



## The Risks and Rewards of Breweries and Distilleries

*Craft brewing and distilling is a hot trend that uses very hazardous equipment and sells very potent beverages; insure accordingly.*

Alcohol is back. Of course, it never left, but per capita consumption of alcoholic beverages in the U.S. is back near peak levels after declining sharply in the last two decades of the 20th century.

According to data from the National Institute on Alcohol Abuse and Alcoholism (NIAAA), annual per capita consumption of alcohol fell more than 20% in the 1980s and 1990s, from a post-Prohibition peak of 2.75 gallons in 1980 to a low of 2.15 gallons in 1995. Since then, per capita alcohol consumption has grown steadily, reaching 2.45 gallons in 2020.<sup>1</sup>

The recent trend is not good for public health, according to researchers who claim that the number of alcohol-related deaths has doubled since 1999, while the rate of alcohol-related deaths has increased 50% over the same period.

### Small Producers; Big Business

The trend has also impacted thousands of entrepreneurs who have gone into business making craft beers and spirits. The number of establishments doing so has grown substantially in recent years.

According to the Brewers Association, the national trade group for the beer brewing industry, the total number



of breweries in the United States nearly doubled in the second half of the last decade, from 4,847 in 2015 to 9,247 in 2021.<sup>2</sup>

Almost all of that growth is accounted for by three types of relatively small establishments:

- Microbreweries, defined as breweries that produce 15,000 or fewer barrels of beer per year, and sell 75% or more of it offsite;
- Taprooms, designated spaces at breweries where beer produced onsite is served to patrons; and
- Brewpubs, dining establishments that brew beer onsite.

In all, the number of such establishments rose from 4,625 in 2015 to 8,901 in 2021.

In terms of production, the craft brewery sector has seen its output soar over the 21st century, from roughly 6.5 million barrels in 2005 to a peak of nearly 28 million barrels in 2019, when sales reached \$83 billion, a third of all alcoholic beverage sales in the U.S.

A similar trend is visible among independent distilleries of whisky and other forms of hard liquor.

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According to the American Craft Spirits Association (ACSA), the number of producers of craft spirits more than doubled, from 906 in 2014 to 2,290 in August 2021, an annual compound average growth rate of about 20%. Of the latest total, roughly 2,000 are classified as “small craft distillers.”<sup>3</sup>

### Hot Stuff

The term “craft” evokes the image of an artisan practicing his or her art in controlled conditions, but it can be misleading to the extent it causes anyone to overlook the fact that brewing and distilling involve industrial-type processes with some industrial-type risks. Brewery and distillery fires are big news, not necessarily because they happen more frequently than fires in other establishments, but because they often result in a spectacular total loss.

Dust from the grains and sugar used to brew beer are the principal culprit in brewery fires, according to Beall Brewery Insurance, a branch of Beall Financial and Insurance Services, a retail agency.

The firm warns that dust can accumulate in the air as ingredients are stored, transported, and ground. Upon exposure to a heat source, the airborne dust can ignite into a flash fire or fireball which, if contained in a confined space, can create pressure at a high enough level to rupture equipment or even the walls of a building.<sup>4</sup>

Breweries have another type of explosion problem — cans of beer that explode in the possession of buyers. According to Kate Bernot, an independent writer who covers the alcoholic beverage business, brewers have been dealing for several years with cans of “unpasteurized, heavily fruited beers” that burst after the contents referment. Several well-known craft brands have instituted voluntary recalls of their products as a result.<sup>5</sup>

In distilleries, the principal fire danger is the flammable vapors produced during the distilling process. The National



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Fire Prevention Association (NFPA) states that hard liquor, usually 40% or more alcohol by volume, emits vapors that can ignite in the air at 79° Fahrenheit, a temperature easily reached within many distilling operations.<sup>6</sup>

The Gin Guild, an organization of gin distillers in the United Kingdom, notes that, “the increased numbers of new and often comparatively inexperienced distillers ... gives rise to an increased risk of explosion, due to the use of ethanol as part of the distilling process.”<sup>7</sup>

### Close Quarters

The vulnerability of craft breweries and distilleries to sudden, devastating fires is made more worrisome by the fact where many of them are located in dense retail districts utilizing commercial structures not designed for operations involving flammable materials and heat-producing equipment.

