbreweries, NYC data is only available since 1997, which is when the first breweries were recorded within the five boroughs of New York City. Additionally, data from 1997 through present day for all New York State counties served as a comparison for the New York City firms. In order to show growth from 1997 to 2012, a percentage change analysis was conducted for both firms in New York State and

CRAFT DISTILLERIES IN NEW YORK CITY



Map 2

NYC (Table 1). The equation for percentage change is as follows: Percentage Change = $((B_1 - A_1) / A_1) * 100$ where B_1 represents the later year and A_1 represents the earlier year.

| MICROBREWERIES: PERCENT CHANGE AGGREGATED IN FIVE YEAR INCREMENTS | | | | |
|---|------|--------------------------|---------|--------------------------|
| YEAR | NYC | NUMBER OF ESTABLISHMENTS | NYS | NUMBER OF ESTABLISHMENTS |
| 1997-2002 | N/A | 0 | -14.29% | 36 |
| 2002-2007 | -0.2 | 4 | 19.44% | 43 |
| 2007-2012 | 1.5 | 10 | 100.00% | 86 |

Table 1

The data shows surprising percentages for the Microbrew industry in NYC and in New York State. When the initial microbreweries opened, NYC had a 28.57% increase from 1997 to 1998. This indicates that NYC was receptive to microbreweries and firms had found a place where they could locate. In 1998, the number of microbreweries declined by 22.22% and continued to decline periodically from 1999 to 2007. From 2007 to 2011, microbreweries neither increased nor declined but from 2011 to 2012, the number of firms grew 150%. In contrast, microbreweries in 1997 featured a decline of 2.38% and continued to decline through 1999. In 2000, statewide microbreweries grew per year with the exception of 2005-2006. It is striking to notice the vast difference in growth between NYC and New York State firms.

On the whole, New York State firms have increased steadily over time, but New York City firms have only really seen an increase in the last year. The volume of firm increase is particularly significant considering the short amount of time in which it occurred. While this is the first increase seen in New York City in microbreweries over the past fourteen years, further examination is needed over the next few years to see if this growth is indicative of an overall trend or if 2012 happened to feature a random increase in the number of firms.

Craft distilleries exhibit different growth patterns from microbreweries. The data collection began in 2004, which is when the first recorded distillery opened in New York State. However, distilleries according to the NYS Liquor Authority did not appear in NYC until 2010. Therefore, there was no percent change calculated in NYC and NYS until 2010 (Table 2) in order to make an accurate comparison.

The data shows that both New York State and NYC had percentage increases in the number of firms. However, it is evident that NYC has a much larger proportion of growth

| CRAFT DISTILLERIES: PERCENT CHANGE FROM 2010-2012 | | | | |
|---|---------|--------------------------|---------|--------------------------|
| YEARS | NYC | NUMBER OF ESTABLISHMENTS | NYS | NUMBER OF ESTABLISHMENTS |
| 2010-2011 | 150.00% | 5 | 62.50% | 26 |
| 2011-2012 | 160.00% | 13 | 46.15% | 38 |
| 2010-2012 | 550.00% | 13 | 137.50% | 38 |

Table 2

than New York State. It should be noted that all of the percentage change occurred within two years in NYC. This is significant considering NYC comprises 34% of all distilleries in New York State, but only came about within the past two years. Even more surprising, Kings County accounts for 28.9% of all distilleries as of 2012, and is still growing.

ECONOMIC ANALYSIS LIMITATIONS

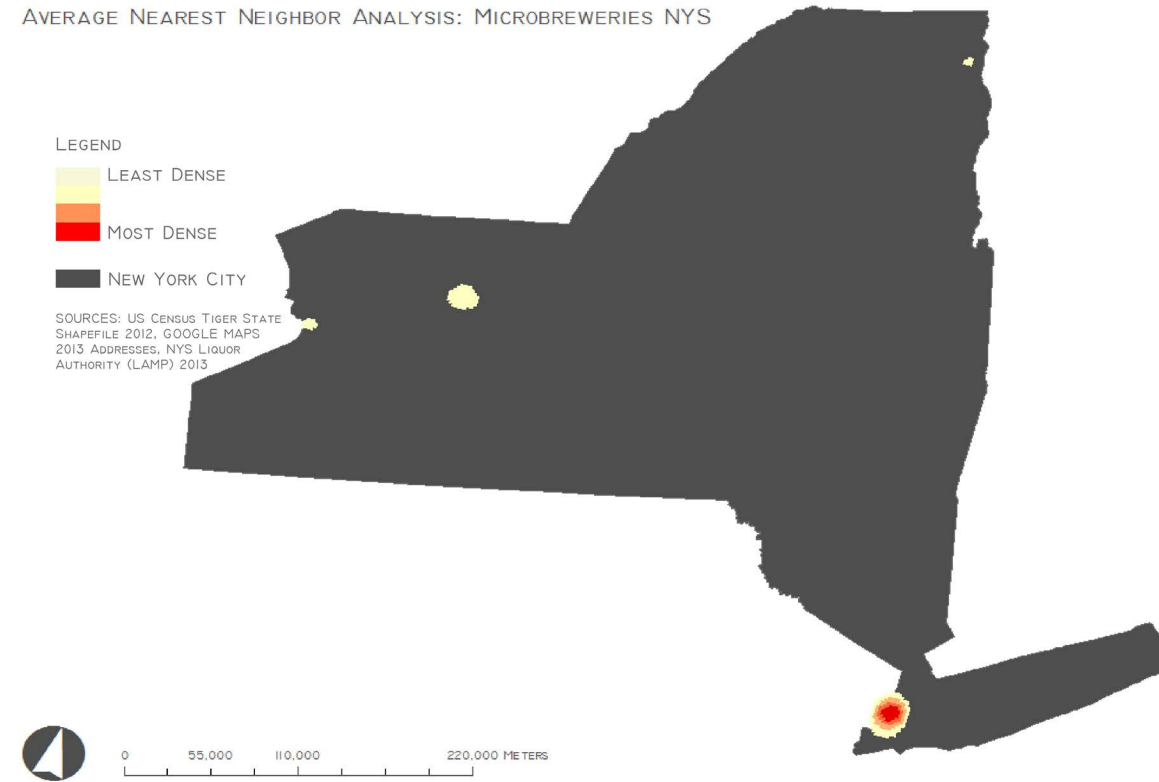
Because the data set is small and the number of firms is minimal, the numbers and percent changes may appear more significant than if conducted with a larger industry. Additionally, because the number of craft distilleries in NYC has come about solely in the last two years, the following years will provide more of an indicator whether this niche industry is growing at a stable rate and whether the firms continue to remain in business.

