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Global Agricultural Information Network

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Russian Beer Market Update

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Beverages

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Food Service - Hotel Restaurant Institutional

Approved By:

Erik W. Hansen

Prepared By:

ATO Moscow Staff

Report Highlights:

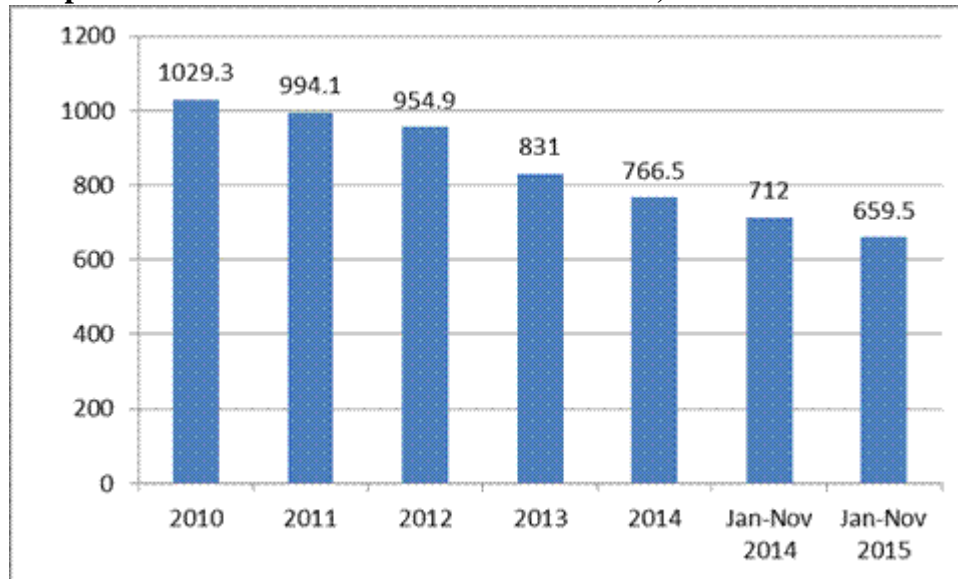
During the first 11 months of 2015, Russian brewers produced 659.5 million deciliters of beer - 7.3 percent less compared to the same period in 2014. Many of the largest beer market players have cut excess capacity due to the slowing economy, excessive changes in industry regulations, high excise taxes, advertising restrictions and a ban on beer sale at kiosks. However, demand for new styles of foreign and craft beers has grown in recent years with craft beer pubs appearing in many of Russia's largest cities.

General Information:

Production

Beer production in Russia has declined steadily since 2010 around the same time that the Russian government rolled out a strict anti-alcohol campaign which legally recognition of beer as alcohol drink; increased excise taxes for beer with alcohol content up to 8.6 percent; applied strict limitations to beer advertising; banned sale of beer in outdoor kiosks. From January-November 2015, Russian brewers produced 659.5 million deciliters of beer according to the Russian Federal Statistics Service (Rosstat) - 7.3 percent less than the same period in 2014. In 2010, production volume surpassed 1 billion deciliters.

Graph 1. Russia: Beer Production in 2010-2015, Million Deciliters



Source: Federal Service of State Statistics of Russia (*Rosstat*)

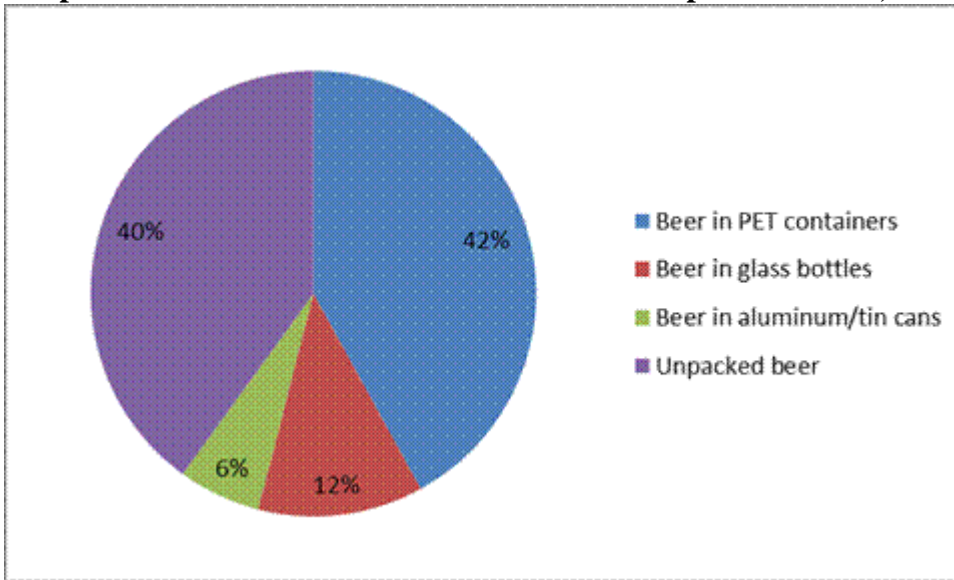
For segmentation purposes, Rosstat recognizes the following categories of beer: pale beer, non-filtered beer, dark beer, non-alcoholic beer, and specialty beer.

