



# KEGS WITH LEGS:

Barrel Theft Costing Brewers Millions

By Steve Frank & Arnold Meltzer

**O**ur industry has a \$50,000,000 problem, according to Lester J. Jones, chief economist at the Beer Institute. That's his best estimate of what keg theft is costing American breweries each year, assuming a 3.6% theft loss on the almost 11 million kegs in circulation. Jones estimates that the loss to the craft beer segment alone is \$20 million.

Where are the kegs going? Some languish in college dormitories. A few are being employed as buoys at docks and marinas. An award for creativity goes to the National Zoo in Washington, DC, which was using an empty keg as a cat toy for the tigers to bat around.

But most are falling prey to petty thieves and junkies, who sell them to scrapyards for quick, anonymous cash. Keg theft is part of a larger problem brought about by the soaring value of scrap metal. Across the country, burglars are also targeting copper wire, manhole covers, aluminum siding and even catalytic converters, which contain small amounts of the precious metal platinum.

Kegs are an attractive target because of the high cost of stainless-steel. New stainless-steel kegs cost about \$150 each, and their scrap value has tripled in the last two years up to approximately \$55, or about \$1.80 per pound. (Sixtels and quarter kegs, which cost approximately \$100-110 each when new, will bring a little less.) The scrap value of stainless steel has been at unprecedented levels for the last two years, according to Chuck Carr, a spokesman for the Institute Of Scrap Recycling Industries (ISRI). He terms this "an unusual situation ... with no end in sight."

Exacerbating the problem is the shockingly low deposit on many kegs, as little as \$10. Another factor is sloppy keg management by some breweries, wholesalers and retailers. Many breweries don't know how many kegs have gone to each distributor and how many have come back from that distributor.

Keg loss is a particular hardship for small breweries, which tend to market a high percentage of their beer in draft form. Appalachian Brewing Co. in Harrisburg, PA has ceased shipping kegs beyond its local area because of keg losses and the high replacement cost. Appalachian brewmaster Artie Tafoya estimates the brewery has lost about 50% of its kegs over the past decade, and much of this was before the price of stainless skyrocketed.

## Rent a Keg

Possible solutions range from renting kegs to keg registration to more vigorous prosecution of keg thieves.

Weyerbacher Brewing Co. in Easton, PA switched to leasing kegs, using the MicroStar keg management company. According to Weyerbacher president Dan Weirback, "If we were to purchase kegs now based on how much draft we're selling, it would cost close to \$400,000 to buy those kegs. But for a few thousand dollars a month we pay MicroStar and never have to worry about getting the cooperage back, transportation costs, or ordering more kegs every year."

However, MicroStar is not accepting new clients until at least 2008. A company spokesperson said this was due to a lack of keg production in the U.S. However, with Franke's new keg production facility in Louisiana now operating, MicroStar intends to take on new customers once the company clears its backlog.

Hugh Sisson, chief operating partner at Clipper City Brewing Co. in Baltimore, MD, regularly gets calls from retailers asking him, "Please come pick up your kegs. We've had four of your kegs in our basement for two and a half years." Sisson now is considering a keg bar code tracking system to monitor shipments to distributors. "If it takes \$10,000 to protect \$600,000, it's probably a good investment," says Sisson.

But identifying keg ownership often is not a simple matter. Kegs get loaned between breweries, kegs get sold and kegs get picked up by truck-

ers who are unsure of their true ownership. Casey Hard, cellar master of Max's On Broadway, a Baltimore pub with over 80 taps, says that he separates his kegs by distributor, but the general pub practice is simply to tell the trucker to go to the pile of empty kegs and pick out the ones that belong to a particular distributor.

Since many kegs do not have a unique identification, like automobile VINs, tracking them is difficult. One potential solution proposed by both brewery owners and scrap metal dealers is to have such a unique number embossed on each keg. The 2007 Brewers Almanac published by the Beer Institute shows that 24 states have some form of keg registration. There is even some consideration being given to a system of national keg registration.

Franke Beverage Co. opened the only current keg manufacturing facility in the U.S. in July 2007 in Ruston, LA., with a capacity of 350,000 kegs per year. Franke-USA sales manager Barry Broughton says the plant has a unique rotary machine that can emboss the chime after the keg has been manufactured, potentially putting a unique identification number on each keg. Together



with a scannable UPC code, embossing can provide the essentials for tracking. Broughton reports that Franke is putting unique identifier numbers on kegs being produced for the national breweries.