SPATIAL STATISTICS

Spatial statistics were used in order to determine the whether the firms of both craft distilleries and microbreweries are clustering with significance. The average nearest neighbor tool in ArcGIS 10.0 was used in order to carry out this analysis. Using shapefiles that consisted of geocoded points from addresses found through the New York State Liquor Authority, I chose Euclidean distance as the way in which to measure the distance between two locations and calculated the area of New York State for the boundary. These steps were again repeated at the city, and borough level.

The comparison of the borough, city and state yielded interesting results. At the New York State level, both microbreweries and craft distilleries had z scores (150.220164 and 150.932900, respectively) indicating that there is less than a 1% likelihood that the dispersion of these firms is due to random chance (Maps 3-4, Table3-4). The P value

AVERAGE NEAREST NEIGHBOR ANALYSIS: MICROBREWERIES NYS

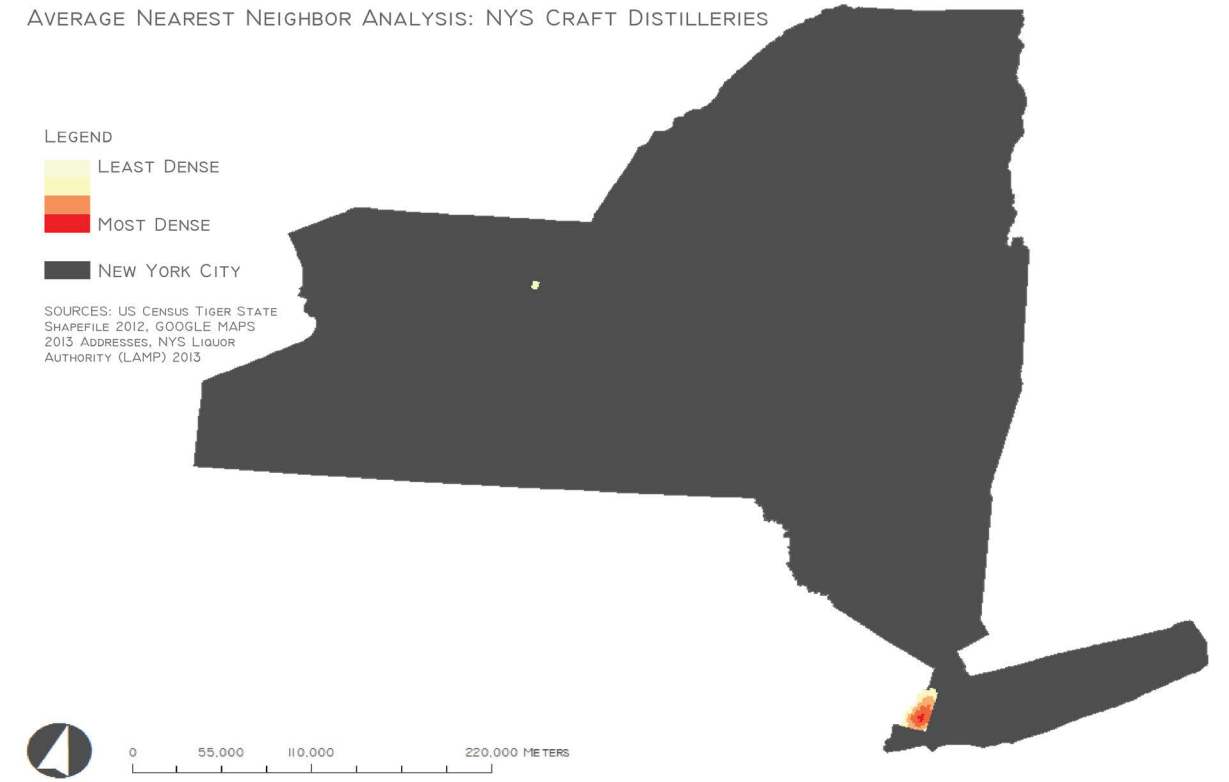


| MICROBREWERIES NYS | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 22.663971 |
| Z-SCORE | 495.606468 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 8879.300383 |
| EXPECTED MEAN DISTANCE | 391.780435 |

Map 3, Table 3

reported at <0.0000 which indicates 99% confidence level that this dispersion is not in line with the null hypothesis (that the points are randomly dispersed), thus it can be rejected. Alternatively, within New York City, the nearest neighbor analysis performed for all five boroughs show clustering for both sectors (Maps 5-6, Tables 5-6). Even more specifically, the analysis performed at the borough level shows that although microbreweries are likely to be found throughout New York City, the location points in Brooklyn are by random