Beer Category	2012	2013	2014	Share, %
Pale beer	907.3	799.7	735.3	95.9
Non-filtered beer	14.7	13.6	13.6	1.8
Dark beer	17.9	10.6	10.7	1.4
Non-alcoholic beer	7.8	6.6	6.1	0.8
Specialty beer	7.1	0.5	0.7	0.1

Source: *Rosstat*

Beer production in Russia is dominated by pale beer – 96 percent of total volume. Nevertheless, a decline in production volume during the last five years was observed in all beer categories. Beer in plastic containers (PET) dominates the market: 42 percent of market volume is provided by beer in PET containers, 12 percent by beer in glass bottles, and 6 percent in aluminum/tin cans. Unpacked beer provides 40 percent of Russian beer market in volume.

Graph 2. Russia: Market Share of Bottled and Unpacked Beer *, in Percentage



Source: National Union of Beer Producers

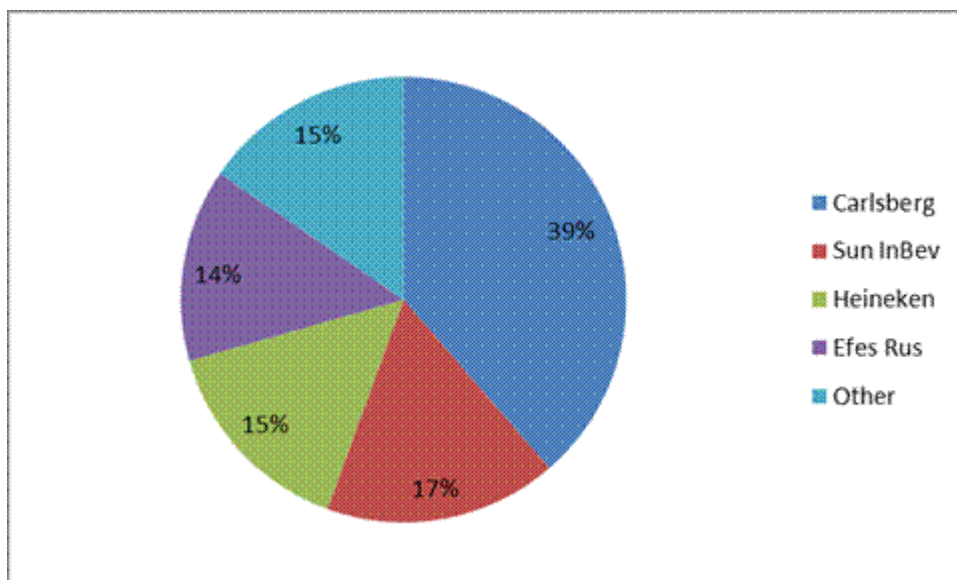
***Data of breweries with capacity more than 300,000 deciliters annually**

Key Market Players

According to AnalyticResearchGroup, the Russian beer industry includes 459 companies (without its branches) with various production capacities located in 73 regions as of August 2015. Most of the beer production is located in the Central Federal District – 89 companies (19.4 percent) and the Siberian Federal District – 82 companies (17.9 percent).

The Russian beer industry is strongly consolidated and includes just four major players. 85 percent of the Russian beer market is in the hands of foreign producers, of which own domestic brands. The current leader is Carlsberg which owns 89 percent of the authorized capital of Brewing Company Baltika. Baltika (Carlsberg) is also the leading exporter of Russian beer. Its products are available in more than 65 countries around the world. Baltika currently runs 7 breweries in Russia.

Graph 3. Russia: Key Market Players and Their Market Share in 2014



Source: Market overview

According to industry analysts, the beer giants have been losing market share to local mid-sized breweries whose share by the end of 2015 reached 26.5 percent. Local breweries are offering cheaper, more unique and interesting tastes of beer. This trend is helping the craft beer sector in Russia which is growing and has about 3 percent of beer market share today.

Carlsberg A/S (Denmark)	Arsenalnoye, Nevskoye, Yarpivo, Tuborg, Carlsberg, Holsten, Kronenbourg 1664, Grimbergen, Warstainer and the key Baltika brand (Baltic)
Efes Rus (group of companies Efes and SABMiller)	Efes Pilsener, Belyy Medved (White Bear), Sokol (Falcon), Staryy Melnik (Old Miller) and other
Anheuser-Busch InBev (Sun InBev)	Stella Artois, Budweizer, Klinskoe, Sibirskaya Korona (The Crown of Siberia), Tolstyak (Portly Fellow)
Dutch Heineken N.V.	Heineken, Bochkarev, Okhota (Hunting), Pit, Tri Medvedya (Three Bears)

Source: Market overview

Table 2. Russia: Largest Beer Market Players and Their Brands

	Sales 2014 billion Rub.	Sales 2013 billion Rub.	Growth % 2014/2013	Sales revenue mln. \$	Profit in 2014 billion Rub.
Carlsberg	83.2	87.6	-5.03	2,166	16.8
Sun InBev	36.4	38.2	-4.72	947	2.6
Heineken	32.3	30.8	5.00	841	-1.6

