

A Brief History of Imported Beer

Analyst Robert Weinberg has been watching imports, and sees some changes coming.

By Peter V.K. Reid

Imported beer sales have settled down of late. Although the segment continues to grow, the heady period of the late '90s-early '00s has subsided. But with the segment now holding 11.5% of the market, its future fortunes take on a crucial aspect. For the moment there has been a slowdown, and the question is whether this is a lull, or an impact with the segment's ceiling.

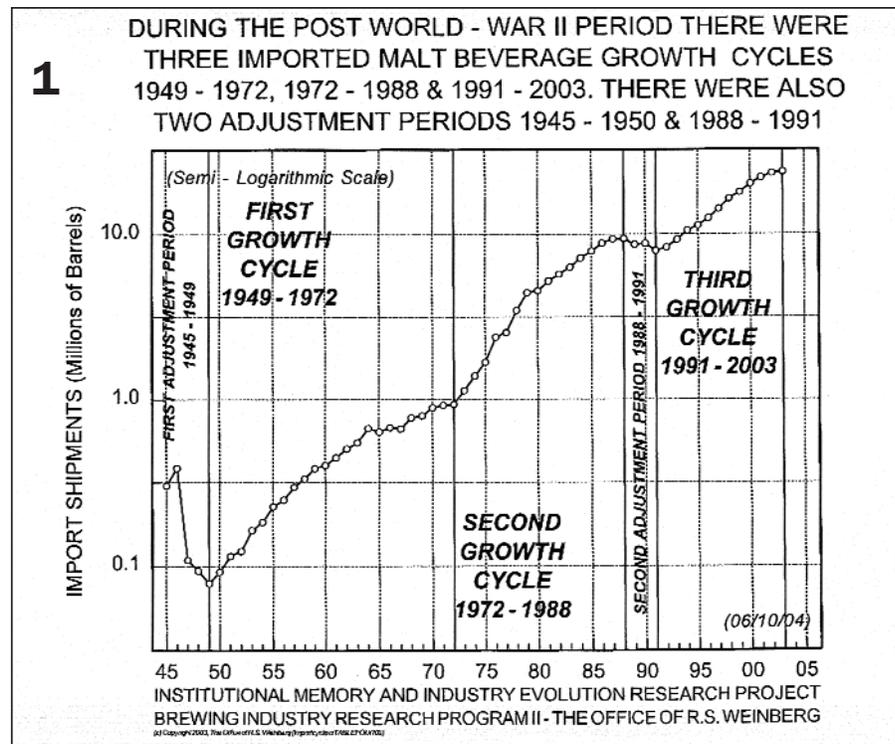
"There has been a sharp decline in the growth rate," observes Robert S. Weinberg, principal of The Office of R.S. Weinberg, St. Louis, MO. "Imports may continue to grow for a time, but at a modest rate. I think the best of import performance is behind them."

Mr. Weinberg's comments are useful because they rest on the framework of the best private database in the beer industry, and he has tracked import statistics all the way back to Repeal.

The history of beer imports features ebbs and flows that might help chart the path ahead, starting in 1933, as beer drinking became legal in the U.S. once again. That year, only 7,000 barrels of imported beer entered the country. By 1934, imports had more than doubled, and by 1937 imports reached 68,000 barrels. Imports remained at that level until 1940, when the onset of war in Europe halved import barrelage. By 1942, import barrelage had recovered, and during World War II, imported beer enjoyed its first boomlet. Beer was a non-essential item, and much domestic production went overseas anyway. So Mexican and Canadian brewers filled the gap. By 1946, beer imports stood at 385,000 barrels.

That's when American brewers revived their hold on their own beer market, and pushed imports back down to 109,000 barrels by 1947.

The year 1947 may seem unremarkable, but for Robert Weinberg it is a very useful benchmark. By 1947, the economic aberrations



caused by World War II had largely subsided, and one can begin to make judgements without variables like merchant tonnage sunk by U-boats, and percentage of the civilian population in uniform.

For imported beer, though, the later 1940s still presented challenges. It took years for European breweries to revive production levels for export. Indeed, imports kept dropping for through the late 1940s, and the segment didn't begin its long climb back until 1950.

