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Craft Alcoholic Beverage Industry: Overview and Regulation

American production of craft alcoholic beverages—whether beer, wine, liqueurs, distilled spirits, cider/perry, mead, or fermented drinks—has increased in recent years in response to rising demand. In 2017, there were an estimated 16,800 businesses producing craft beverages in the United States, with sales exceeding \$31 billion annually (Table 1).

As part of the 2017 tax revision (P.L. 115-97), Congress enacted temporary reductions in the federal excise tax treatment on alcoholic beverages for the 2018 and 2019 tax years (Table 2). Aside from tax relief, the U.S. beverage industries receive federal support through agricultural research and farm support programs that are periodically updated by omnibus farm bill legislation.

Definitions of Craft Beverages

There is no statutory or universally agreed upon definition of what constitutes *craft* production in the U.S. beverage industry. The concept of what is considered craft is often controversial. In general, the craft beverage industry is characterized by small-scale production—usually by independent or startup companies—and by localized production and distribution, including direct-to-consumer sales. Often the term *artisan* is used to indicate small-batch production or the use of non-traditional ingredients (e.g., alternate grains, herbs, and botanicals) in production. Some definitions also focus on the degree of innovation, on-site venues, and community involvement.

Spirits

The American Craft Spirits Association (ACSA) defines *small-scale distilled spirit plant* as producing less than 750,000 proof gallons, or about 394,314 cases (12 750-milliliter bottles of 80-proof spirits/case) annually. Based on this definition, ACSA reports there were 1,586 craft distillers in the United States in 2017. Retail sales of U.S. craft spirits totaled \$3 billion, or about 4% of the total annual sales. However, definitions of what constitutes a craft distillery differ. For example, the American Distilling Institute defines *craft distillery* as producing up to 100,000 proof gallons (about 52,575 cases). At that limit, craft distillers would comprise a smaller share of the market. Separate data are not available for craft liqueurs.

Beer

The Brewers Association defines *craft brewer* as producing annually fewer than 6 million 31-gallon beer barrels—about 83 million cases (24 12-ounce cans/case). In 2017, there were 6,266 craft breweries in the United States with retail sales of \$26 billion—about 23% of the U.S. beer market, according to the Brewers Association. By volume, craft beer accounted for about 13% of the total U.S. beer market, highlighting the relatively higher market value of craft beer.

Table 1. U.S. Craft Alcoholic Beverage Market, 2017

Selected “Craft” Definition	#Operations	Sales (\$bn)
Spirits (<750,000 proof gal.)	1,589	3
Beer (<6 million beer barrels)	6,266	26
Wine (up to 49,999 cases)	8,906	2 ^a
Total	16,761	31^a

Source: CRS from various industry sources, including Wines & Vines, Brewer’s Association, ACSA, and the *Artisan Spirit Magazine*.

Notes: Data will vary under different “craft” producer definitions.

^a Partial estimate, reflecting direct-to-consumer wine shipments only.

Wine

Small-scale wineries span a more diverse range of business sizes and product categories. Wines & Vines, an industry marketing company, defines a *small vintner* as one that produces 5,000-49,999 cases of wine annually. A *very small vintner* is defined as one that produces 2,378-4,999 cases, and a *limited production vintner* produces fewer than 1,000 cases. Wines & Vines reports there were 8,906 wineries in the United States producing up to 49,999 cases of wine in 2017. Direct-to-consumer shipments from these wineries were valued at \$2 billion. (Total retail sales data for this market segment are not available, likely understating total retail sales for smaller-sized wineries.)

Wine industry statistics include not only grape and other fruit (or rice) wines but also other types of *agricultural wines*, such as cider and perry (made with apples and pears, respectively) and mead (considered a honey wine). Depending on how it is produced and its alcohol content, some cider, perry, and mead may be considered to be more similar to beer. Separate industry statistics for cider, perry, and mead production are not readily available, but many of these producers are likely smaller-sized operations. It is not clear, however, whether reported sales for wine or beer include ciders, perry, and mead. Separate data are also not available for other types of fermented drinks, such as kombucha.

Regulatory Oversight

The Alcohol and Tobacco Tax and Trade Bureau (TTB), within the U.S. Department of Treasury, is the primary federal regulatory agency responsible for licensing, advertising, labeling, tax, and formulation of alcoholic beverages at distilleries, breweries, and wineries. TTB establishes standards and guidance on how these beverages may be produced, labeled, and sold in the marketplace. TTB’s principal authority is through the Federal Alcohol Administration Act (FAA, 27 U.S.C. §§201-219a).