In such a setting, a fire or explosion in a brewery or distillery can trigger other types of potentially fatal losses to the enterprise.

Since the event will almost certainly require closing off the immediate area for at least a short period, the establishment and its neighbors will suffer a loss of revenue until the location is reopened. Business income insurance is available for lost revenue and extra expenses needed to reopen, for businesses directly affected by the property damage or closed due to civil authority which denies access to the business; but many new and small businesses find it difficult to afford this coverage.

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(For more information on business income and extra expense coverage, please see these editions of our technical publication *Adjusting Today*: “[Valuing Business Income Exposures – A Case for Blanket Business Income Insurance](#)” and “[Questions About Business Income Insurance](#).”)

Even if a fire at a brewery or distillery is contained and the loss is only a partial one, the property may have to be rebuilt to conform with standards of an updated fire code, thus prolonging the time needed to reopen and increasing the amount of income loss.

In August 2021, the International Code Council revised its International Fire Code to impose a requirement that sprinklers be installed in buildings where distilled spirits are created or stored in bulk. “Distilled spirits have the properties of flammable liquids and proper safeguards must be provided for the occupancies and structures that house such activities,” the ICC states.<sup>8</sup>

In light of that, owners of buildings where alcoholic beverages are brewed or distilled will probably face an exposure for the increased costs incurred to bring the undamaged part of a damaged structure up to the latest code requirements. This exposure for “increased cost — ordinance or law” is excluded from standard commercial property coverage but can be added by endorsement.

(For more information on ordinance or law coverage, see our *Adjusting Today* edition “[Ordinance or Law Coverage: Code for Recovery!](#)”)

### Not Tied to the Land

Risks of loss for craft breweries and distilleries are distinct from those of wineries.

Whereas wineries often include a grape- or fruit-growing operation, and the attendant agricultural exposures,



breweries and distilleries typically buy their hops, barley, and other ingredients from third-party growers. (This is not to say that any batch or selection will do, brewers and distilleries often choose particular strains or producers of grain and other ingredients, and disruptions to agricultural can have a direct impact on beverage producers.)

Since breweries and distilleries are rarely connected to a growing operation, at least directly, they are not geographically limited to the extent wineries are. As explained in this edition of *Insights for Your Industry* devoted to wineries, the vast majority of U.S. wineries are located in states on the Pacific Coast and have suffered severe damage from wildfires that have ravaged the region in recent years.

A few populous states (California, New York, Pennsylvania, and Texas) account for nearly a quarter of the country’s independent breweries and distilleries, but there is no geographic or climatic limitation to where one can be located; access to markets will be the prime consideration.

It follows that the success of a brewery or distillery is less tied than a winery to a location, to what vintners refer to as “terroir,” a French term referring to the overall environment in which a wine is produced — its soil, climate, and topography, and the types of grapes the region produces.

Since breweries and distilleries are less dependent on specific locations than wineries, it also follows that their success is more dependent on supply chains and the skills of individual brew masters and distillers. For this reason, risk analysts advise craft breweries and distilleries to plan explicitly for the loss of a key craftsman.



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### Alcohol and Food

Like thousands of the new wineries that have opened in recent years, most of today's craft breweries and distilleries rely heavily on revenue and marketing through sales at their production location. In these settings, patrons are coached to appreciate the unique flavors, textures, and consistencies of novel blends, making a visit a lesson in connoisseurship as well as a chance to have a drink.

With that experience comes the potential for legal liability, however, an exposure that falls harder on craft breweries and distilleries than wineries.

For the most part, craft-produced beers and spirits will have higher alcohol content than their mass-produced counterparts.<sup>9</sup> A patron accustomed to driving home after drinking one 12-ounce beer at a bar may not be prepared for the impact of a craft brew that has a higher alcohol concentration.

Given the importance of on-site sales to craft producers, their serving staff must be especially alert to detecting when customers have had too much to drink, and to insisting that customers under the influence of alcohol not drive themselves home. It's an awkward but essential skill in the business.