Efes	30.9	18.5	67.31	806	4.7
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Source: Magazine Expert Sept. 2015, Top 400 companies by sales in Russia

Currently, the brewing production capacity is working at only 55-60 percent and companies are reducing maintenance costs by closing down some plants. Carlsberg closed three of its ten breweries across Russia in 2015 while Belgian beer maker Anheuser-Busch InBev closed five of its Russian plants over the last three years. Efes also closed two breweries in 2015 while Heineken Russia, which closed two breweries between 2009 and 2010, announced in April 2015 its plan to produce kvas (a traditional soft drink made from fermented bread or grain) at four plants around Russia. While the big producers can cope with the difficulties that come from increased excise duties and excessive regulation, small breweries have been hit more directly.

Market Regulations

One of key factors restraining development of Russia's beer industry is toughening alcohol legislation. The decline in production volume is related to the trends observed during 2011 – 2016 when the Russian government introduced an anti-alcohol consumption campaign that gave legal recognition of beer as an alcohol drink; increased excise taxes for beer with alcohol content up to 8.6 percent; severely limited beer advertising; banned sales of beer in public areas; and banned the sale of beer in PET containers exceeding 2 liters in volume.

Russian Federal Law No.171 of November 22, 1995 “On State regulations of production and turnover of ethyl alcohol and alcohol containing products and on limiting consumption (drinking) of alcohol-containing products” established legislative groundwork for the production and handling of ethyl alcohol, alcohol products, and products containing alcohol in the Russia including production and handling of beer. The Russian alcohol sector is regulated and controlled by the Federal Service for Regulation of the Alcohol Market (known as Rosalcoholregulirovaniye or FSR).

Taxation of alcohol beverages brings to the Russian coffers about 300 billion rubles each year, which makes up about 1.3 percent of the budget. Beer makes almost 45 percent contributions to the overall alcohol excise revenue. Excise duties for beer were tripled in 2010, followed additional increases applied over the following four years. Overall excise duties for beer were actually increased seven times from 2009 to 2016. In 2016 excise tax on beer is 20 rubles per liter of alcohol product (11 percent increase).

Table 4. Russia: Beer Excise Tax Rates, 2009-2016, in Russian Rubles*

	2009	2010	2011	2012	2013	2014	2015	2016
Beer with 8.6 percent or less ethyl alcohol	3	9	10	12	15	18	18	20
Beer excise tax rates increase y-o-y, %		300	11	20	25	20	0	11
Inflation, %	8.8	8.8	6.1	6.6	6.5	11.4	12.9	

Source: Tax Code of Russian Federation

*Excise tax rates in Rubles per liter of alcohol product

Russia's excise taxation policy narrowed the gap between regular and premium beers and thus made it

easier for consumers to switch to more expensive products. In volume terms, the share of premium beers of total beer sales increased from 31% to 34% during 2009–2014.

In 2012, Russia banned drinking in public places which included beer. Severe limitations on advertising on television, the Internet and outdoors, introduced the same year, also dealt a hard blow to the industry. In 2013 beer advertising ban extended to printed media. In 2013, the Russian government banned beer sales from street kiosks. Grocery stores were banned from selling beer and alcoholic beverages from 11 p.m. to 8 a.m., which had an impact on so-called impulse buying – particularly late at night. Sales of beer and alcoholic beverages elsewhere are banned after 11 p.m., excluding bars, cafes and nightclubs.

The Russian government proposed a new law in 2013 to reduce the maximum allowed size of plastic (PET) containers for alcohol drinks including beer. In August 2015, the Union of Russian Brewers announced that as of July 1, 2016, they will voluntarily cut the allowed size of PET containers for alcohol down to 1.5 liters. In Russia about 50 percent of beer sales are provided exactly by offerings in PET packaging because it is the cheapest and the most lightweight type of containers helping to save money on shipments. The majority of SME manufacturers bottle beer only in PET format, thus this move threatens their business. Reduction of maximum allowed PET container size for beers down to 1.5 liter is forecasted to cut demand by 10 percent. Studies show that if the maximum allowed PET container size goes down to 0.5 liter demand is expected to decline by 15-20 percent. According to Federal Antimonopoly Service officials, the beer industry may face a serious problem converting bottling lines into PET of less volume.

The law obliging breweries with annual production volume over 300 deciliters (this group includes companies controlling roughly 95 percent of Russian beer market) to connect to the Unified Federal Automated Information System (UFAIS/EGAIS- is Russian abbreviation) came into force on October 1, 2015. UFAIS is used for State control over production and distribution of alcohol drinks in order to fight with sales of unaccounted and fraudulent products. The requirement to record information in UFAIS applies to companies dealing with procurement, storage, supplies and retail trade in wines and spirits and alcohol-containing products. An exception is made only for sales of beer, wines and spirits in public catering establishments and rural settlements with the population below 3,000 (and lack of internet). The plan is to gradually connect all players in the alcohol market to UFAIS: production of alcohol, including beer was connected on October 1, 2015, distributors/wholesalers and logistics companies of all alcohol – on January 1, 2016, retailers in urban Russia – will be connected on July 1, 2016 and then retailers in rural areas from July 1, 2017. Therefore market experts anticipate a decline of production volume and increases in unit prices once all members are linked into the new system. Beer manufacturers consider connection to UFAIS to be excessive because in comparison to other alcohol markets beer demonstrates the most legal and transparent operation with the smallest share of unaccounted/fraudulent products.

