Flanders
State of the Art

THE BEER MARKET IN RUSSIA

FLANDERS INVESTMENT & TRADE MARKET SURVEY

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INVESTMENT &
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Market study

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THE BEER MARKET IN RUSSIA

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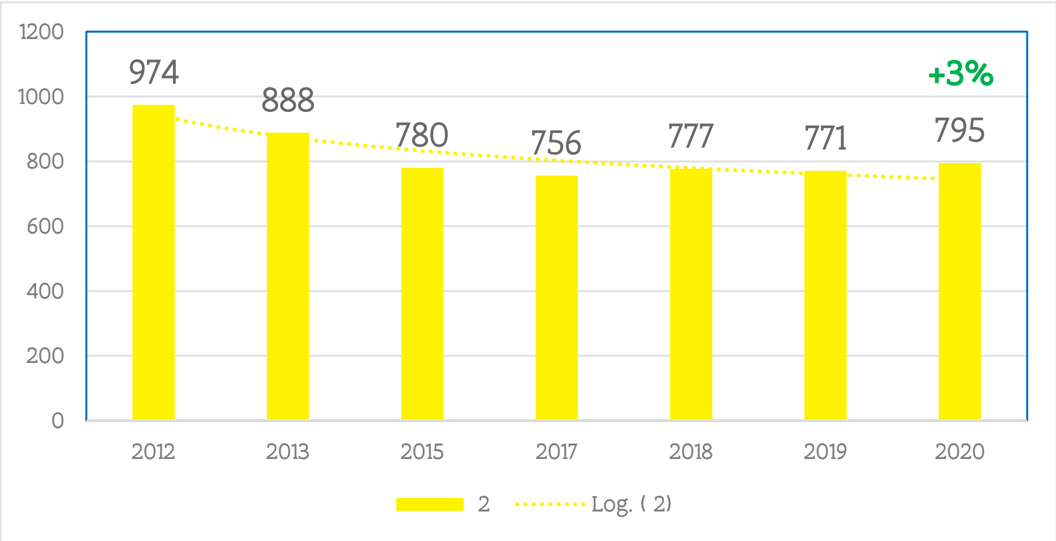
1. BEER MANUFACTURING IN RUSSIA IN 2012-2020

Beer is one of the most popular alcoholic beverages in Russia. In 2020, its average per capita consumption totaled 54 liters per person per year, which only amounted to 76% of the indicator of 2013 (71 liters). For comparison, the indicator in the major beer-consuming countries is 2 times higher. In the Czech Republic, for instance, in 2020 , the beer consumption exceeds 129 liters per person per year (source: https://profibeer.ru/[1]).

The period 2013 – 2015 brought about a decrease in market volume that was caused by a number of factors like beer sales restrictions in retail at night time, a ban for sales via kiosks and pavilions, a ban to sell products in PET containers of more than 1.5 liters as well as to freely advertise their products. It should be noted that during the period 2009–2016 the beer excise rate was raised by almost 7 times, and has continued to grow since then.

In 2020 the beer production volume amounted to 795 million decalitres, a 3% increase compared to 2019 when the production volume amounted to 771 million.

Beer manufacturing in Russia in 2012-2020 in terms of volume (in million decalitres)

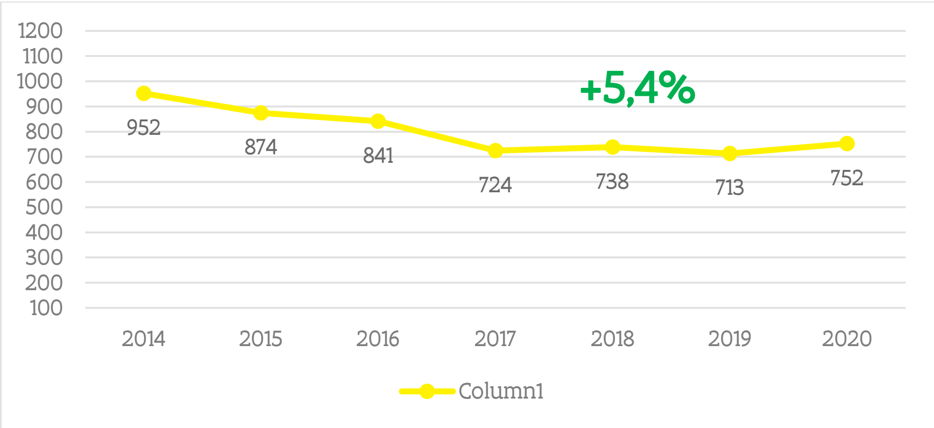


Source: https://tass.ru/ekonomika/10542267, https://profibeer.ru/[2]

1.1 BEER/BEER BEVERAGES RETAIL SALES IN RUSSIA IN 2014-2020 (IN MILLION DECALITRES)

The volume of retail sales of beer/beer beverages has also been demonstrating negative dynamics.

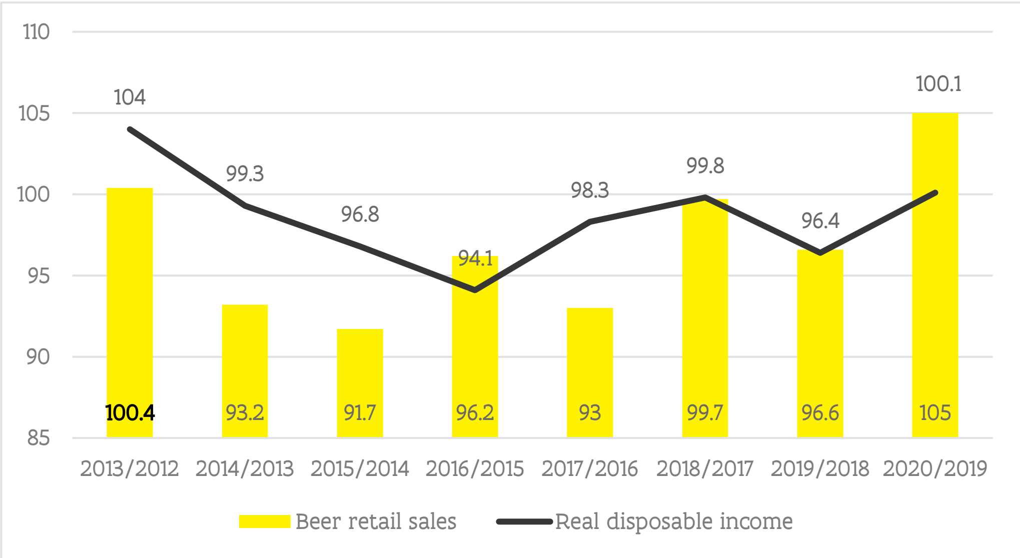
In 2019 sales decreased again by 3,4 % and totalled USD 713 million, according to estimates by the Russian Beer Union.