TTB regulations specify certain “standards of identity” for the several classes and types of distilled spirits (27 C.F.R. Parts 5.22, 5.27, and 5.35), beer and malted beverages (27 C.F.R. Part 25) and grape and other agricultural wines,

Table 2. Selected Excise Tax Rates on Beer, Wine, and Distilled Spirits (CY2018-2019)

Beverage	Production Tier to Which Lowest Excise Tax Rates per CY Apply	Excise Tax Rates per Unit That Apply for the Lowest Production Tier	Excise Tax Rates per Unit That Apply to Higher Production Tiers
Beer	First 60,000 barrels	\$3.50	\$16.00-\$18.00
Wine			
Still Wine			
≤16% alcohol by vol. (incl. mead)	First 30,000 wine gallons	\$0.07-\$0.57	\$0.17-\$1.07
>16% alcohol by vol.	First 30,000 wine gallons	\$0.57-\$2.15	\$0.67-\$3.15
Artificially Carbonated Wine	First 30,000 wine gallons	\$2.30	\$2.40-\$3.30
Sparkling Wine	First 30,000 wine gallons	\$2.40	\$2.50-\$3.40
Hard Cider	First 30,000 wine gallons	\$0.16	\$0.17-\$0.23
Spirits	First 100,000 proof gallons	\$2.70	\$13.34-\$13.50

Source: CRS based on tax rates from TTB, “Tax and Fee Rates,” at https://www.ttb.gov/tax_audit/taxrates.shtml. CY = calendar year.

Notes: “Regular Tax Rates Per Unit” are illustrative of the range of excise tax rates that apply to higher levels of production under the temporary excise tax rate changes enacted by P.L. 115-97. For a full schedule of tax rates, including comparisons of alcohol excise taxes before and after enactment of P.L. 115-97, see TTB’s website, above.

including cider and mead (27 C.F.R. Part 24). Standards of identity establish a common name and set the content for a product, defining its composition and prescribing both mandatory and optional ingredients. If the appropriate content or labeling requirements are not met, the product is considered misbranded and in violation of U.S. laws. TTB also oversees designations and reviews petitions to establish new or expand existing American Viticultural Areas in the United States, identifying and delimiting particular grape-growing regions based on certain distinguishing features.

In some cases, the Food and Drug Administration (FDA) is responsible for the regulation and labeling of some low alcohol wine and beer that fall outside TTB’s jurisdiction. Specifically, wines containing less than 7% alcohol by volume (ABV) are not defined by FAA. This may include wine coolers and ciders and wine made from non-grape fruits or from other agricultural products (such as saké). Some beers also do not meet FAA’s definition for malt beverages. Beer made from a malted barley substitute (such as corn, rice, or wheat) or made without hops are also not defined by FAA. These wine and beer products, however, may be subject to food labeling and packaging regulations under the Federal Food, Drug, and Cosmetic Act (21 U.S.C. §§341 *et seq.*), the Fair Labeling and Packaging Act (15 U.S.C. §1454), and other FDA implementing regulations. FDA labeling requirements cover ingredient and nutrition facts, allergen declarations, standards of identity, and other product identification information. FDA is also responsible for food facility registration and safety inspections.

Excise Taxation

TTB also collects and enforces taxes and fees on the production and sale of alcoholic beverages (26 U.S.C. Subtitle E). Excise taxes are levied at the manufacturer and importer level based on the per-unit production or importation of alcoholic beverages (i.e., distilled spirits, wine, beer) for sale in the U.S. market. Although private production of beer and wine is allowed for at-home consumption without paying taxes, distilled spirits may not be produced for beverage purposes without paying taxes

and without prior approval to operate a still. Violations can result in criminal penalties (26 U.S.C. §§5601-5602).

The 2017 tax revision (P.L. 115-97) temporarily changed alcohol excise tax rates for 2018-2019. As shown in **Table 2**, many craft producers are subject to lower excise tax rates than larger producers. Furthermore, credits against excise tax may be claimed by small wine or cider producers. P.L. 115-97 also adopted temporary excise tax rules for mead and low-ABV wine.

In addition, H.R. 1089/S. 389, introduced in the 115th Congress, would exempt low-alcohol versions of kombucha from taxation under the beer excise tax rates.

Role of Other Federal Agencies

Other federal agencies also play a role in the U.S. beverage industry as part of broader U.S. farm support programs. As such, the industry receives support through a range of research and farm programs that are periodically updated by omnibus farm bill legislation and administered by the U.S. Department of Agriculture (USDA).

Products used in the production of wine, mead, cider, and beer—such as fruit, honey, and hops—are considered “specialty crops” and receive support from USDA programs that provide market development, research, and export and product promotion for specialty crops. Processed products, such as wine, are also considered specialty crops if they contain more than 50% of the specialty crop by weight, exclusive of added water. For a list of programs, see CRS Report R42771, *Fruits, Vegetables, and Other Specialty Crops: Selected Farm Bill and Federal Programs*.

The production of grains used to produce beer and distilled spirits—including corn, wheat, rye, and barley—is also broadly supported through various USDA farm programs. For more information, see InFocus CRS In Focus IF10718, *Farm Bill Primer: Title I Commodity Programs*.

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