Another incentive to keg theft is that police often have better things to do than sift through junkyards in search of purloined barrels.

### States Are Cracking Down

Pat Casey of Legends Limited in Baltimore, MD, a beer importer and distributor, has lost over 100 kegs from his fenced facility during three break-ins. After the third theft he investigated and found some of his kegs at a local scrap dealer. He called the police, who said they would not arrest anyone. Mike Rosen, owner of Atlas Scrap Metals in Denver, CO states that the inability to make a substantive case is one of the reasons police are reluctant to arrest

suspects. He suggests that marking kegs with a unique identification number would enable police to identify the owner and make prosecution easier.

Both the Brewers Association (BA) and

*Many breweries don't know how many kegs have gone to each distributor and how many have come back from that distributor.*

Sierra Nevada Brewing Co.

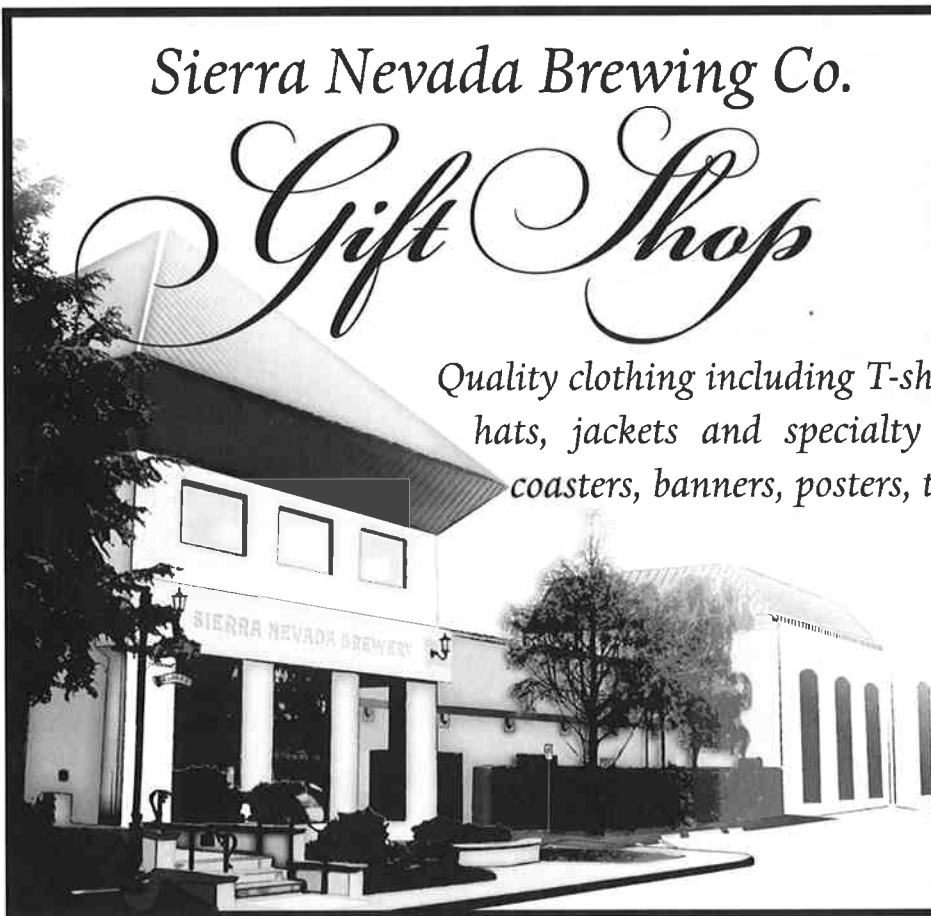
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## Police often have better things to do than sift through junkyards in search of purloined barrels.

the Beer Institute are gathering outside support for legislation requiring scrap metal purchasers to record all of their transactions. This year, the Virginia legislature passed a law that requires scrap metal dealers to ask unauthorized sellers for identification, such as a social security number or driver's license number, and to record this information in case of a police inquiry.

Meanwhile, the Washington state legislature approved Senate Bill 5312, a measure to crack down on metal theft. It requires scrap metal dealers to keep accurate records of every transaction, to refuse to buy material that lacks identifying information, and to avoid buying from customers who are known to have a criminal record for theft or drug abuse. In addition, if the price of the scrap metal is more than \$30, it cannot be paid in cash, but must be in the form of a check mailed to the seller.