Source: https://www.vedomosti.ru/[3], https://profibeer.ru/[2]

One of the main reasons of declining beer sales is the tightening of regulations. The last restriction involved a ban on production and sales of beer in plastic containers of over 1.5 litres. Declining real household incomes have been affecting the situation as well.

1.2 BEER RETAIL SALES AND REAL DISPOSABLE INCOME IN 2013-2020 (IN % CHANGE Y-O-Y)

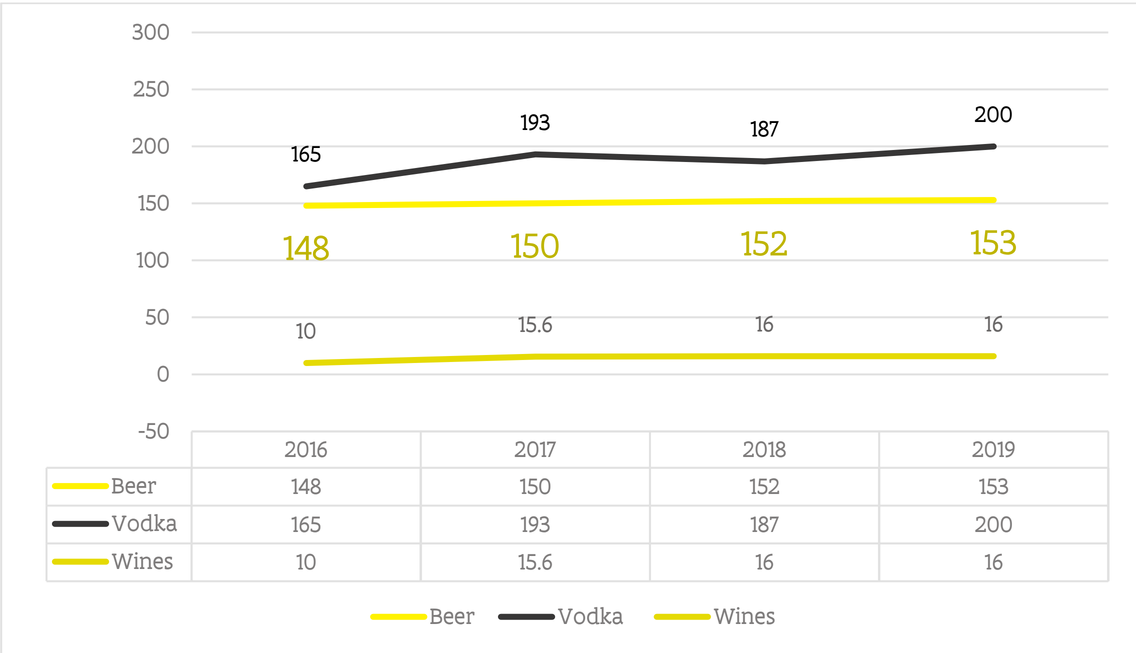


Source: https://rosstat.gov.ru/

As to the general situation on the Russian beer market in 2020 it is definitely impossible to ignore the coronavirus factor as 78% of Russian consumers have felt its impact. Due to the consumers staying away from restaurants, cafes and bars, retail alcohol sales increased compared to 2019 by 6.5% in value terms and by 7.4% in number of bottles. As to beer retail sales, in 2020, the dynamics were also positive with around 5% increase in terms of volume (litres), the total sales volume amounted to USD 752 million.

1.3 EXCISE TAXES REVENUES BY ALCOHOL TYPES AND BEER/BEER DRINKS IN 2016-2019 (IN RUB BILLION)

In 2019, Russian beer manufactures paid excise duties amounting to RUB 153 billion (€ 1,8 billion). In general, in the structure of excise returns by types of alcoholic drinks, the share of the Russian beer industry accounts for approximately 40%. Only the share of spirits is higher (54,7%), while wine only represents 4,3%. (Source: https://profibeer.ru/[2])



Source: https://ac.gov.ru/ [4]

1.4 RUSSIAN MARKET KEY PLAYERS IN 2020 BY REVENUE

'The Big Three' beer manufacturers (and at the same time they are also big importers) have a market share of around 68% in terms of volume. (Source: [10])

Ab InBev EFES (Moscow region)

URL: https://abinbevefes.ru/

Revenue: RUB 76,8 billion[5] (€ 907 million)
Market share: 30%

Brands: BUD, Corona Extra, Leffe, Hoegaarden, StellaArtois, Klinskoe, Sibirskaya Korona

URL: https://corporate.baltika.ru/
BALTIKA Breweries (St.Petersburg), a part of Carlsberg Group
Revenue: RUB 75,8 billion (€ 895 million)
Market share: around 27%
Brands: Carlberg, Holsten, Koff, Tuborg, Kronenbourg 1664, Tuborg, Baltika, Nevskoe, Zhigulevskoe and others.