AVERAGE NEAREST NEIGHBOR ANALYSIS: NYS CRAFT DISTILLERIES

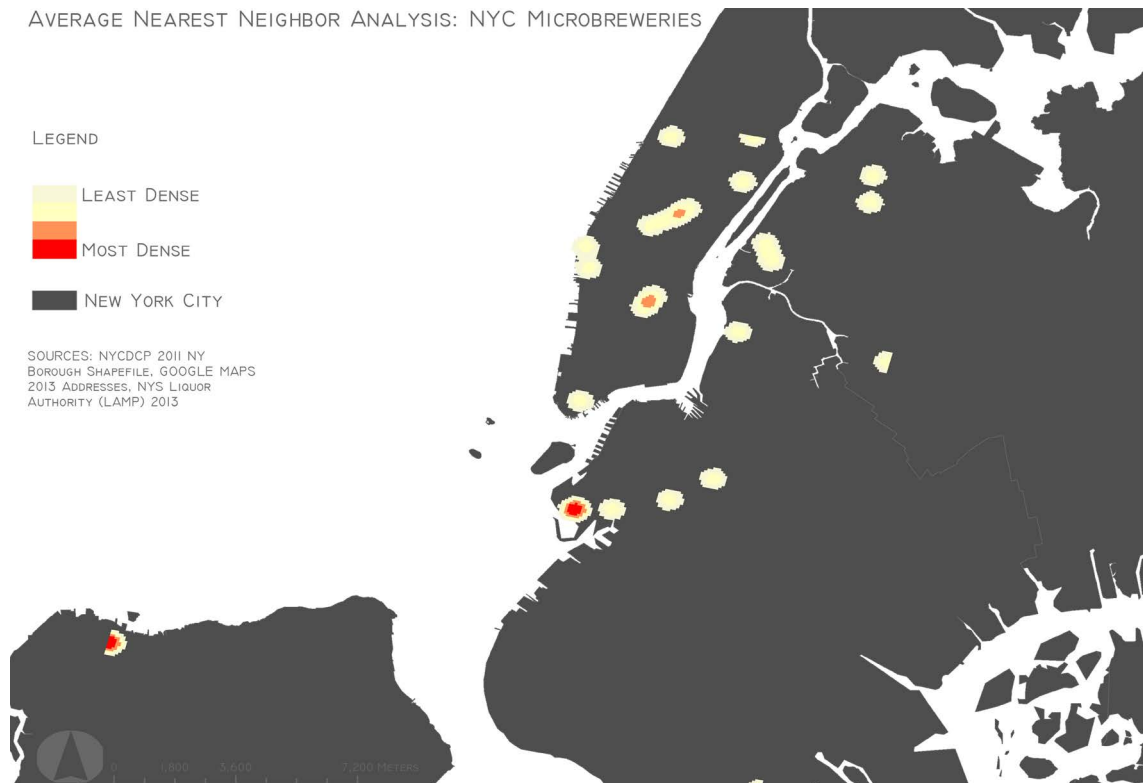


| CRAFT DISTILLERIES NYS | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 7.56643 |
| Z-SCORE | 150.220164 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 8879.300038 |
| EXPECTED MEAN DISTANCE | 1173.5125 |

Map 4, Table 4

chance, thus proving the null hypothesis (Maps 7-8, Tables 7-8) The craft distilleries do show clustering within Brooklyn with a z-score of -3.344808 and a P value of 0.000 .

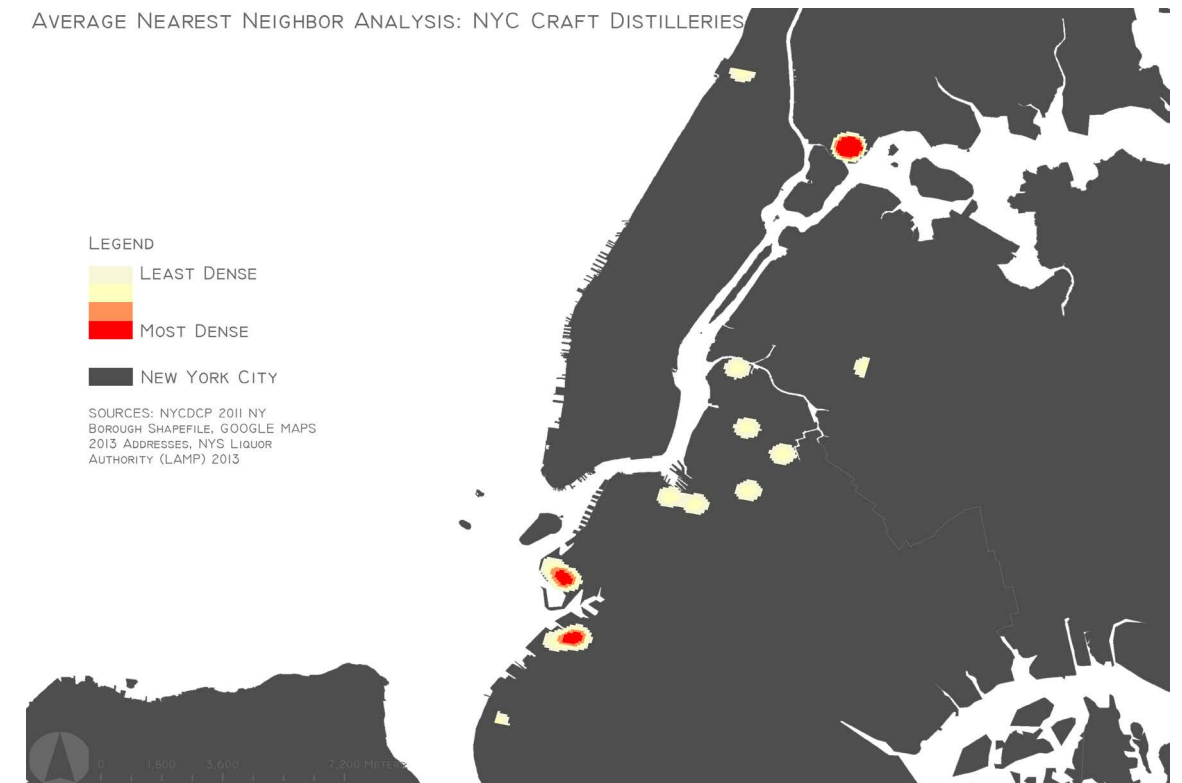
Comparatively, the dispersal of microbreweries and craft distilleries statewide indicates that these points are statistically widespread, thus spatially representing a small network of firms. New York City by contrast is considered clustered and shows particular significance in Brooklyn neighborhoods like Red Hook and Sunset Park. The borough analysis examines both industries at a more localized level, and once again highlights the



| MICROBREWERIES NYC | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 0.455526 |
| Z-SCORE | -5.311227 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 1253.666537 |
| EXPECTED MEAN DISTANCE | 2752.130762 |

Map 5, Table 5

significance of Red Hook to these industries. The application of this analysis shows that not only are key entrepreneurial decisions based on the distribution of product, but also how by co-locating, the firms can reap benefits based on agglomeration economies while simultaneously differentiating themselves in order to stand apart from competitors. At a state wide level this observation becomes less relevant as the points no longer co-locate at a statistically significant level.



| CRAFT DISTILLERIES NYC | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 0.330021 |
| Z-SCORE | -5.586875 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 1062.478957 |
| EXPECTED MEAN DISTANCE | 3219.429641 |