To date, ten states have passed such laws. However, Steve Hirsch, associate counsel for ISRI, warns that while many jurisdictions already have such laws, the laws often are not enforced.

ISRI, as the nation's primary scrap metal recycler association, represents about 20% of the nation's scrap dealers, who handle approximately 80% of the volume of all scrap metal at their 3,000 facilities. Two years ago, the BA contacted the ISRI in an effort to raise awareness about the scope of the problem among the nation's scrap dealers. ISRI's Carr notes that until that contact, the ISRI was unaware that keg theft is a major problem or even that the kegs are stolen property.

Since then, ISRI has been working with the BA and, more recently, the Beer Institute and the National Beer Wholesalers Association to address the issue through

member education, which Carr believes is the main problem. A presentation was given at their annual convention, flyers have been prepared and distributed, and follow-up emails sent out.

The major scrap dealers now have huge posters at their facilities screaming "WE DO NOT ACCEPT KEGS. THEY ARE STOLEN PROPERTY." The flyer sent to the ISRI members depicts a keg with a slash through it in a circle, and the words "Do Not Buy Beer Kegs for Scrap" followed by "Beer kegs are the property of brewers and beer importers. No one else can buy or sell kegs for scrap. Accepting kegs is illegal."

While ISRI works mostly with the largest recyclers, much of the problem might lie with

the smaller, local dealers. Mike Rosen of Atlas Scrap Metals in Denver says he has called police when kegs were brought to his yard. He believes that the understanding that kegs are private property eventually will trickle down to the smaller scrap dealers if all the larger ones refuse to accept kegs and the police start to investigate the thefts by visiting the smaller yards.

Simply making the purchase of stolen kegs illegal is destined to failure without legal follow-up, asserts one attorney for the beer industry. "Until there are some prosecutions of scrap dealers or major lawsuits against them, there won't be any significant progress."

Just as there is no single cause for the disappearance of kegs, there also is no single solution to this multifaceted problem. A broad approach to reducing the number of lost kegs must include better keg management and tracking, increased deposits, education of scrap dealers, and a series of lawsuits against and prosecutions of receivers of stolen kegs.

### If You Can't Buy Them, Make Them

By Greg Kitecock

"I'm keenly aware of the challenge of getting kegs," says John Giannopoulos, president of the Sly Fox Brewing Co., which operates a brewpub in Phoenixville, PA and a brewpub/production facility in Royersford, PA. The supply of used kegs has dried up, he notes, and new ones are expensive ... a consequence of the price of stainless steel tripling in less than five years. He attributes this in part to heightened demand for raw materials from rapidly industrializing nations like China.

But if China is part of the problem, it's also contributing to the solution.

Giannopoulos has partnered with Christian Messmacher, a manufacturing engineer, to form Geemacher LLC: a company that will have kegs manufactured at a plant in Penglai in northern China and import them into the United States.

When contacted in mid-August, Giannopoulos expected the first shipment of sixtel kegs to arrive within a week. Half kegs will follow in November, and tall quarters should enter the country during the first quarter of 2008.

The partners commenced the new business in November 2006, and spent several months sizing up potential manufacturers and setting quality standards. Until he quit three years ago to devote his full efforts to Sly Fox, Giannopoulos was a manufacturer's rep in China, sourcing sheet metal stampers, extrusions and other metal and porcelain parts.

"Obviously, one issue is quality," asserts Giannopoulos. His kegs, he asserts, will be built to American standards. "We're trying to be a friend to craft brewers, to offer them at reasonable prices."

Depending on demand, Geemacher LLC will have the ability to bring in up to eight containers a month. The exact number of kegs will depend on the product mix. A container he adds, can hold 2,000 sixtels but only 750 half-barrels.

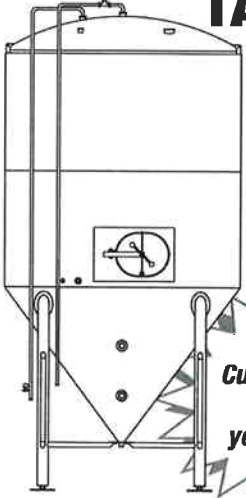
Geemacher will offer stock kegs and will also do custom embossing jobs. Initially, the embossing will be done in China, but Giannopoulos hopes to move the process to the United States by the first half of 2008, thereby cutting down on waiting time.

"If you're spending \$140-150 a keg, you're probably going to want your name on it," he says.

For more information, check out [www.geemacher.com](http://www.geemacher.com) or phone 610-948-3700.

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