URL: https://heinekenrussia.ru/
Heineken United Breweries Ltd.(St.Petersburg)
Revenue: RUB 35,8 billion (€ 423 million)
Market share: 10%
Brands: Amstel, Heineken, Krusovice, Miller, Okhota Krepkoe

Moscow Brewing Company

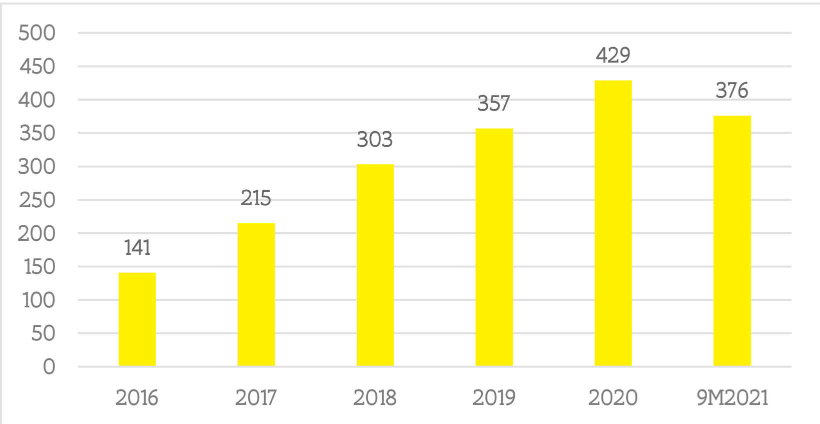
URL: https://mosbrew.ru/
Revenue: RUB 25,8 billion (€ 305 million)
Brands: Budweiser, Hollandia, LapinKulta, Trekhgornoe
Trekhosenskiy

URL: http://www.trehsosensky.ru/
Revenue: RUB 20,6 billion (€ 243 million)
Brands: Trekhsosenskoe
In 2020 Baltika kept on increasing its sales, but losing in revenue. Price competition with AB InBev Efes is fierce and the latter is expanding its presence in the retail sector. At the same time there is a clear trend of premium brand commitment on the market that is also supported by international brands. http://foodmarket.spb.ru/ [6])

2. BEER IMPORT IN RUSSIA IN 2012-2020

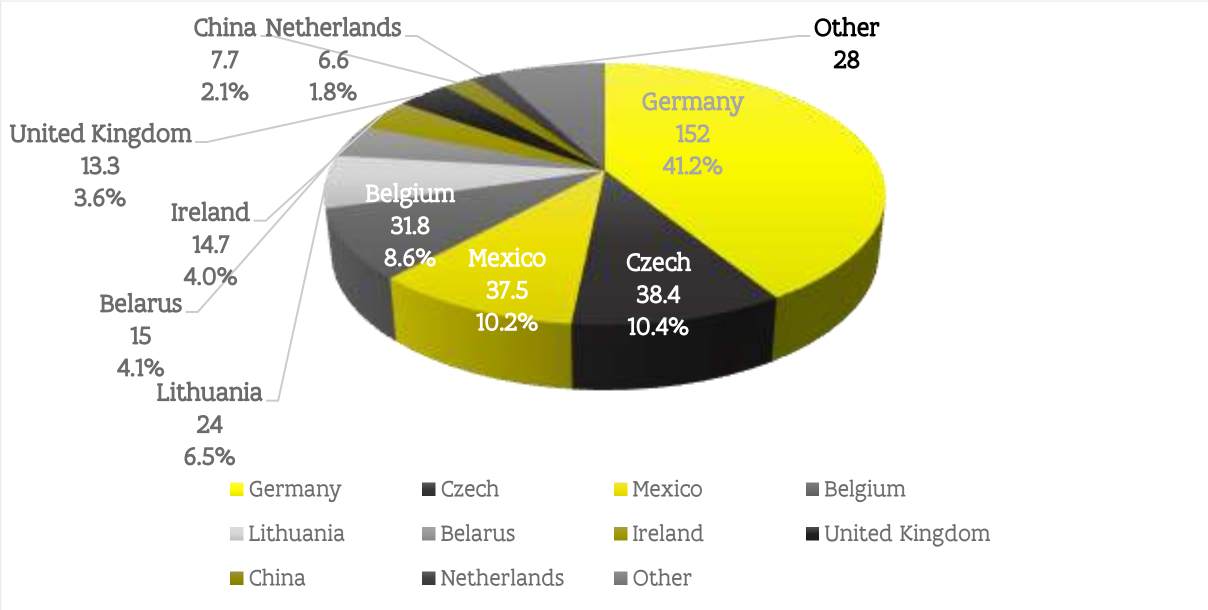
2.1 BEER IMPORT STRUCTURE INTO RUSSIA IN 2016-2020 IN TERMS OF VOLUME (IN MILLION LITRES)

The volume of imported beer amounted to with 1.4 billion litres in total for the period 2016 – 2020. It should be noted that in 2017, there was a dramatic increase of 54% in beer import in terms of volume. In 2020, beer import to Russia totalled 429 million litres, a 20% increase compared to 2019. In the first three quarters of 2021, beer import volume totalled 376 million litres.