Map 6, Table 6

LIMITATIONS OF SPATIAL STATISTICS

Typically in order to define clusters within spatial statistics, one would employ the use of Global Moran's I and/or Hot and Cold Spot testing (Getis Ord G_i^*). However, this requires each point to have a value and have to be large in data size. The scope of this analysis is at such a small scale that the employment of a Global Moran's I would yield inaccurate results. Moreover, one cannot completely attribute statistical significance to

the cluster and dispersion without recognizing the role of land use and zoning. Because of these mechanisms, certain industries are more likely to agglomerate because there are fewer places that they are allowed to locate than if no such mechanism were applied.



| MICROBREWERIES BK | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 0.780018 |
| Z-SCORE | -1.190317 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 1875.585683 |
| EXPECTED MEAN DISTANCE | 2404.541159 |

Map 7, Table 7



| CRAFT DISTILLERIES BK | |
|------------------------|-------------|
| NEAREST NEIGHBOR RATIO | 0.515082 |
| Z-SCORE | -3.344808 |
| P VALUE | 0 |
| OBSERVED MEAN DISTANCE | 971.58673 |
| EXPECTED MEAN DISTANCE | 1886.277276 |

Map 8, Table 8

INTERVIEWS

In order to further examine what prompted the growth of both microbreweries and distilleries in New York City, interviews were conducted as qualitative support. Thirteen different microbreweries and distilleries were contacted, to which five agreed to participate in the interview process. Of the five firms interviewed, all were from the craft distillery industry.

Firm Profiles

City Foundry and Industry City Distillery

Industry City Distillery is the first project of the City Foundry, founded simultaneously in 2012. The City Foundry itself is a research and design manufacturing firm. While searching for a creative way in which to dispose of waste or not produce byproduct waste in a manufacturing product, the City Foundry developed the Industry City Distillery (IDC), with the goal of producing one particular type of alcohol: beet sugar vodka. In order to create an alcohol without fermentation waste, IDC makes their own bioreactors for fermentation and their own stills within the 10,000 square foot space they occupy. The firm is located in Sunset Park within the old Bush Terminal, a site currently owned by the New York City Economic Development Corporation.

One major concern for IDC was space. They chose to locate in Sunset Park because of the price per square foot, their access to the roof which, would allow for further experimentation that needed additional elements like sunlight, and simply the scale of the space or simply the additional square footage or simply the size of the space. Also, IDC expressed that proximity to consumers was also of particular interest, especially as a New York City distillery.

The Noble Experiment

The Noble Experiment, established in 2011 by Bridget Firtle and interested investors sought to bring back distilling to New York City after its long absence due to the ramifications of prohibition in the 1920s. This firm specifically prides itself on the use of local ingredients from New York State farmers in order to produce the first spirit consumed

by Americans: American-rum. The firm is also in the process of producing American whiskey, which is a considerably longer process and has not reached the tasting room or retail stores yet. The Noble Experiment is located in Garden City in Brooklyn.

Firtle stated that although she knows of the Farm Distillery Act in New York State, the legislation itself did not expressly help her establish her distillery in NYC, but it does help somewhat in terms of licensing costs. Because she has a Farm Distillery license, the ingredients sourced from local New York State agriculture account for a little over half of what actually is used in the rum. She also stated that for competitive purposes, there is little coordination among her enterprise and other firms for sourcing of ingredients.

Van Brunt Stillhouse

The Van Brunt Stillhouse, located in Red Hook, produces four different types of liquor including whiskey, rum, grappa and moonshine. The firm aims to memorialize one of the founding families of yesteryear “Breukelen” and their artisanal spirit within the borough. Distiller Daric Schlesselman, who also works as an editor for Comedy Central’s *The Daily Show* with Jon Stewart, discussed the importance of New York City as the number one consumer market in the world that fosters local trends which allows for an advantage in the marketplace. Schlesselman also claimed the borough location as a large factor in deciding where to locate in New York City. Although currently not benefitting from the Farm Distillery Act, he states that in the future this licensing could be beneficial to his business.

Kings County Distillery

Touted as the oldest operating distillery in New York City since prohibition, Kings County Distillery is located in the former Paymaster Building in the Brooklyn Navy Yard. The Distillery sources its grain from upstate New York and has currently replaced its former stills with new ones in order to handle increased demand for the product. Upon deciding to pursue the venture of distilling, founders Colin Spoelman and David Haskell looked into the licensing options at their disposal and settled upon licensing under the Farm Distillery license because it allowed for them to taste their liquor as well.

Jack From Brooklyn

Located in Red Hook, Brooklyn, Jack From Brooklyn distills a unique type of alcohol known as Sorel; a grain alcohol that features the hibiscus plant along with numerous potent spices. Jack From Brooklyn separates itself in this way, by not positioning itself within direct competition with other distillers, but acting as a compliment to these liquors through recipes that highlight both products. Jack From Brooklyn also has what is known as a blender's license (class B distilling), which allows them to mix liquor but not to create it outright.

MATRIX

The interview questions focused on both quantitative and qualitative factors that might contribute to a firm's decision to locate in New York City. The following tables

| FIRMS | FACTOR THAT CONTRIBUTED TO LOCATING IN NEW YORK CITY | SCALE OF 1-5 POLITICAL FACTORS | INCENTIVES OFFERED/ RECEIVED | SCALE OF 1-5 BOROUGH IDENTITY | SCALE OF 1-5 SPACE | SIZE OF SPACE IN SQUARE FEET | RENT PRICE PER MONTH | PRICE PER SQ FT ANNUALLY | SCALE OF 1-5 PROXIMITY TO CONSUMERS |
|--------------------------|--|--------------------------------|------------------------------|-------------------------------|--------------------|------------------------------|--|--------------------------|-------------------------------------|
| INDUSTRY CITY DISTILLERY | COMMUNALLY SOLD RESOURCES. MOVE PRODUCT LOCALE | 1 | SBIDC GRANT | 2 | 5 | 10,000 | \$8,000 /MONTH | \$9.60 | 4 |
| THE NOBLE EXPERIMENT | NEW YORK BASED BUSINESS. FAMILY, LIVES HERE | 1 | | 2 | 5 | 4,000 | \$6,000 /MONTH | \$18.00 | 5 |
| VAN BRUNT STILLHOUSE | MARKET, #1 CONSUMER MARKET, TRENDS TOWARD LOCAL PRODUCTION, ADVANTAGE IN MARKETPLACE | 1 | | 5 | 5 | 6,000 | \$5,500 /MONTH \$7,000 /MONTH OF LAST YEAR OF LEASE | \$11.00 | 5 |
| KINGS COUNTY DISTILLERY | HAS LIVED HERE FOR 12 YEARS | 5 | GOOD RENT IN BNY | 1 | 5 | 7,200 | \$7,800 /MONTH | \$13.00 | 5 |
| JACK FROM BROOKLYN | NATIVE NEW YORKER, NOT REALLY INTERESTED IN ANOTHER LOCATION | 1 | | 1 | 5 | 3,500 | \$5,500 /MONTH | \$18.86 | 5 |

display the results of the interviews with the aforementioned five firms. Interviews were conducted both in person and over the phone, with participants having received a consent form indicating their willingness to participate in the study.

