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Carlsberg Refuses to Quit as Russia's Beer Market Tanks

By The Moscow Times

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Isaac Sheps, president of Baltika Breweries and senior vice president Eastern Europe, Carlsberg Group.

ST. PETERSBURG — Denmark's Carlsberg will keep its breweries in Russia running even though most are operating at reduced capacity, despite other brewers closing plants as Western sanctions over Ukraine hamper an already faltering economy.

Once a safe bet in a country where beer was considered a soft drink, the Russian market has been hit by new regulations, tax hikes and the economic downturn that has seen a growing middle class turn away from buying extras such as beer.

Tighter rules intended to curb alcoholism, and the economic slowdown, have already prompted the world's largest brewer, Anheuser-Busch InBev, to shut its third Russian plant in less than two years, but Carlsberg's senior vice president said his company believed in a turnaround.

"It is not easy, we do have empty capacity, but strategically we are trying to hold our assets because there is a reason to believe that this market will come back to growth," said Isaac Sheps, who looks after Eastern Europe.

"Geopolitical unrest in the region of course has an impact on the mood, the atmosphere, the economy, especially from a consumer goods perspective. And this is another thing we are all worried about because any unrest is not positive for businesses and you need things to stabilize."

Sheps, president of Carlsberg's Russian unit Baltika, said almost none of its 10 Russian breweries were operating at full capacity but the maker of Baltika and Tuborg beer had faith that Russians would soon return to beer when they had got used to the new regulations and the economic crisis had eased.

"If you had in 2008 77 liters-per-capita consumption and we ended 2013 with 59 liters, this is a gap which cannot come from the change of behavior or attitude towards beer, it is coming from different external pressures, so when these pressures are eased, we do believe that these numbers will go back," he said.

In May the world's fourth-largest brewer cut its outlook for the Russian market and now expects it to decline by mid-single-digit percentages in beer volume in 2014, compared with the earlier guidance for a low single-digit decline.

Sheps said if the beer market fell at the same pace for another year or two, Carlsberg would most probably be forced to close some breweries — although the company would do all it could to prevent that from happening.

"You can do a lot of efficiency programs before you close a brewery ... We are very far from it. We feel the burden, we want to develop better and, yes, we are suffering, we are not doing the same as in the past, but we are still a profitable company in Russia, we are not in a disastrous position."

Healthy Lifestyles

The beer market in Russia fell by 8 percent last year and 5 percent in the first quarter, hurt by restrictions on sales put in place as part of President Vladimir Putin's drive to curb drinking and promote healthy lifestyles.

His efforts, intended to stem a demographic crisis in Russia, have worked. A ban on beer sales in street kiosks and time restrictions on when it can be bought have helped to reduce beer sales by 25 percent since 2008.

But Sheps said Russians were unlikely to restrict their beer consumption to a large extent.

"The logical question is — would Russians drink only 40 liters per capita? It is tough to forecast but it does not look logical, it does not make sense that it will go on and on."

To make up for a lack of impulse buying, brewers use multipacks to encourage consumers to stock up at home while also focusing more on premium brands to attract high-income consumers, usually the last to be hurt when the economy falters.

"While we are using about 70 percent only of our capacity, the rest I have to recover by efficiency or by growing the top line in more premium and super premium brands, which are more profitable," Sheps said.

"We are seeing a growth in Russia in the premium and super-premium segment. It is growing but it is still small because this is a small level of people who drink it. So the main impact on capacity is coming from the middle class," he said.

He said beer sales in multipacks started slowly but were gathering pace and the company was also bringing new varieties in all price categories to reinvigorate consumer interest.

"We are growing market share so we are doing relatively better than our competitors, who are serious people, too," he said. "People have preferences so it is not an easy world but this is what we are working on."

Competitors were closing plants in an attempt to be more efficient, but they were still selling their brands, he said.

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