Source: https://ru-stat.com/

2.2 STRUCTURE OF BEER IMPORT INTO RUSSIA BY COUNTRY IN 2020 (IN %, IN TERMS OF VALUE IN USD MILLION)

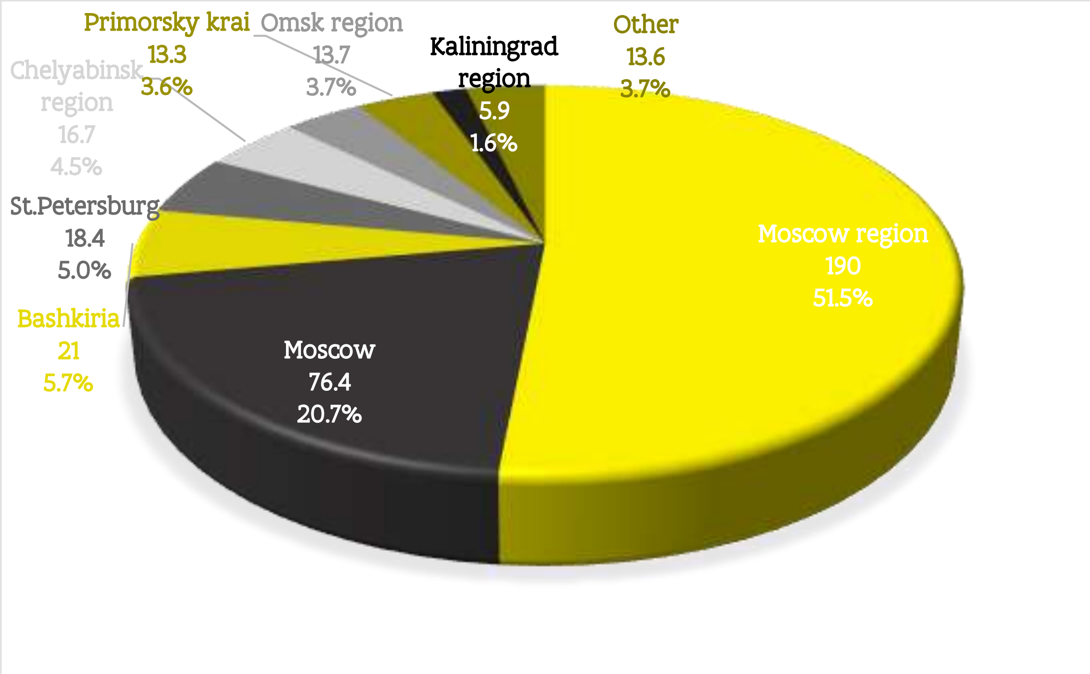


Source: https://ru-stat.com/

In 2020 in the structure of imports per country, the first place is occupied by Germany (more than 40% or USD 152 million), followed by the Czech Republic (10,4% or USD 38,4 million), Belgium ranks fourth, losing the third place to Mexico, with a total share of 8,6% worth USD 31,8 million.

2.3 THE BEER IMPORT ALLOCATED BY THE RUSSIAN REGIONS IN 2020 IN TERMS OF VALUE (IN USD MILLION)

In 2020, the top-5 Russian regions-consumers of imported beer were Moscow region, Moscow, Bashkiria, St. Petersburg and Chelyabinsk region. It should be noted that in 2020, the share of Moscow and Moscow region in the beer import structure in terms of value amounted to more than 70% (21% or USD 76,4 million and 51% or USD 190 million respectively, a 18% and 30% growth compared with 2019 (USD 65 million for Moscow and USD 134 million for Moscow region respectively). The share of Top-5 regions-consumers of imported beer is amounting to 87%. It should be stressed that in total there are 85 regions in the Russian Federation.

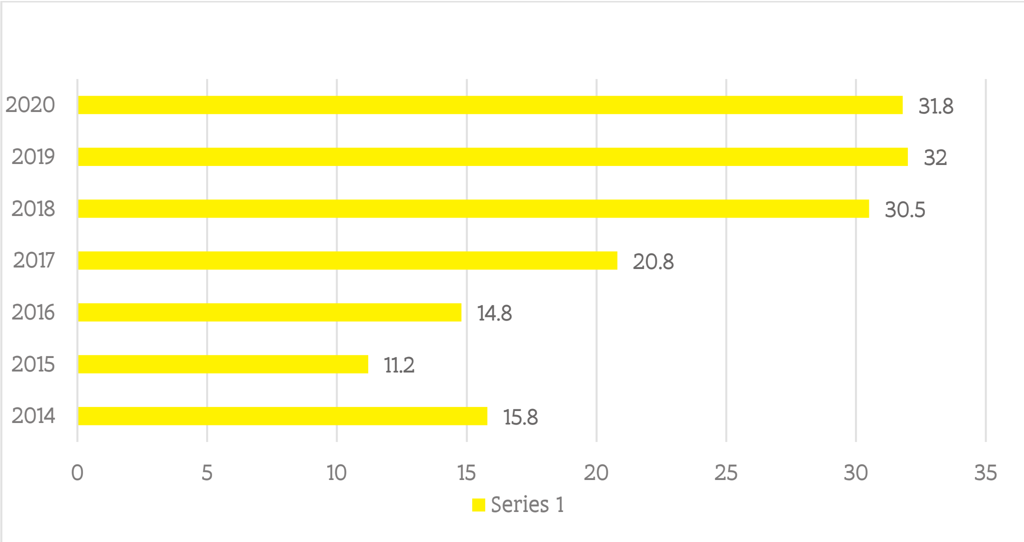


Source: https://ru-stat.com/

3. BELGIAN BEER EXPORT IN RUSSIA IN 2014-2020

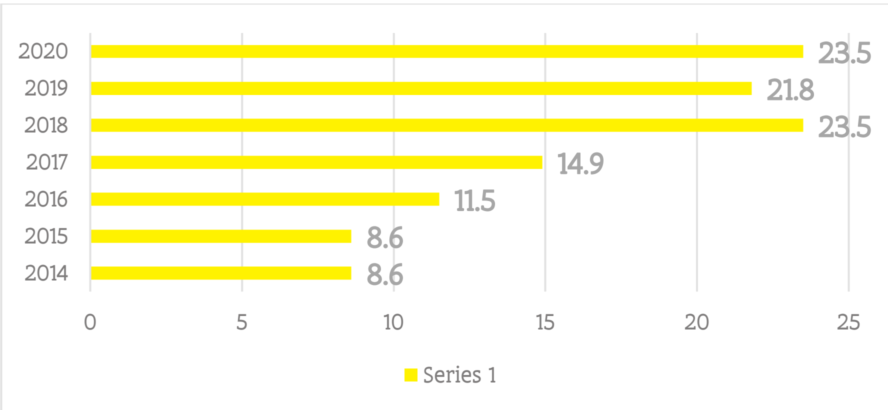
3.1 BELGIUM BEER EXPORT TO RUSSIA IN TERMS OF VALUE IN 2014-2020 (IN USD MILLION)

The total Belgian Beer export to Russia for the period 2014 – 2020 amounted to USD 157 million. Since 2016, there has been a sustained upward trend in Belgian beer exports to Russia in terms of value. in 2020, the export volume totaled USD 31.8 million.