Declaration of Conformity

According to Russian Government Resolution No. 982, dated December 1, 2009, Russia is replacing the system of mandatory certification of conformity of major consumer goods, including imported alcohol with a system of declaration of conformity (for more information see GAIN report [RS1015 Declaration of Conformity Replaced Certification for Many Products](#)).

Product Registration

Prior to importation, importers must register the products that are subject to sanitary-epidemiological control and are being imported into the CU for the first time. CU Commission Decision No. 299 establishes a list of products subject to state registration, which includes alcoholic beverages, alcoholic products, and beer. Federal Service for Protection of Consumer Rights and Human Well-Being (Rospotrebnadzor) handles such registration for Russia.

The list of products, the procedure, and the standard form of state registration can be found at: <http://www.eurasiancommission.org/ru/act/txnreg/depsanmer/regulation/Pages/Санитарные-меры.aspx>

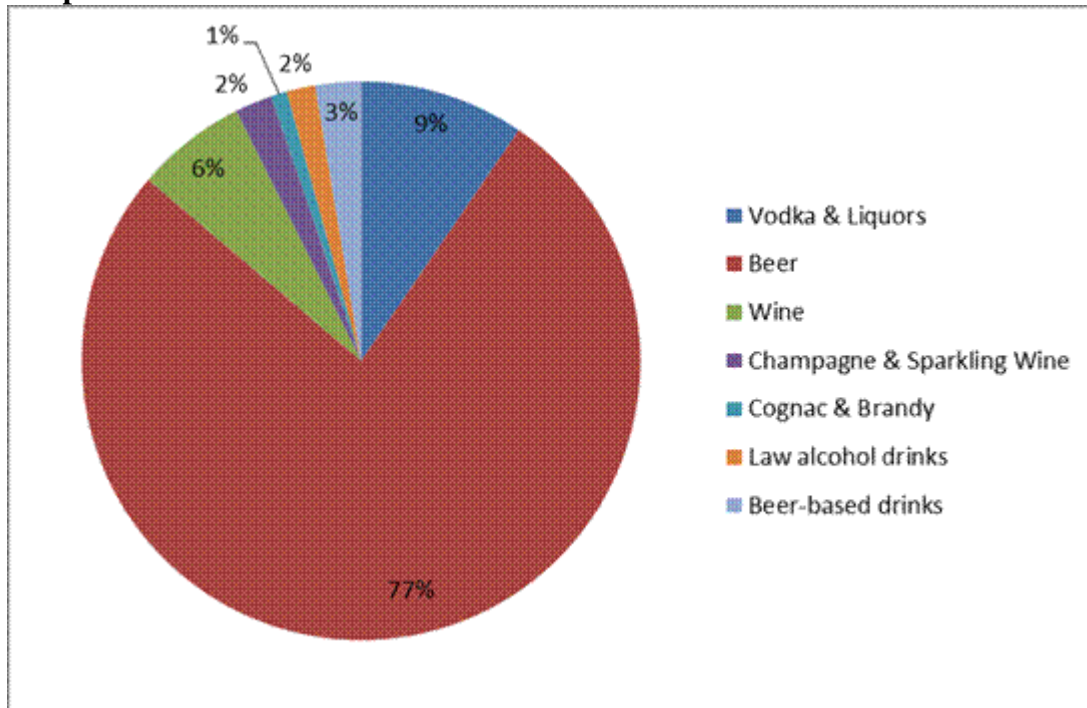
Mandatory Notification

According to Resolution of the Government of the Russian Federation # 474 of June 5, 2013 “On Submission of Notifications About the Beginning of Turnover (sale) of Alcoholic Products on the Territory of the Russian Federation” The Federal Service for Regulation of the Alcohol Market has maintained additional procedures establishing a notification requirement for both existing and new-to-market alcoholic beverages to be sold in the Russian market. Mandatory notification requirements take effect October 1, 2013. For details please see GAIN report [RSATO 1308 Russia Announces New Resolution on Alcoholic Beverages](#)

Consumption

The largest segment of the Russian alcohol market is beer with 77 percent of total volume. Hard drinks are the second large segment and it is dominated by vodka.

Graph 4. Russia: Structure of Alcohol Market in Volume Terms



Source: Federal Service of State Statistics of Russia (Rosstat)

In 2010 beer consumption constituted 70 liters per person. In 2015 the average per capita consumption dropped to 50 liters. Russia currently ranks 26 in global annual per capita consumption of beers. The top beer drinking nations per capita consumption include the Czech Republic (131 liter per person annually), Germany (107 liters), and Austria (106 liters).