Since 1950, beer imports have steadily climbed upward, except for a couple of downward hiccups, once in the mid-1960s, and again the late 1980s-early 1990s. Since 1991, imports have increased to the tune of a million plus barrels every year. That torrid growth finally decelerated in 2003, when the segment added less than 500,000 barrels.

"If you look at imports from 1947 to date," Weinberg says, "you see one period of growth that went from 1949-1972. You can apply a

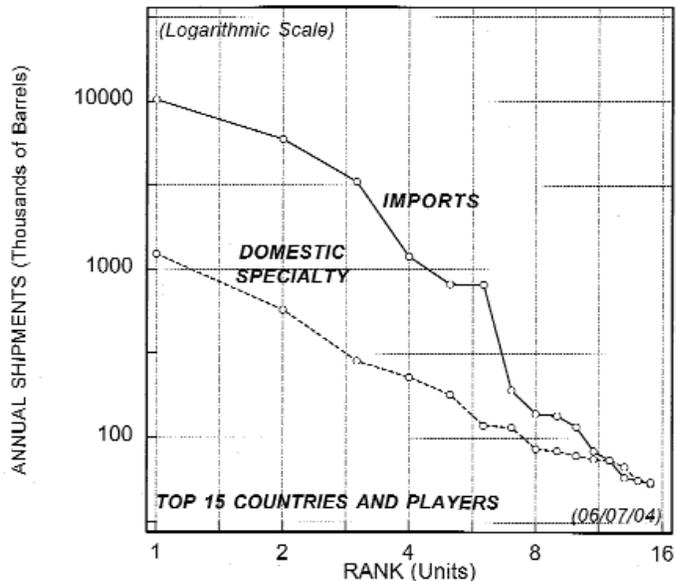
nice, smooth s-shaped curve. Imports accelerate quite briskly between 1972-1980, and keep on growing until 1987. Then barrels decline from '87-'91. That's followed by a third wave of growth, beginning in 1991, growing vigorously to 2000, then slowing down, flattening out since then."

During the period 1988-1991, the import segment had what Mr. Weinberg calls "an adjustment." He says this was a function of the rapid growth of the earlier 1980s. "Growth in the 1980s was startling because it was so fast," he says. "I think the distribution system couldn't support the influx, so it may have been a case of indigestion."

Weinberg believes that we now may be in one of these periodic lulls, at the very least. "Unless someone pulls a rabbit out of a hat, next year will be a line extended to 2005."

"We may be seeing another adjustment," he continues. "There is no way of knowing, but I think the market has to take a breather."

THE INTERRELATION BETWEEN SIZE AND RANK 2003 IMPORTS (Countries) vs. DOMESTIC SPECIALTY (Players)



Nonetheless, Mr. Weinberg believes that this flagging beast can be revived.

"I don't think that the market will be able to replicate the things that happened in the late 1990s through 2001," Weinberg says. "But I think that what will come after this is new products. An increasing share of the total will involve the creation of new products."

These new products could be imports, or brands that look like imports. "This fits in with the internationalization of the industry," Weinberg says. "I think we will see new imports per se, but this could involve U.S. manufacture of imported brands. Domestic producers could develop alliances with offshore brewers, for example. I think we're going to see a new kind of high-end product, either a genuine license-brewed product or products with ersatz labels. Beers that look like they were made abroad, but which are actually made in the United States."

Most current imports are the genuine article, but some pragmatic brewers have been making other sourcing arrangements. "We have had German and Danish labels made in Canada," Weinberg says, "and we have Japanese beer that is made in Los Angeles. This is not sinister."

As Weinberg notes, pragmatic sourcing make eminent sense, since beer is hard to ship. "Beer is quite heavy relative to market value," he says. "This should discourage long shipment."

However, the U.S. is a singular market in this respect. U.S. beer exports have steadily declined in recent years, and U.S. brewers have secured license brewing partners abroad.

Most international brewers have always done it that way. "We have Heineken shipping beer to the U.S. from Holland," Weinberg says, "but of course for other markets, that company makes beer all over the world."