Source: https://ru-stat.com/

3.2 BELGIUM BEER EXPORT TO RUSSIA IN 2014-2020 IN TERMS OF VOLUME (IN MILLION LITRES)

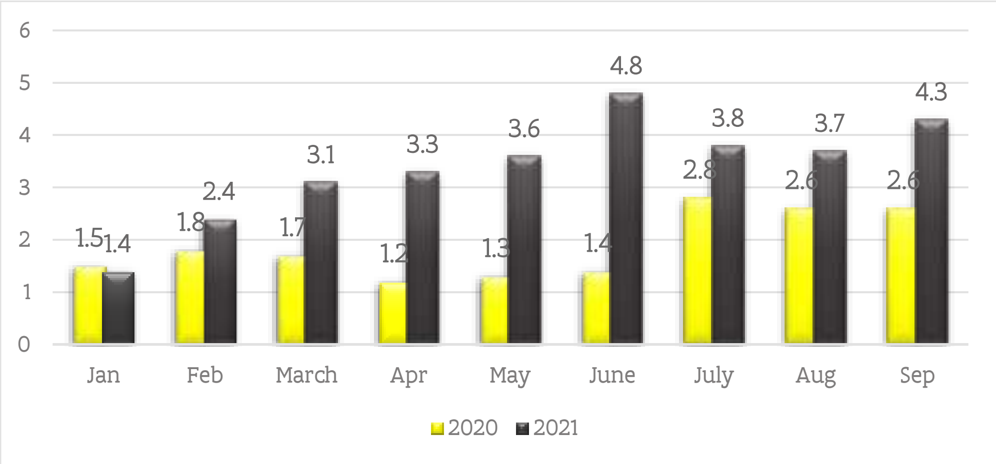


Source: https://ru-stat.com/

The total weight of exported beer for 2014-2020 amounted to 133.000 tons with a total quantity of 112 million litres.

3.3 DYNAMICS OF BELGIUM BEER EXPORT TO RUSSIA IN THE FIRST THREE QUARTERS OF 2021 (IN TERMS OF VOLUME, IN LITRES)

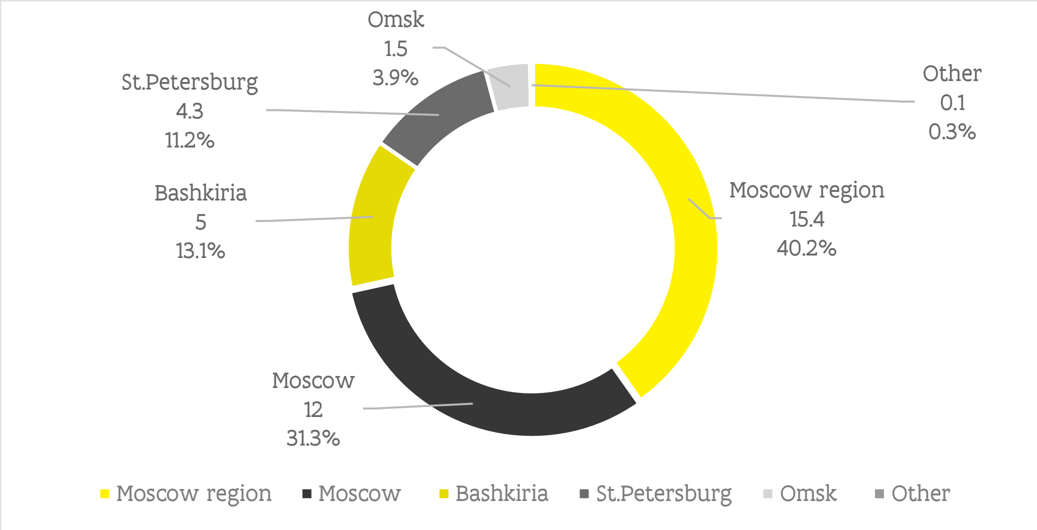
Beer import from Belgium for the period January – October 2021 amounted to 34.2 million dollar (+51% compared with the same period of the previous year), with a total weight of 34.600 tons and a quantity of 30.4 million litres (+78% y-o-y).



Source: https://ru-stat.com/

3.4 BELGIAN BEER EXPORTS PER RUSSIAN REGION IN JANUARY – OCTOBER 2021 (IN USD MILLION)

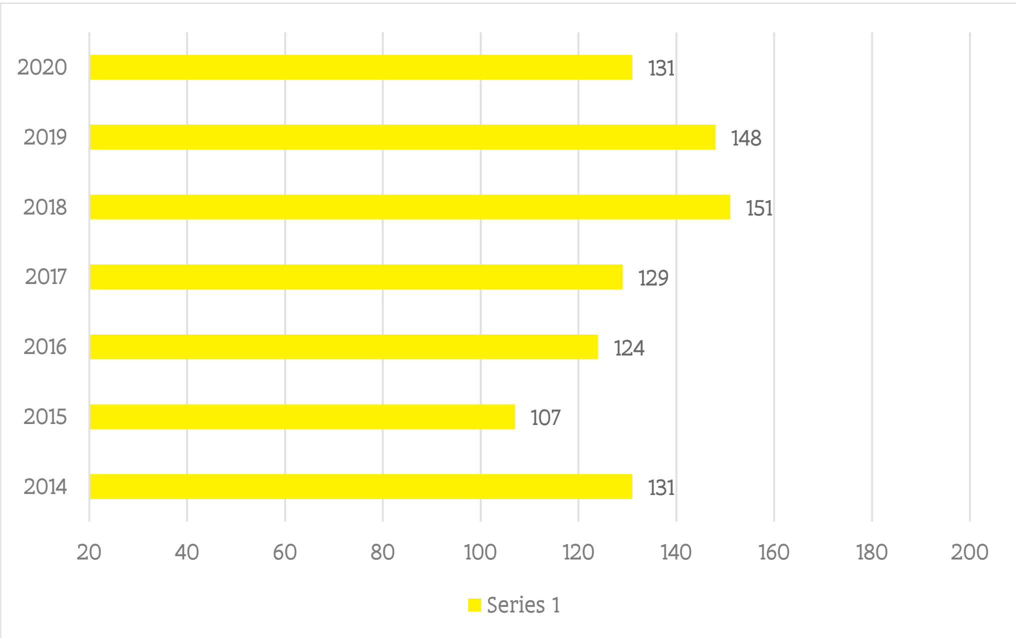
Among the Russian regions-consumers of imported Belgian beer the following 5 are pivotal: Moscow region, Moscow, Bashkiria, St. Petersburg and Omsk. It should be specified that in the period January – October 2021, the share of Moscow and Moscow region regarding the Belgian beer import structure in terms of value amounted to more than 70% (40,2% or USD 15.4 million and 31.3% or USD 12 million respectively). The share of the top-5 regions is amounting to 99.7%. These regions can thus be considered as the main distribution channels of Belgian beer to other Russian regions. (Below, the diagram with results for 10M of 2021.)