Locating in New York City

When looking at the table, it becomes clear what priorities motivated location in New York City. Every firm stated New York City as an obvious location because the owner's current livelihood was based in the city in the first place. Additionally New York City's market for alcohol is incredibly large due to the number of consumers within such close proximity, which all but one firm mentioned as a motivator to locate here. Contrary to my assumptions that political factors, such as tax incentives or rent subsidies, in most cases, were not offered, and therefore, played little role in incentivizing location. For Van Brunt Stillhouse, the borough identity of Brooklyn directly affected the firm's choice to locate within Brooklyn. The other firms stated that Brooklyn's identity was considered, but ultimately not the driving factor to locate within the borough.

Every firm ranked scale of space as an impactful motivator in choosing the location for their business, although the reason behind space requirements varied. Industry City Distillery, for example, features a large research and development component in their business and requires the most floor space in comparison to their counterparts. Their choice to locate in Sunset Park allowed for a maximization of price per square foot and enabled access to the roof, which would allow for further experimentation purposes. Price per square foot annually is a particularly interesting component given that most site their rent as affordable for being within New York City. However, there is a clear range, starting from \$9.60 and increasing to \$18.86 showing the difference in perception of affordable rent. What is perhaps the most interesting observation regarding the pricing per square foot is the proximity of Van Brunt Stillhouse to Jack From Brooklyn's facility and the extreme differentiation of rent pricing. Both are located in Red Hook, just shy of 700 ft. from each other. However, despite both locations existing within zoning designation M1-1, Jack From Brooklyn is located in a land use of mixed use commercial while Van Brunt Stillhouse is within a solely industrial land use. The rent pricing may be coincidental but this observation suggests that mixed use commercials are more expensive than industrial use buildings; in order to prove this assertion, it would be prudent to conduct a further study of the area and land using rent price differentiation.

| FIRMS | FAMILIARITY WITH FARM DISTILLERY ACT IN NYS | FARM DISTILLERY ACT APPLICABILITY | DOES FARM DISTILLERY ACT INCREASE PROFIT MARGIN FOR FIRM | TAX LEGISLATION FOR FARM DISTILLERIES | DOES TAX LEGISLATION HELP YOUR BUSINESS |
|--------------------------|---|-----------------------------------|--|---------------------------------------|---|
| INDUSTRY CITY DISTILLERY | YES | NO | NO | YES | N/A |
| THE NOBLE EXPERIMENT | YES | YES | NO | NO | NO |
| VAN BRUNT STILLHOUSE | YES | NO | NO | NO | N/A |
| KINGS COUNTY DISTILLERY | YES | YES | NO | NO | NO |
| JACK FROM BROOKLYN | YES | NO | NO | YES | NO |

Policy and Licensing Evaluated

Contrary to my assumption regarding the effectiveness of the Farm Distillery Act for firms, the licensing structure does not seem to be applicable across the board. The Farm Distillery Act requires more than 50% of raw materials come from New York state farms, and so many firms are excluded due to the type of agriculture grown within New York State. For example, while innovative in their approach to creating their product, and despite every piece of machinery having been created in house, IDC does not benefit from the Farm Distillery Act. New York State does not produce beets and, therefore, they buy their product from a distributor in Upstate New York, which sources their product from North Dakota. As a result, this license does not increase profit margins for their business. Moreover, Jack From Brooklyn takes great pride in purchasing their materials from New York State distributors, but the raw product sold from upstate businesses still sources from out of state enterprises.

The tax legislation component is also not as helpful as it only targets those businesses that qualify for Farm Distillery licensing. It appears that fewer firms were aware of this provision, indicating that more can be done to promote the existence of this legislation and how it can help smaller scale distilleries.