Importers have always spoken of "authenticity" as the underpinning of the U.S. import market. According to the "authenticity" doctrine, U.S. consumers are seeking products that are made in the brand's home country, and home brewery. But Mr. Weinberg is not so sure. "Authenticity?" Weinberg asks. "What does that mean? I think pride comes into play. I used to say, 'your beer is not buying you a trip to Europe, why should you but your beer a trip to the U.S.?"

Weinberg thinks that some U.S. brewer could successfully produce an import under license. "A guy like Jim Koch could brew just about any beer in the U.S., and make it taste and look so close to an import that almost no one could tell the difference."

So in the future, imports may not be imports. "You will have beers that are continental beers, or beers that have an offshore cachet," Weinberg says. "But they will be brewed here. Currently, you have a lot of brand strategy in the hands of marketing people.

They have placed an aura around these brands, but these are skilled marketing people. They can develop a story for these brands, say 'this beer has been brewed since 1430, and now we combine that heritage plus 2004 technology."

As Weinberg points out, "You don't care what A-B brewery your Budweiser comes from, as long as it is Budweiser. You don't

care if it comes from New Jersey or New Hampshire. Now the same will be said of countries. You don't care where your Heineken comes from, as long as it is Heineken."

Some license brewing arrangements have been tried in the past. One for example, involved the license production of Castlemaine XXX, an Australian beer, by Coors Brewing Co. It wasn't a big success, but Weinberg is unmoved. "That didn't work out well," he says, "very true. But Coors has domestic products that haven't worked out too well either."

Imports and domestic specialty beers

Imports are often considered to be direct competitors with domestic specialty beers, but Weinberg says the picture is more complex. "I'm no longer sure what an import is," he says. "Are Mexican and Canadian beers imports? In some sense, they are actually replacements for domestic super premiums, which fell into decline."

The beers that Mr. Weinberg calls the "flavor" beers, products like Guinness Stout, are competitive with the craft beers.

"I wondered how imports compared to domestic specialties so I made up some charts," he says. "If you look at [chart 2] you see the largest of the imports, Mexico, above 10 million, with the largest of the craft brewers, Boston Beer, just above one million. What is interesting is that domestic specialty players of the same rank in their respective segments uniformly fall below the imports. I think it is clear that the large importing countries/companies have greater resources than any one domestic specialty player. Imports can run with the ball much better."

And what is next for imports? "They may grow proportional to industry growth for awhile," Mr Weinberg says. "If you look at long-term growth, it tended to be orderly. If there is enthusiasm, it takes awhile to adjust. If you look over time, you see a surge, then ordinary growth, and then another surge. Brewers can be constrained by capacity. But the importers will be constrained, not by production capacity, but by distribution capacity."

Weinberg says the 2004 numbers seem to bear this out. "Growth is flattening out in orderly way," he says. "Could you have adjustment? Structurally you could. If the low carb revolution continues, this could effect the edges of the import market. But I think it appears orderly, and the future success will uniquely depend on the distribution system as much as the products themselves." ■