To reduce the risk of intoxicated patrons, while boosting revenue, craft breweries and distilleries, like wineries, will add food service to their experience. This, of course, adds a range of food service risks — for illness from tainted food, damage by smoke and fire to the premises resulting from food preparation, and accidents involving servers — to the overall risk of running an establishment.

### Labor of Love

Anyone who envisions a brewer or distiller spending his or her day experimenting with ingredients and sampling different blends will be surprised to learn how arduous and time-consuming it is to maintain the equipment needed for brewing beer and distilling spirits.

Collin McDonnell, CEO of HenHouse Brewing in Petaluma, Calif., describes brewing as "90% cleaning and 10% paperwork."<sup>10</sup> Yet McDonnell, who started his career as a communications consultant, has been in the brewing business for nearly 12 years, with no sign he'll be leaving any time soon.

Like so many other professionals who have migrated to the business of responding to America's craving for a good drink, McDonnell apparently finds it to be a labor of love to do what it takes to make simple ingredients into a rewarding experience.

To prevent their labor of love from becoming a nightmare of loss, aspiring brewers and distillers are urged to work with their insurance agents and brokers to develop coverage programs that address the potentially severe property and liability risks that come with creating and marketing alcoholic beverages.

With such a program in place, you can toast your safety and success.

<sup>1</sup> Mike Stobbe, "US drinking more now than just before Prohibition," AP News, Jan. 14, 2020; accessed at <https://apnews.com/article/public-health-health-statistics-health-us-news-ap-top-news-f1f81ade0748410aaeb6eeab7a772bf7>; see also Statista, "Alcohol consumption per capita from all beverages in the U.S. from 1850 to 2020," accessed at <https://www.statista.com/statistics/442818/per-capita-alcohol-consumption-of-all-beverages-in-the-us/>.

<sup>2</sup> Brewers Association, National Beer Sales & Production Data: Recent U.S. Brewery Count; accessed at <https://www.brewersassociation.org/statistics-and-data/national-beer-stats/>.

<sup>3</sup> ACSA and Park Street, Annual Craft Spirits Economic Briefing, December 2021, p. 11; accessed at <https://www.beallbreweryinsurance.com/craft-brewery-fire/>.

<sup>4</sup> Beall Brewery Insurance, "Where There's Dust, There Can Be Fire," Feb. 4, 2020; accessed at

<sup>5</sup> Kate Bernot, "Tick, Tick, Boom — Regulatory Consequences for Exploding Cans a Potential Time Bomb for Small Breweries," Sightlines, Feb. 5, 2021; accessed at <https://www.goodbeerhunting.com/sightlines/tick-tick-boom-regulatory-consequences-for-exploding-cans-a-potential-time-bomb-for-small-breweries>.

<sup>6</sup> Angelo Verzoni, "Small Scale, High Proof," National Fire Prevention Association, March 1, 2018; accessed at <https://www.nfpa.org/News-and-Research/Publications-and-media/NFPA-Journal/2018/March-April-2018/Features/Safe-Distilling>.

<sup>7</sup> The Gin Guild, "Playing with fire — Safe handling of gin," Dec. 5, 2019; accessed at <https://www.theginguild.com/news/playing-with-fire/>.

<sup>8</sup> International Code Council, Significant Changes to the IBC 2021 Edition, p. 145, "Distilled Spirits," accessed at [https://www.iccsafe.org/wp-content/uploads/2021\\_SigChanges\\_IBC\\_903.2.4.2.pdf](https://www.iccsafe.org/wp-content/uploads/2021_SigChanges_IBC_903.2.4.2.pdf).

<sup>9</sup> See Bo McMillan, "Craft beers get heavy ... on the alcohol," CNBC, Aug. 8 2015; accessed at <https://www.cnbc.com/2015/08/07/craft-beers-get-heavy-on-the-alcohol.html>.

<sup>10</sup> Collin McDonnell, "So You Think You Want to Open a Brewery...," Serious Eats, updated Oct. 31, 2019; accessed at <https://www.seriouseats.com/challenges-of-opening-a-brewery-job-advice-beer-industry-collin-mcdonnell-henhouse>.