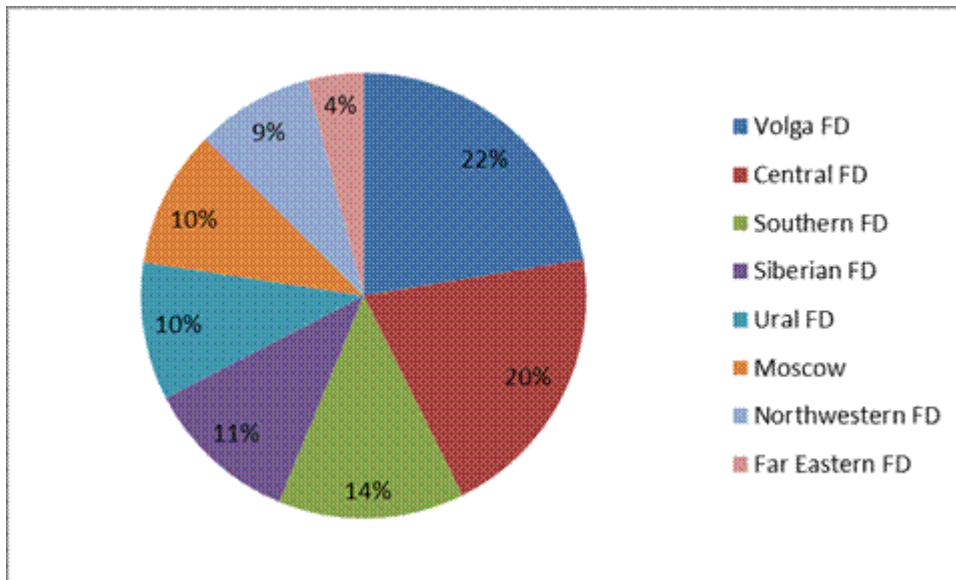
Russia is divided into eight federal districts (FD), which exist purely for the convenience of operation and governing by federal government agencies. Crimea became the ninth federal district in 2014 after it was illegally annexed from Ukraine.

Graph 5. Russia: Federal Districts



Russia is the ninth most populous country in the world with 146 million people. European Russia, geographically west of the Urals, hosts over 75 percent of the total population, although it accounts for only 25 percent of the country's territory.

Graph 6. Russia: Beer Consumption by Federal Districts %



Source: GFK Rus

Sales Volume

According to the Federal State Statistics Service, in the January-July of 2015, the 60.2 million deciliters of alcohol (in absolute alcohol) were sold in Russia, which is 4 percent less than a year earlier. In the first seven months of 2015, share of beer in the sold alcoholic beverages rose to 41.5 percent from 40.8 in the same period of last year. More than half of beer consumption volume in 2015 was provided by three Federal Districts, located in European Russia – Volga, Central and Southern Federal Districts.

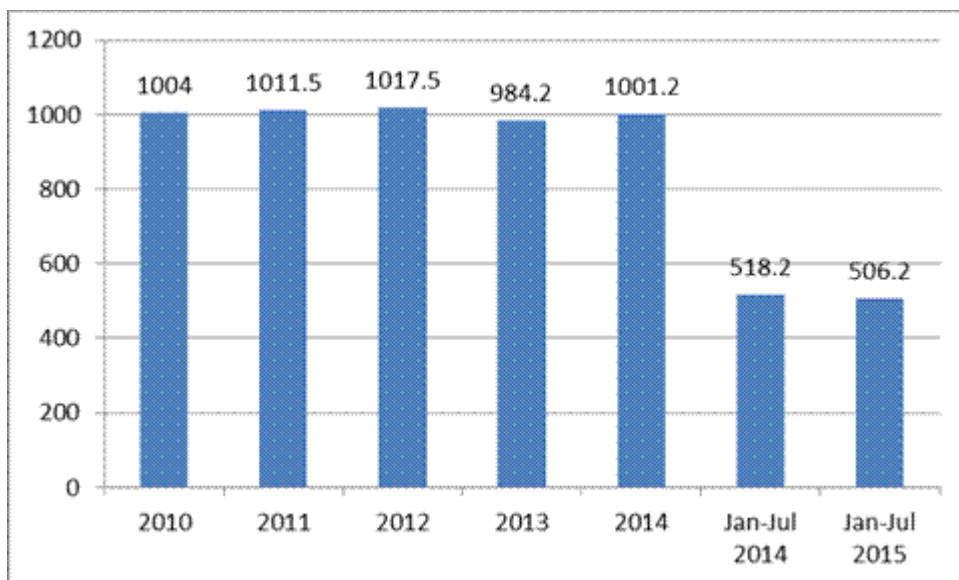
Table 5. Russia: Alcohol Drinks Sales

	Share in absolute alcohol, % Jan –Jul, 2014	Share in absolute alcohol, % Jan-Jul, 2015	Sales, million deciliters, Jan-Jul, 2015	Sales, Jan-Jul, 2015/ Jan-Jul, 2014
Vodka & Liquors	39.7	38.7	59.7	-6.4%
Beer	40.8	41.5	506.2	-2.3%
Wine	5.8	6.3	33.9	+4.3%
Sparkling Wine	2.4	2.3	12.8	-4.5%
Cognac	4.0	4.1	6.1	-2.7%

Source: Rosstat

In 2014 beer retail sales in Russia increased by 1.73 percent in volume over 2013 and constituted 1001.2 million deciliters.