Source: https://ru-stat.com/

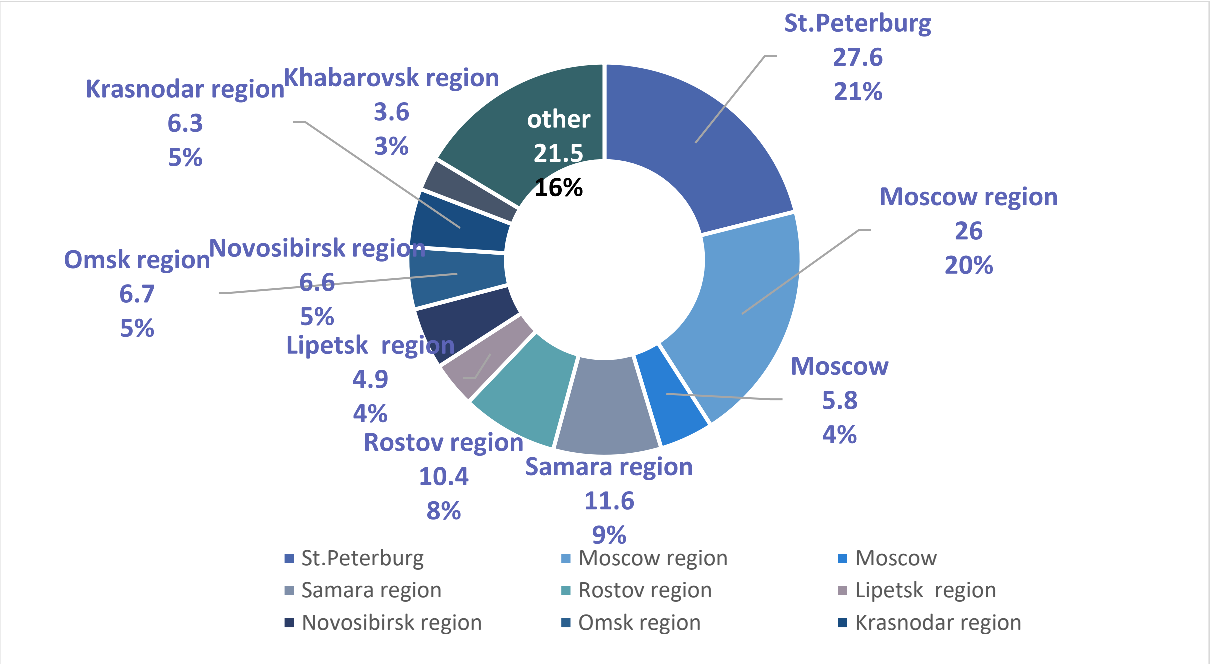
4. RUSSIAN BEER EXPORT IN 2014-2020 YY

4.1 DYNAMIC OF RUSSIAN BEER EXPORT TO OTHER COUNTRIES IN 2014-2020 IN TERMS OF VALUE (IN USD MILLION)



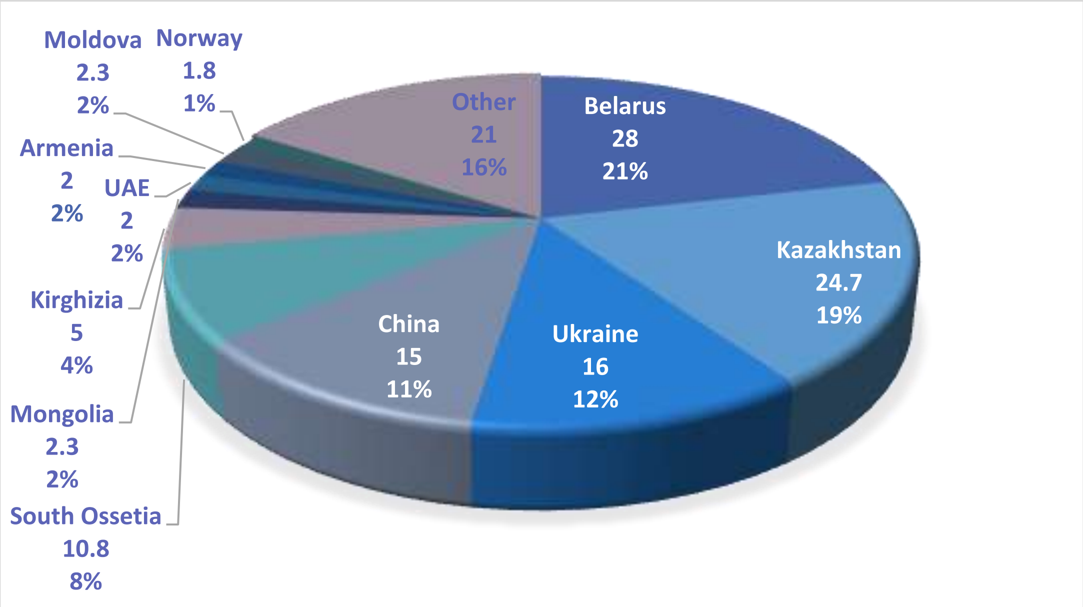
Source: https://ru-stat.com/

4.2 RUSSIAN REGIONS CONTRIBUTION IN BEER EXPORT STRUCTURE IN 2020 IN TERMS OF VALUE (IN USD MILLION DOLLAR)



Source: https://ru-stat.com/

4.3 BEER EXPORT STRUCTURE FROM RUSSIA IN 2020 (IN %, IN TERMS OF VALUE)



Source: https://ru-stat.com/

In 2020 the main export destinations for Russian beer were Belarus (USD 28 million), Kazakhstan (USD 24,8 million) and Ukraine (USD 16 million).