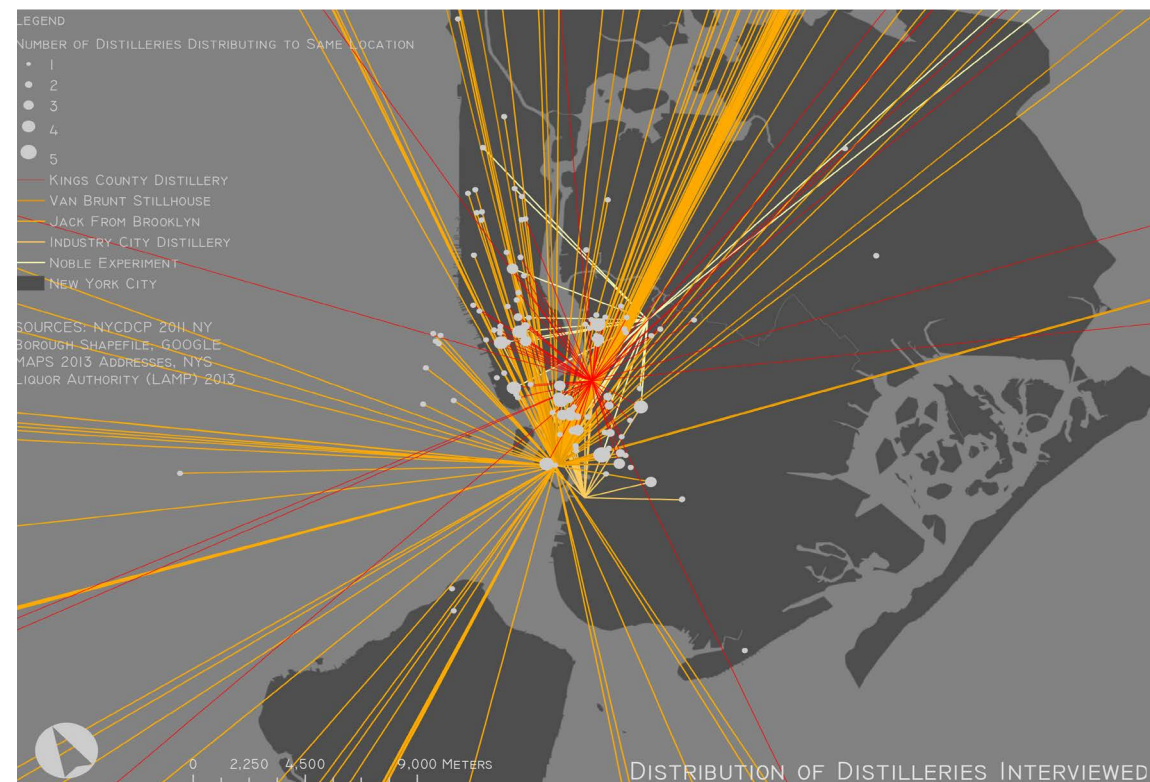
| FIRMS | SUPPLY MODE OF TRANSPORTATION | PERCENT OF SUPPLIES LOCALLY SOURCED | COORDINATION WITH OTHER DISTILLERS/BREWERS FOR SUPPLIES/DISTRIBUTION | WASTE MANAGEMENT |
|--------------------------|-------------------------------|-------------------------------------|--|-------------------------|
| INDUSTRY CITY DISTILLERY | TRUCK, FREIGHT | | 0% RAW MATERIALS, 100% EQUIPMENT | NO |
| THE NOBLE EXPERIMENT | TRUCK | | > 50% | NO |
| VAN BRUNT STILLHOUSE | TRUCK | | ROUGHLY 50% | NO |
| KINGS COUNTY DISTILLERY | TRUCK | 5 | > 75% | NO |
| JACK FROM BROOKLYN | TRUCK, FREIGHT | | ALL COMMODITIES PURCHASED FROM NYS BUSINESSES, 0% GROWN IN STATE | NO, SHARING OF CONTACTS |

Agglomeration in Practice

In order to evaluate whether the firms benefitted from agglomeration, I asked questions regarding their interaction with other competitors, how their supplies reach them (in order to determine coordination), to whom they distributed (to assess if their distribution patterns coincided), whether their supplies were locally sourced and how they dispose of their waste. The table suggests that despite their close proximity to each other, the supply side of their business does not reflect a clustered pattern. The literature suggests that the close proximity of firms would create an idea-sharing and creative environment, but the firms specifically choose not to communicate with each other in order to preserve differentiation within their similar consumer markets.

Waste management has the potential to channel agglomeration efforts if sought by co-locating firms. As of right now, some firms are sourcing their solid waste back to local farmers in order to feed their crops, thus creating a closed loop cycle within the agricultural field. IDC discussed their specific interest in creating

projects that focus around different waste streams and how to minimize waste as much as possible. They employ the reuse of heat energy in order to power other appliances in their space. Moreover, they specifically focused on the production of beet sugar vodka because there is no solid waste component in the way in which they ferment and distill their vodka.



The map above shows the distribution locations for the five firms interviewed. The larger circles indicate areas where multiple firms distribute their product and the smaller circles indicate areas where one or two firms distribute. This map not only shows us that the firms are taking advantage of their location in relation to their customers, but also that in many cases they distribute to the exact same retail store. This could potentially lead to shared distribution opportunities to cut down on costs. Also, the network shown exemplifies the consumer demand for the locally made products and how each firm is able to compete within due to competitive advantage.

Interview Limitations

The interview process inherently has bias based on assumptions I made in creating the questions in the first place. These assumptions coupled with only interviews from distilleries within Brooklyn serve to expose a very select part of the industry. In order to learn more about the implications of NY State laws for breweries, interviews would have to be conducted with them.

CONCLUSION

SUMMARY OF FINDINGS

Historically, New York City and New York State featured a significant amount of breweries and distilleries that had gone into decline due to prohibition and have only recently begun to experience resurgence as standalone industries. Recognizing this, New York State, in order to emphasize locally sourced products and to connect those to related industries, has passed legislation to help encourage the alcohol production in New York State. This thesis addresses the implications of these policies within a city-wide framework; whether there is an industry cluster forming within the city; and if and how the city is aiding these small firms in their business development.

General statistics and descriptive statistics show that the industry is not only new, but is growing at a fast rate. Microbreweries from 2011-2012 grew 150% compared to 40% growth across the state. Moreover, distilleries, which prior to 2010 did not locate in New York City, grew 550% from 2011-2012 in comparison to 137.5% statewide. The distilleries within New York City now comprise 34% of all craft distilleries within the state and Brooklyn alone accounts for 28.9% of all craft distilleries in New York State; this number continues to rise in 2013. Growth is indeed happening within these industries across the state, but at especially fast rates within the city. Further evaluation of the speed in which both microbreweries and distilleries are growing within New York City should be conducted in order to determine whether this rapid growth is in fact part of a larger, more pronounced trend.

The spatial analysis served to determine whether these firms were clustering with significance, and augments the choice in which firms choose to locate their enterprise from a spatial perspective. The data shows that both breweries and distilleries were clustering with a less than 1% chance that their spatial placement could be considered by random chance within New York City. Also, Thus, the firm's agglomeration has a spatial component that can otherwise explain their co-location despite competition within the same market.

The interviews provide a small glimpse into the craft distilling industry, revealing that although there is an emphasis on policy to support these industries, the firms locating in New York City are not necessarily benefitting from them from the supply side, as the literature might suggest. Much like the hotels and fashion industries both microbreweries

and craft distilleries thrive because of their slightly differentiated products from the standard products a consumer would otherwise purchase. Additionally, concerns with space and proximity to consumers outweigh any political factors or borough identity in terms of reasons to locate within the city. The firms do not communicate with each other in order to coordinate supplies or distribute their product. Some of the firms source more than 50% of their raw materials locally, while others completely source from outside the state.