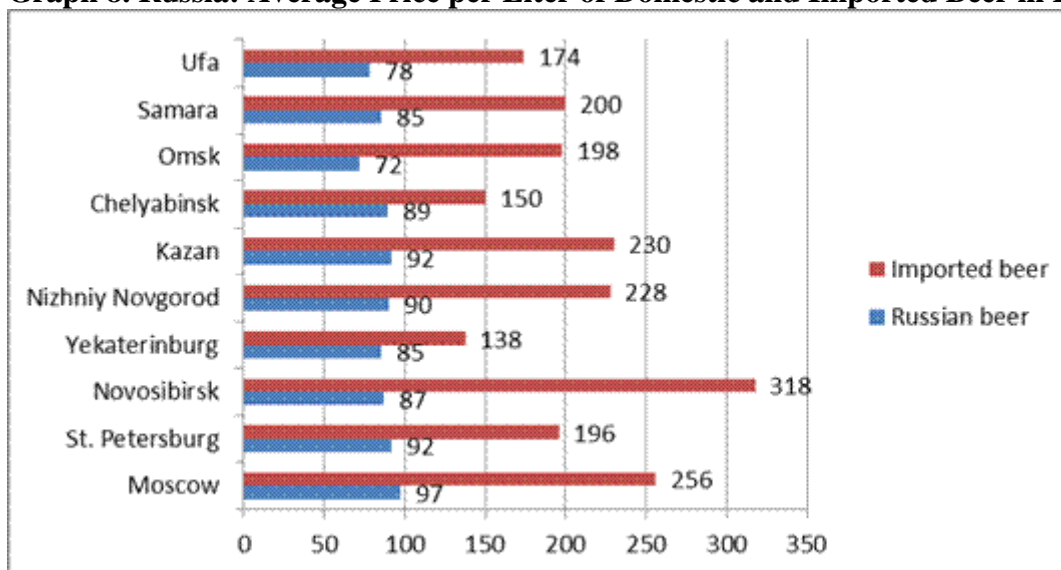
Graph 7. Russia: Beer Sales in 2010-2015, Million Deciliters



Source: Market Analitika, Rosstat

In 2007, the average retail price of beer constituted 17.35 rubles per 0.5 liter (cost of container not considered). In summer 2015, the average retail price reached 48 rubles. In other words, in 8 years, the average retail price of beer grew by nearly triple.

Graph 8. Russia: Average Price per Liter of Domestic and Imported Beer in Retail, Rubles



Source: Rosstat, March 2015

Average price per liter of Russian beer in retail varies from 72 to 97 rubles and from 138 to 318 rubles per imported beer.

Table 6. Russia: Average Price per Liter of Beer

	2010	2011	2012	2013	2014
Average beer price of manufacturer Rubles per Liter	22.26	24.47	24.51	25.22	22.89

Average beer price in retail, Rub. per Liter	55.95	59.54	65.84	73.58	82.96
Average exchange rate per \$1	30.36	29.35	31.07	31.82	37.97
Inflation, %	8.8	6.1	6.6	6.5	11.4

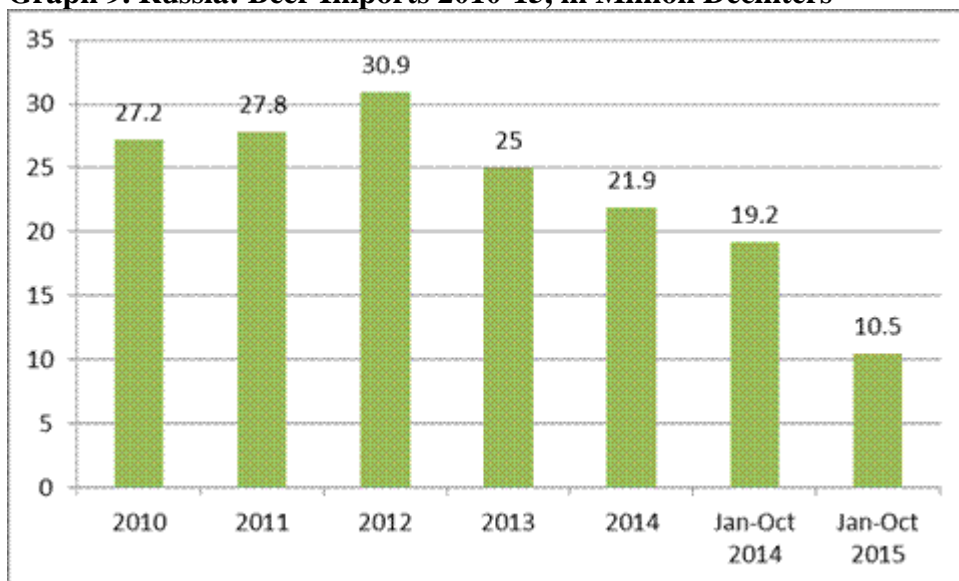
Source: Kreditinform, Rosstat

In terms of retail sales of domestic beer, the Russian beer market reached 635.9 billion rubles in 2014; 24 billion rubles growth over 2013 and 7 billion rubles more than 2012. Retailers have also doubled the share of private label beers during the last two years from 0.6 percent to 1.2 percent of their shelf space.