THE MARKET FOR IMPORTED MALT BEVERAGES 2002 - 2003

	BARREL IMPORTS BY COUNTRY OF ORIGIN		GROWTH	GROWTH RATE	SHARE OF TOTAL IMPORTS		NET CHANGE	CUMULATED SHARE OF TOTAL IMPORTS		REMAINING IMPORTS CUMULATED SHARE	
	2002	2003			2002	2003		2002	2003	2002	2003
	(Barrels of Imported Malt Beverages)		(Percent P/A)		(Percentage of Total Imports)			(Percentage of Total Imports)			
1 MEXICO	9,822.3	10,238.9	416.6	4.24	42.5754	43.5350	0.9597	42.58	43.54	57.42	56.46
2 NETHERLANDS	5,884.1	5,945.6	61.5	1.05	25.5051	25.2804	(0.2247)	68.08	68.82	31.92	31.18
3 CANADA	3,391.7	3,322.5	(69.2)	(2.04)	14.7015	14.1270	(0.5745)	82.78	82.94	17.22	17.06
4 GERMANY	1,230.8	1,197.0	(33.8)	(2.74)	5.3349	5.0896	(0.2453)	88.12	88.03	11.88	11.97
5 IRELAND	607.3	818.3	211.0	34.74	2.6323	3.4792	0.8469	90.75	91.51	9.25	8.49
6 UNITED KINGDOM	1,006.8	813.0	(193.8)	(19.25)	4.3639	3.4566	(0.9073)	95.11	94.97	4.89	5.03
7 BELGIUM	138.9	192.3	53.3	38.38	0.6023	0.8175	0.2153	95.72	95.79	4.28	4.21
8 CZECH REPUBLIC	148.9	140.1	(8.8)	(5.91)	0.6453	0.5955	(0.0497)	96.36	96.38	3.64	3.62
9 JAMAICA	113.3	136.3	22.9	20.24	0.4912	0.5793	0.0882	96.85	96.96	3.15	3.04
10 DOMINICAN REPUBLIC	115.8	117.4	1.6	1.38	0.5020	0.4992	(0.0028)	97.35	97.46	2.65	2.54
11 POLAND	48.1	84.6	36.5	75.87	0.2084	0.3596	0.1511	97.56	97.82	2.44	2.18
12 ITALY	64.2	74.5	10.3	16.06	0.2783	0.3169	0.0385	97.84	98.14	2.16	1.86
13 CHINA	66.4	58.7	(7.7)	(11.59)	0.2877	0.2496	(0.0382)	98.13	98.39	1.87	1.61
14 EL SALVADOR	36.6	56.9	20.2	55.22	0.1588	0.2417	0.0830	98.29	98.63	1.71	1.37
15 JAPAN	152.0	54.2	(97.8)	(64.34)	0.6590	0.2305	(0.4285)	98.95	98.86	1.05	1.14
16 NEW ZEALAND	47.4	54.0	6.6	14.02	0.2054	0.2298	0.0243	99.15	99.09	0.85	0.91
17 THAILAND	21.7	23.8	2.1	9.75	0.0941	0.1014	0.0072	99.25	99.19	0.75	0.81
18 KOREA	18.4	18.6	0.2	1.12	0.0797	0.0791	(0.0006)	99.33	99.27	0.67	0.73
19 PORTUGAL	13.3	14.6	1.3	10.01	0.0575	0.0621	0.0046	99.38	99.33	0.62	0.63
20 PHILIPPINES	13.3	13.4	0.1	0.80	0.0576	0.0570	(0.0006)	99.44	99.39	0.56	0.61
21 RUSSIA	9.9	12.9	2.9	29.39	0.0431	0.0547	0.0116	99.48	99.44	0.52	0.56
22 PERU	11.1	12.7	1.7	15.09	0.0480	0.0542	0.0062	99.53	99.50	0.47	0.50
23 TRINIDAD	8.8	11.0	2.2	25.52	0.0381	0.0469	0.0088	99.57	99.64	0.43	0.46
24 FRANCE	9.3	11.0	1.7	18.07	0.0405	0.0469	0.0064	99.61	99.59	0.39	0.41
25 DENMARK	3.4	10.6	7.2	214.87	0.0145	0.0449	0.0303	99.62	99.63	0.38	0.37
26 INDIA	11.4	10.4	(1.0)	(8.63)	0.0484	0.0443	(0.0051)	99.67	99.68	0.33	0.32