In 2020 the export volume of beer totalled USD 131 million (a drop by 11% compared to 2019 in terms of value) with an amount of 297 million liters, a slight increase by 2% y-o-y in terms of volume.

5. 2020-2021 TRENDS ON THE RUSSIAN MARKET

5.1 MAIN MARKET DRIVERS

Active craft beer development:

In recent years, the Russian beer market has become more interesting and there is certainly a trend towards diversification. In various market aspects (price, taste, % rate of alcohol, geography), the share of mass brands is decreasing, but small and original varieties are becoming more popular and growing faster.

Niche beer categories, including the craft beer segment, demonstrate an active growth.

The craft industry may count on the keen interest of domestic consumers who take a growing interest in non-standard beer sorts (even large breweries have felt this interest and focused on the author´s style sorts). In 2020, the share of retail craft beer sales amounted to 10% (Source: [7]) and Russia – with 561 breweries - is ranking fifth in the world by the number of craft breweries, just behind Italy that has around 600 (Source: [11]).

5.1.1 Top-5 of craft beer producers in 2020

In 2020, the Top-5 of craft beer producers is the following:

Vasileostrovskaya pivovarnya, (St.Petersburg)

Revenue in 2020: RUB 352 million (€ 4,15 million)

URL: http://vpspb.ru

Jaws Brewery (Etalon product LTD, Sverdlovsk region)

Revenue in 2020: RUB319 million (€ 3,77 million)

URL: http://jawsbeer.ru/

Gletcher (Moscow region)

Revenue in 2020: RUB 159 million (€ 1,88 million)

http://gletcherbrewery.com/

Salden's (Tula)

Revenue 2020: RUB 136 million (€ 1,60 million)

URL: http://saldens.ru/

Volkovskaya pivovarnya (Moscow region)

Revenue 2020: RUB 100 million (€ 1,18 million)

Volkovskaya is one of the few craft breweries that managed to get into retail networks. Their products can be found at Lenta, Pyaterochka and Dixie supermarkets, the largest Russian retailers. This brewery is often considered as one of the largest author's breweries in Russia.

URL: http://wolfsbrewery.com/

5.1.2 Sorts of craft beer that are popular on the Russian market in 2020

2018	2019	2020
New England IPA, including New England in different styles - APA, IPA, DIPA and even milkshake IPA.	It is expected that the next stage in the development of the Hazy, Juicy, New England and milkshake-IPA sorts can be additional pouring of not only fruits but also vegetables	More interest for barley wine beer, Belgian Quadrupel
Development of beer styles as Juicy/Hazy IPA , milkshake IPA and Juicy/Hazy Pale Ale (ABV 7-8%)	Further evolution of NEIPA and Milkshake, more sour IPA with raspberry, mango, passion fruit.	Sour Smoothie/Pastry, classic IPA, Hazy IPA/DIPA
	Many new beer sorts marked DDH, more "pastry stout".	Double milk stout, double oak stout, pastry stout
	Very popular sort Tomato Gose	Still very popular – Tomato Gose (containing Russian vegetables)
		NEW trend for 2020- 2021: Hard seltzer, smoothie stout

Source: https://craftdepot.ru/[8], https://versia.ru/ [9]

Growth in non-alcoholic beer production

Non-alcoholic beer is a real trend of recent years among key players on the Russian market. In 2016, there was a start for a campaign to introduce citizens to a healthy lifestyle. Therefore, in 2017, all large breweries adapted part of their production line for non-alcoholic varieties. There is no ban for advertising this kind of beer. However, the share of non-alcoholic beer in Russia is still remaining insignificant as it is amounts only to 2% of the market share. But in recent years, the category of non-alcoholic beer has been growing at double-digit rates. For example, in 2020 sales volume of non-alcoholic beer increased by 14% y-o-y, while sales of alcoholic beer increased by only 5,4% compared to 2019. According to general forecasts, this trend will continue over the next few years (source: https://www.interfax.ru/ [7]).

Polarization of customers demand

Since the main trend was the continued growth of the share of super premium beer (mainly due to imported beer), the mid-price segment has lost its positions against the low-priced and premium segments. The Russian beer market is faced with the polarization of beer consumption, it means that customers leave the mid-price segment and are divided in 2 groups. One group is joining the upper (super)premium/very expensive segment based on the principle “buying less often, but more expensive”, another group is joining the low-price one. As a result, the upper-premium segment and the cheapest segment are demonstrating the highest growth. It’s normal that the cheapest segment is growing during a crisis. As to upper premium, there is also a certain logic as customers want to treat themselves when staying at home. The habit of drinking beer has not gone away, customers often ‘saved beer for a rainy day’. In general, the ‘off trade’ channel sales increased by 8-9% y-o-y (Source: [13] https://www.kommersant.ru).

However, the growth of the upper-premium segment, due to its low absolute values, did not affect the market as a whole. (https://pivnoe-delo.info/2021/10/16/rynok-piva-rossii-2021/).

Russian market players confirm that the main impact of the COVID pandemic occurred in the HoReCa sector as the sales structure has dramatically changed. In 2020, the sales volume of HoReCa segment dropped by more than 30%. Around 15-20% of restaurants and cafes closed due to the temporary lockdown and pandemic restrictions. More than 10% of the businesses have closed and then reopened in new concepts. In general, there was a decline in the number of clients and at the same time, the sales volume per business has also decreased.