Imports

Imports of beer and alcoholic beverages to Russia have declined yearly since 2013 due mostly to the ruble devaluation which underpinned growth of prices for imported products. According to Federal Customs Service of Russia, From January-October 2015, Russia imported 10.5 million deciliters of beer - down 45 percent (or 8.7 million deciliters) than during the same period in the previous year. In 2014, Russia imported 21.88 million deciliters of beer worth nearly \$200 million dollars. In comparison to 2013, import volume of beer declined by 12.48 percent. According to market analysts, imported beer made up just 3.5 percent of total Russian beer market in 2013.

Graph 9. Russia: Beer Imports 2010-15, in Million Deciliters



Source: Federal Russian Customs Service

Almost one third of beers supplied to Russia came from Ukraine in 2014. However, in comparison to 2013, the share of Ukrainian beer dramatically declined. The second largest supplier of beer to Russia was Germany whose market share increased from 11.03 percent in 2013 to 15.32 percent in 2014. Czech beer maintained third place with 12.13 percent of import beer market share. Consumers often prefer to buy beer made in Germany, Czech or Belgium because of growth of unit prices of local beer.

In August 2014, the Federal Service for Protection of Consumer Rights and Human Well-Being (Rosпотребнадзор) suspended imports of spirits, beer and beer beverages from a number of Ukrainian enterprises to Russia. In particular, the ban included Obolon company, one of the largest Ukrainian

breweries. According to TASS news articles, in July 2015 the Ukrainian company Obolon signed a contract with the Moscow Brewing Company (MBC) for producing Obolon beer in Russia. Before the ban, Obolon was the most popular imported beer brand in the Russian market for many years.

Table 7. Russia: Beer Imports 2012-14, in Liters

Country	Quantity			% Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
World	308,899,190	250,059,578	218,858,680	100.00	100.00	100.00	- 12.48
Ukraine	227,526,093	157,165,711	64,738,293	73.66	62.85	29.58	- 58.81
Germany	21,444,241	27,576,192	33,530,391	6.94	11.03	15.32	21.59
Czech Republic	24,661,685	26,211,216	26,539,215	7.98	10.48	12.13	1.25
Belgium	5,959,138	6,912,186	8,566,404	1.93	2.76	3.91	23.93

Source: Federal Russian Customs Service

In 2014 beer imports saw decline in volume by 12.48 percent, but increase in value by 2.28 percent. This difference is related to devaluation of ruble in the second part of 2014. In general the reviewed market demonstrates decline, but premium beer shows certain growth potential.

Table 8. Russia: Beer Imports 2012-14, In US Dollars

Country	United States Dollars			% Share			% Change
	2012	2013	2014	2012	2013	2014	2014/2013
World	212,898,465	195,276,384	199,729,224	100.00	100.00	100.00	2.28
Germany	37,603,424	42,684,806	49,564,810	17.66	21.86	24.82	16.12
Czech Republic	33,795,441	35,885,250	35,333,865	15.87	18.38	17.69	- 1.54
Ukraine	83,817,014	51,509,101	22,121,108	39.37	26.38	11.08	- 57.05
Belgium	10,862,696	12,963,672	15,825,619	5.10	6.64	7.92	22.08

Source: Federal Russian Customs Service

Table 9. Russia: Beer Imports Jan-Oct 2013-15, in Liters

Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	246,815,449	191,742,683	105,144,202	100.00	100.00	100.00	- 45.16
Belarus	27,017,749	37,702,580	30,507,071	10.95	19.66	29.01	- 19.08
Germany	22,404,411	28,207,99	25,122,17	9.08	14.71	23.89	- 10.94

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Czech Republic	22,084,733	22,503,904	12,959,441	8.95	11.74	12.33	- 42.41
Belgium	5,580,395	6,610,828	6,717,101	2.26	3.45	6.39	1.61
Kazakhstan	675,858	2,843,025	6,076,851	0.27	1.48	5.78	113.75
Ireland	4,430,599	4,752,840	4,180,032	1.80	2.48	3.98	- 12.05
United Kingdom	4,772,818	5,450,974	3,945,152	1.93	2.84	3.75	- 27.62
Mexico	1,240,325	1,109,227	3,032,038	0.50	0.58	2.88	173.35
Lithuania	1,732,302	2,483,151	2,377,462	0.70	1.30	2.26	- 4.26
Finland	3,805,884	2,945,502	2,106,226	1.54	1.54	2.00	- 28.49
China	2,087,534	2,084,486	1,388,630	0.85	1.09	1.32	- 33.38
Japan	1,917,279	2,020,989	1,311,277	0.78	1.05	1.25	- 35.12
Netherlands	1,576,209	1,815,630	1,067,652	0.64	0.95	1.02	- 41.20
Korea South	802,570	895,113	929,819	0.33	0.47	0.88	3.88
France	321,100	842,396	818,255	0.13	0.44	0.78	- 2.87
Armenia	1,744,842	1,604,938	561,310	0.71	0.84	0.53	- 65.03
Georgia	20,460	226,080	278,022	0.01	0.12	0.26	22.98
Poland	134,778	166,790	237,110	0.05	0.09	0.23	42.16
Austria	678,362	457,311	195,196	0.27	0.24	0.19	- 57.32
Ukraine	142,035,887	64,738,293	191,769	57.55	33.76	0.18	- 99.70
Italy	395,089	366,534	155,598	0.16	0.19	0.15	- 57.55
Spain	-	145,892	145,798	0.00	0.08	0.14	- 0.06
United States	20,022	107,107	140,168	0.01	0.06	0.13	30.87