Through this thorough investigation, it can be determined that there is an industry cluster of microbreweries and craft distilleries within New York City. The policy that should aid these businesses does not necessarily extend to all firms because certain products are not grown within New York State, making the legislation highly specialized. The firms themselves, although situated close to one another, do not coordinate supply or distribution methods in order to expedite processes and cut costs in light of having many of the same distribution locations.

Unfortunately, this thesis did not examine the recently passed Farm Brewery Act and its current implications with regards to applicable firms. This assuredly needs to be evaluated in order to determine whether the policy passed this past summer at the statewide level is helpful in allowing for the establishment of more microbreweries.

RECOMMENDATIONS

Given the findings of this thesis, I would make the following recommendations to policy makers, city officials with the capacity to grow industry, and the firms themselves.

New York State Policy Makers

The Farm Distillery Act serves to enable small distillers the ability to produce alcohol while simultaneously hosting tastings on site given that more than 50% of the raw materials comes from New York State. New York State policy makers should include provisions for buying from distributors within the state even if the raw material is not grown in state in the first place. This would allow for an increasingly diversified product that supports local businesses despite the agriculture gap within the state.

Additionally, more information should be readily available about the tax legislation, and could be rewritten in order to ensure full understanding by interested firms. Current literature about this tax legislation is confusing, poorly worded, and is open to misinterpretation of its applicability; it could benefit from restructuring and marketing to ensure that it succeeds in benefiting those firms that qualify.

City Government

In some cases, certain firms were offered rent subsidies or grants through city affiliated agencies. The New York City Economic Development Corporation has a division called the Center for Economic Transformation which aims to explore emerging industry trends and develop strategies accordingly to support local businesses. The NYCEDC could take on microbreweries and craft distilleries under their food emphasis because of the rapid growth seen specifically in the city, and continue to foster this growth through reduced rent in manufacturing spaces or grant funding. Through such an initiative, these industries could become an economic generator as they infiltrate one of the largest industries (retail beverage and restaurants/hospitality) while simultaneously addressing other city initiatives like PlaNYC's sustainable food systems infrastructure.

Microbrewery and Craft Distillery Firms

These co-located firms are in a unique position to rely on each other and aggregate some simplified business services to cut costs across the board. Aggregation of supplies (that happen to be similar) and distribution could serve to cut costs for the firms, and also address environmental concerns with each individual firm acting in their own self-interest. Although some discussion on sourcing back waste from fermentation is standard practice, there has been some discussion of aggregating that waste and adding it to an anaerobic digestion system, which could then source back energy generated from within it to cut costs. Also, bottling could be co-located so as to cut costs.

GLOSSARY

1. NY Code - Section 61: Distiller's licenses

1-a. A class A-1 distiller's license shall authorize the holder thereof to operate a distillery which has a production capacity of no more than thirty-five thousand gallons per year for the manufacture of liquors by distillation or redistillation at the premises specifically designated in the license. Such a license shall also authorize the sale in bulk by such licensee from the licensed premises of the products manufactured under such license to any person holding a winery license, farm winery license, distiller's class A license, a distiller's class B license or a permittee engaged in the manufacture of products which are unfit for beverage use. It shall also authorize the sale from the licensed premises and from one other location in the state of New York of liquors manufactured by such licensee to a wholesale or retail liquor licensee or permittee in sealed containers of not more than one quart each. In addition, it shall authorize such licensee to sell from the licensed premises New York state labelled liquors to a farm winery licensee in sealed containers of not more than one quart for retail sale for off-premises consumption. Such license shall also include the privilege to operate a rectifying plant under the same terms and conditions as the holder of a class B-1 distiller's license without the payment of any additional fee.

2-c. (a) A class D distiller's license, otherwise known as a farm distillery license, shall authorize the holder of such a license to operate a farm distillery at the premises specifically designated in the license:

- (i) To manufacture liquor primarily from farm and food products, as defined in subdivision two of section two hundred eighty-two of the agriculture and markets law;
- (ii) To put such liquor into containers of not more than one quart each, which containers shall then be sealed and to sell such liquor at wholesale, for resale, and to wholesale and retail licensees and permittees;
- (iii) To sell at retail, for personal use, in such sealed containers; and
- (iv) To sell in bulk, liquor manufactured by the licensee to a wine or farm winery licensee, or to the holder of a class A, A-1, B, B-1 or C distiller's license, or to the holder of a permit issued pursuant to paragraph c of subdivision one of section ninety-nine-b of this chapter.

(b)(i) Retail sales by a licensed farm distillery may be made only to customers who are physically present upon the licensed premises and such sale shall be concluded by the customer's taking, with him or her, of the sealed containers purchased by the customer at the time the customer leaves the licensed premises;

(ii) Such retail sales shall not be made where the order is placed by letter, telephone, fax or e-mail, or where the customer otherwise does not place the order while the customer is physically present upon the premises of the licensed premises;

(iii) Such retail sales shall not be made where the contemplated sale requires the licensee to transport or ship by common carrier, sealed containers of liquor to a customer.

(c) A licensed farm distillery may conduct upon the licensed premises consumer tastings of liquor manufactured by the licensee and from no more than three other class A, A-1, B, B-1, C or D distilleries, subject to the following limitations:

(i) Only liquor manufactured primarily from farm and food products, as defined in subdivision two of section two hundred eighty-two of the agriculture and markets law, shall be used in the tastings;

(ii) An official agent, servant or employee of the licensee shall be physically present at all times during the conduct of the consumer tasting of liquor;

(iii) No consumer may be provided, directly or indirectly: (A) more than three samples of liquor for tasting in one calendar day; or (B) with a sample of liquor for tasting equal to more than one-quarter fluid ounce;

(iv) Any liability stemming from a right of action resulting from a consumer tasting of liquor authorized by this paragraph and in accordance with the provisions of sections 11-100 and 11-101 of the general obligations law, shall accrue to the licensee.

(d) Notwithstanding any other provision of this chapter, the authority may issue a farm distillery license to the holder of a class A, A-1, B, B-1 or C distiller's license, a winery license or a farm winery license for use at such licensee's existing licensed premises. For the purposes of this chapter, the premises of the class A, A-1, B, B-1 or C distillery, winery or farm winery shall be considered the premises of the farm distillery. The holder of a farm distillery license that simultaneously holds a winery, farm winery or any class of a distiller's license on the same premises may share and use the same tasting room

facilities to conduct wine and liquor tastings that such licensee is otherwise authorized to conduct.