According to Mr. Denis Sherstennikov, President of Baltika, the second trend involves more conscious behavior and pragmatic customer choice. It is obvious that against the background of weakening consumer confidence, they have demonstrated greater expectations and requirements towards an extensive beer assortment variety, on the one hand, and beer of very high quality at a very affordable price, on the other hand. (Source: https://www.interfax.ru[7])

5.2 FUTURE RISKS TO THE SECTOR

There are some legislative initiatives that can affect the Russian beer industry in the next few years. For example, the extensive debates around the initiative to introduce a minimum price in the retail sector to curb the grey market. The largest market players think this could lead to fierce price competition that would encourage producers to save on raw materials. Obviously, a minimum retail price may cause a decline in the activity of retail networks, limiting their possibilities to provide an effective discount policy what could push consumers towards cheap surrogates of strong alcohol and an increase in the cost-effectiveness margins of ‘white’ and ‘gray’ manufacturers. (Source:https://www.kommersant.ru/[12])

RISK	SUBJECT	CURRENT SITUATION
MANDATORY BEER LABELING	Labeling of beer with excise stamps or special chips is not yet implemented, although the government has been discussing this possibility for several years in order to decrease the amount of counterfeit products on the shelves. From April 1, 2021 till August 31, 2022 – an experiment campaign on labeling beer and beer drinks has been launched. The final date of the mandatory labeling will be determined after the implementation of the pilot project. By this time, the Russian government is going to launch labeling requirements for all products and tracking their turnover in the national system 《Честный знак》 (Honest sign).	Beer manufacturers did not share the government's initiative. They've stressed that it is not possible to stick paper stamps on filled bottles through the existing technological process. In order to implement it, significant financial investments will be needed, which the brewing companies will include in the product cost. According to Union of Brewers of Russia, labeling will cause an additional increase in the product cost by 5-10%, equipment modification of one manufacturing line will cost breweries up to 1 million euro.(Source: [2]) In turn, beer manufacturers suggest an alternative approach: labeling of beer in kegs only in the draft beer segment. (Source: [13])
Licensing	Licensing of the beer production and its distribution, prohibition for individual entrepreneurs to trade beer, proposals on the need to connect counters to mini-breweries with capacity up to 100 thousand dal (instead of 300)	Implementation of this initiative was postponed by officials for an indefinite time.
EAEU Technical regulation 047/2018	Brewers will be required to brew beer according to the requirements of TR CU 047/2018 "On the safety of alcoholic beverages". It is expected to come into force in the beginning of 2022. The matter is that its provisions provide no standard for craft beer. And there is even no definition of "craft beer". Thus when TR CU 047/2018 comes into	It's a fact that in Russia, there is no specific and special standard for craft beer. Brewers stressed that terminology specifics of TR CU 047/2018 may be interpreted incorrectly. But experts have stressed that as to imperial stout and ginger ale, craft beers have never been considered as "beer", but as "beer beverage"

	force, 'Russia will remain without craft beer.'	Now the breweries use their own recipes, trying to adhere 'beer' GOST regulations (another quality system in Russia) and GOST standards should be harmonized, if necessary, with the TR CU 047/2018 provisions. [11]

5.3 NEW OPPORTUNITIES AND FORECAST 2022

New opportunities arise related to the shifting of the focus in market price segmentation and distribution channels. In the recent past the premium segment increased its market share at the expense of the mid-price segment.

The increasing popularity of the *shop next door* concept, which consumers in Russia appreciate for its convenience, is also having an impact on the beer market with sales volumes growing at double digit rates.

The healthy lifestyle trend continues, non-alcoholic beer is the strongest growing segment in the last five years. In 2020, the growth of the non-alcoholic category exceeded 10%, and, for example, by 2025, AB InBev Efes, among other brewers, is planning to increase its share in the company's portfolio to 20%. (Source: [14]https://www.interfax.ru/)

As to mandatory labeling, it is expected that it's the small players who will suffer from this process first, which may lead to further market consolidation and price growth. The consumer will be in search of new beer tastes, focused on quality, but at the same time sensitive to price. As a result, the polarization of the market will continue due to market share increases and greater sales volume of the economy and premium segments.

More and more retailers, who in general strengthened their positions since the COVID outbreak, consider developing their own private label, which will strengthen the position of private label beers on the market. Consumers, less inclined to impulse purchases nowadays, started buying beers more often in next door shops, small chains and discounters.

The importance of the food retail channel is expected to grow in the next five years. This is due to the fact that the share of beer consumption via bars and pubs in particular and horeca in general, will not objectively return to the pre-corona level until the end of 2025. Thus, in the period 2021-2025, companies that are actively represented in food retail will continue to gain advantages in the market compared to other players. (Source: [15] https://beer-life.ru/).

SOURCES:

[1] https://profibeer.ru/beer/potreblenie-piva-na-dushu-naseleniya-v-chexii-sokratilos-na-13-litrov/

[2] https://profibeer.ru/beer/banka-uzhe-obognala-butylku-bolshaya-trojka-podderzhivaet-markirovku-kegov-i-drugie-itogi-konferenczii-assocziaczii-proizvoditelej-piva/

[3] https://www.vedomosti.ru/business/articles/2021/02/07/856975-virosli-alkogolya

[4] https://ac.gov.ru/files/publication/a/21614.pdf

[5] Financial data of companies

[6] http://foodmarket.spb.ru/archive.php?year=2020&article=2660&section=24

[7] https://www.interfax.ru/interview/763754

[8] https://craftdepot.ru/pena-dnej/2020-summary/

[9] https://versia.ru/issleduem-itogi-i-trendy-vysokogo-kraftovogo-pivovarennogo-sezona-2021-goda-v-rf

[10] http://www.finmarket.ru/news/5357371

[11] https://ria.ru/20191008/1559543862.html

[12] https://www.kommersant.ru/doc/4682293

[13] https://www.kommersant.ru/doc/4711221

[14] https://www.interfax.ru/interview/729323

[15] https://beer-life.ru/prognoz-dlya-pivnogo-rynka-rossii/

[16] https://ria.ru/economy/20180406/1518042442.html

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