Source: Federal Russian Customs Service

Table 10. Russia: Beer Imports Jan-Oct 2013-15, in US Dollars

Country	United States Dollars	% Share	%
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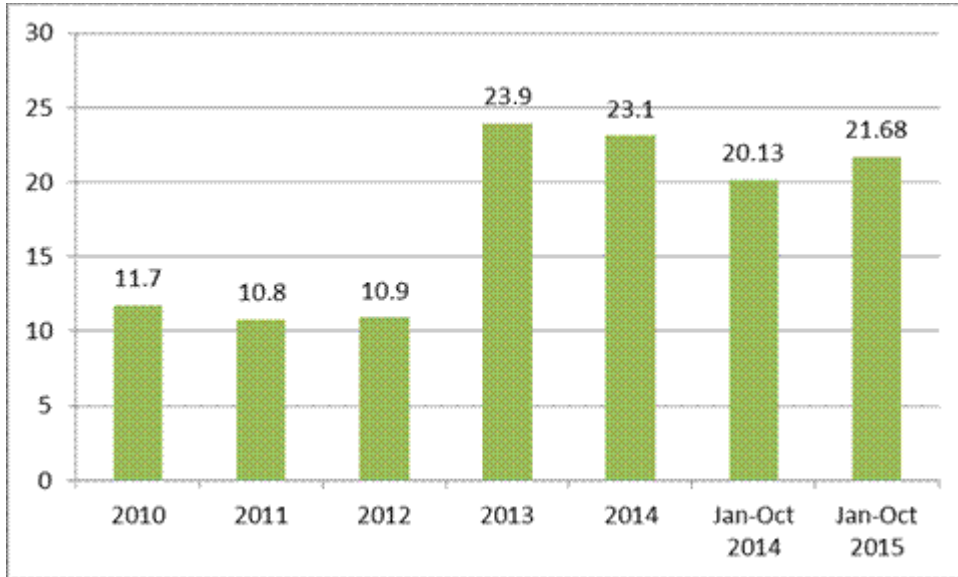
							Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	176,987,004	171,495,214	93,434,460	100.00	100.00	100.00	- 45.52
Germany	34,567,101	42,185,245	27,611,294	19.53	24.60	29.55	- 34.55
Czech Republic	30,287,373	30,712,552	12,257,554	17.11	17.91	13.12	- 60.09
Belarus	11,277,838	15,002,083	10,504,962	6.37	8.75	11.24	- 29.98
Belgium	10,291,177	12,574,083	8,876,983	5.81	7.33	9.50	- 29.40
Ireland	10,294,096	11,349,184	8,318,089	5.82	6.62	8.90	- 26.71
United Kingdom	8,819,265	10,316,751	5,952,470	4.98	6.02	6.37	- 42.30
Kazakhstan	573,142	1,787,901	3,002,309	0.32	1.04	3.21	67.92
Finland	5,669,897	4,634,623	2,827,940	3.20	2.70	3.03	- 38.98
Mexico	1,668,377	1,410,249	2,806,763	0.94	0.82	3.00	99.03
Netherlands	3,479,760	3,878,544	2,180,793	1.97	2.26	2.33	- 43.77
Lithuania	1,994,204	2,678,504	2,016,377	1.13	1.56	2.16	- 24.72
China	2,380,278	2,081,602	1,326,690	1.34	1.21	1.42	- 36.27
Japan	2,502,923	2,530,541	1,314,102	1.41	1.48	1.41	- 48.07
Korea South	700,526	738,621	759,076	0.40	0.43	0.81	2.77
France	567,421	967,991	674,708	0.32	0.56	0.72	- 30.30
United States	40,379	263,445	410,207	0.02	0.15	0.44	55.71

Source: Federal Russian Customs Service

Exports

Russia exported beer to 69 countries around the world in 2015. According to Federal Customs Service, from in January-October 2015, Russia exported 21.67 million deciliters of beer – up 7.66 percent or 15.4 million liters compared to the same period in 2014 – valued at \$91 million. In 2014, Russia exported 23.1 million liters of beer worth \$131.08 million.

Graph 10. Russia: Beer Exports 2010-15, in Million Deciliters



Source: Federal Russian Customs Service