(e) Notwithstanding any other provision of law to the contrary, the holder of a farm distillery license may apply to the authority for a license to sell beer, wine and liquor for consumption on the premises in a restaurant operated on or adjacent to the licensed farm distillery. All the provisions of this chapter relative to licensees to sell beer, wine or liquor at retail for consumption on the premises shall apply so far as applicable to such application.

(f) No holder of a farm distillery license shall manufacture in excess of thirty-five thousand gallons of liquor annually. In the case of the holder of a class A, A-1, B, B-1 or C distiller's license who operates a farm distillery on the same premises, the liquor manufactured pursuant to the farm distillery license shall not be considered with respect to any limitation on the volume that may be manufactured by the class A, A-1, B, B-1 or C distillery.

2. N.Y. AGM. LAW § 282 : NY Code - Section 282: Definitions

2. "Farm and food product" means any agricultural, horticultural, forest, or other product of the soil or water that has been grown, harvested, or produced wholly within the state of New York. Such products shall include but not be limited to: fruits, vegetables, eggs, dairy products, meat and meat products, poultry and poultry products, fish and fish products, grain and grain products, honey, nuts, preserves, maple sap products, apple cider, fruit juice, ornamental or vegetable plants, nursery products, flowers, firewood, fermented agricultural products, and Christmas trees.

3. S7728-2011: Establishes a beer production tax credit for beer produced within the state by a taxpayer that is registered as a distributor; repealer. TITLE OF BILL: An act to amend the tax law, in relation to establishing a credit under articles 9-A and 22 of such law for beer produced within the state by a taxpayer that is registered as a distributor under article 18 of the tax law; to amend the alcoholic beverage control law, in relation to the

exemption from the beer label registration fee; and to repeal subdivision 6 of section 424 of the tax law, relating to the exemption for beer produced and sold within the state by certain distributors under article 18 of the tax law.

4. S7727-2011: Creates a farm brewery license. TITLE OF BILL: An act to amend the alcoholic beverage control law and the agriculture and markets law, in relation to the creation of a farm brewery license and to amend the tax law, in relation to farm winery, farm distillery and farm brewery sales tax information return filing requirements.

APPENDIX

INTERVIEW QUESTIONS

1. What, if any factors contributed to your location in New York City? (e.g. political, locational, etc.)
2. On a scale of 1 to 5, with 5 being the highest, did political factors (tax incentives, rent subsidy, etc.) impact your decision to locate?
 - a. What incentives were offered to you?
3. On a scale of 1 to 5, with 5 being the highest, did the borough's identity impact your decision to locate within it?
4. On a scale of 1 to 5, with 5 being the highest, how big of a concern was space for your business?
 - a. How big is your facility (in square feet)?
 - b. How much do you pay in rent per month?
5. On a scale of 1 to 5, with 5 being the highest, did locating close to your consumers impact your decision to locate?
 - a. Please list your distributors' names and locations:
6. Are you familiar with the Farm Distillery Act in New York State? Yes or No
7. If "yes", did this legislation enable you to establish your business in New York?
8. The Farm Distillery Act allows distillers to:
 1. Sell liquor made from NY State Farm
 2. Sell to Wholesalers for resale
 3. Sell to retail licensees and permittees;
 4. Sell to the public at the distillery
 5. Do Tasting at the Distillery
 6. Do Tasting at the Liquor Stores
 - a. Does this license increase profit margins for your business? What specifically?
 - b. Do you sell your product to farm wineries? If so, which ones?
9. Are you familiar with the legislation passed this summer relating to tax breaks for craft breweries? Yes or No
10. If "yes", how does this legislation affect you?
11. The bill passed this summer allows refundable corporation franchise and personal income tax credit for beer produced within New York State if less than 60 million gallons

- per year. The 1st 500,000 gallons produced would receive a tax credit of 14 cents per gallon and 4.5 cents per gallon up to 15.5 million galls per year. It also allows small batch brewers exemption from annual label registration if they produce 1,500 barrels or less annually.
- a. Does this tax credit help your business?
 - i. If so, on a scale of 1-5 (5 being the highest), how much?
 - b. Does your business benefit from the annual label registration exemption? If so, how many barrels do you produce annually?
 12. Are you familiar with the legislation passed enacting a farm brewing license? Yes or No
 13. If yes, how does this legislation affect you?
 14. The farm brewing license allows brewers of less than or equal to 60,000 barrels annually to:
 1. sell such beer to licensed farm distillers, farm wineries, and farm breweries;
 2. conduct tastings at the licensed premises of such beer production;
 3. sell such beer at retail for consumption off the premises at the State
 4. Fair, recognized county fairs, and farmers markets;
 5. sell and conduct tastings of such beer at retail for consumption on the premises of a restaurant, conference center, inn, bed and breakfast, or hotel owned and operated by the licensee in or adjacent to its farm brewery; and
 6. apply for a permit to conduct tastings away from the licensed premises under certain conditions.
 - a. Would you consider selling your product amount other farm distillers, wineries and breweries?
 - b. Could this legislation help expand your business? If yes, how so?
 15. Are you familiar with the tax legislation relating to farm wineries and farm distilleries sales tax information return filing requirements? Yes or No
 16. If yes, how does this legislation affect you?
 17. The amendment to the tax law relating to farm wineries and farm distilleries sales tax information return filing requirements exempts farm wineries and farm distilleries from the obligation to file the annual information return required by that subdivision.
 - a. If applicable, how will this filing requirement help your business?
 18. How do your supplies reach you? (Truck, port, train, etc.) ?

19. What percent of your supplies are locally sourced?
 - a. Please list your suppliers' names and locations:
20. Do you coordinate with other distillers/brewers in the surrounding area for supplies? Yes or No
21. If yes, which other distillers/brewers?
22. What are you currently doing with your solid/liquid waste?

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S7727-2011: Creates a farm brewery license. <http://open.nysenate.gov/legislation/bill/S7727-2011>

S7019-2011: Relates to farm winery and farm distillery sales tax information return filing requirements. <http://open.nysenate.gov/legislation/bill/S7019-2011>