27 GUATEMALA	7.1	7.0	(0.1)	(1.67)	0.0309	0.0298	(0.0011)	99.70	99.71	0.30	0.29
28 AUSTRALIA	7.3	5.7	(1.5)	(21.16)	0.0316	0.0244	(0.0072)	99.74	99.73	0.26	0.27
29 AUSTRIA	7.6	5.5	(2.1)	(27.43)	0.0330	0.0235	(0.0095)	99.77	99.76	0.23	0.24
30 BAHAMAS	4.6	5.4	0.8	17.32	0.0199	0.0229	0.0030	99.79	99.78	0.21	0.22
31 GREECE	3.3	4.6	1.3	41.31	0.0141	0.0195	0.0054	99.80	99.80	0.20	0.20
32 COLOMBIA	3.1	4.2	1.0	33.55	0.0135	0.0177	0.0042	99.82	99.82	0.18	0.18
33 ECUADOR	2.8	3.2	0.4	14.55	0.0122	0.0138	0.0015	99.83	99.83	0.17	0.17
34 SLOVAKIA	2.5	2.9	0.4	17.05	0.0108	0.0123	0.0016	99.84	99.84	0.16	0.16
35 BRAZIL	1.5	2.8	1.4	91.82	0.0064	0.0120	0.0056	99.85	99.85	0.15	0.15
36 ARGENTINA	2.6	2.7	0.2	6.26	0.0111	0.0115	0.0005	99.86	99.87	0.14	0.13
37 LITHUANIA	2.6	2.3	(0.3)	(10.53)	0.0112	0.0098	(0.0014)	99.87	99.88	0.13	0.12
38 VIETNAM	3.3	2.2	(1.1)	(33.01)	0.0144	0.0094	(0.0049)	99.88	99.89	0.12	0.11
39 UKRAINE	1.7	2.1	0.4	23.09	0.0073	0.0088	0.0015	99.89	99.89	0.11	0.11
40 SPAIN	2.0	2.0	0.1	2.75	0.0086	0.0086	0.0001	99.90	99.90	0.10	0.10
41 SINGAPORE	1.2	1.9	0.7	60.48	0.0053	0.0083	0.0030	99.90	99.91	0.10	0.09
42 NICARAGUA	-	1.7	1.7	-	-	0.0071	0.0071	99.90	99.92	0.10	0.08
43 FRENCH POLYNESIA	1.7	1.6	(0.1)	(8.11)	0.0076	0.0068	(0.0007)	99.91	99.93	0.09	0.07
44 TURKEY	0.5	1.4	0.9	171.49	0.0023	0.0060	0.0038	99.91	99.93	0.09	0.07
45 BOLIVIA	0.6	1.3	0.7	103.81	0.0028	0.0056	0.0028	99.92	99.94	0.08	0.06
46 KENYA	1.0	1.2	0.2	19.39	0.0045	0.0053	0.0008	99.92	99.94	0.08	0.06
47 ARMENIA	1.4	1.2	(0.2)	(16.73)	0.0062	0.0051	(0.0011)	99.93	99.95	0.07	0.05
48 VENEZUELA	0.8	1.1	0.3	37.50	0.0035	0.0048	0.0012	99.93	99.95	0.07	0.05
49 LEBANON	0.7	1.1	0.4	51.21	0.0031	0.0046	0.0015	99.93	99.96	0.07	0.04
50 HONDURAS	1.0	1.0	0.0	1.91	0.0043	0.0043	(0.0000)	99.94	99.96	0.06	0.04
51 CROATIA	1.0	0.9	(0.1)	(6.71)	0.0043	0.0040	(0.0004)	99.94	99.96	0.06	0.04
52 TAIWAN	0.8	0.8	0.0	4.27	0.0033	0.0033	0.0001	99.95	99.97	0.05	0.03
53 ROMANIA	0.5	0.7	0.2	42.17	0.0022	0.0031	0.0009	99.95	99.97	0.05	0.03
54 GHANA	0.2	0.7	0.5	237.90	0.0009	0.0030	0.0021	99.95	99.97	0.05	0.03
55 YUGOSLAVIA	0.3	0.7	0.4	177.31	0.0011	0.0030	0.0019	99.95	99.98	0.05	0.02
56 MOROCCO	0.5	0.6	0.1	13.81	0.0023	0.0026	0.0003	99.95	99.98	0.05	0.02
57 BULGARIA	0.8	0.5	(0.3)	(33.86)	0.0034	0.0022	(0.0012)	99.96	99.98	0.04	0.02
58 NORWAY	1.6	0.5	(1.1)	(69.37)	0.0070	0.0021	(0.0049)	99.96	99.98	0.04	0.02
59 CYPRUS	0.3	0.5	0.1	40.77	0.0015	0.0020	0.0006	99.96	99.99	0.04	0.01
60 ISRAEL	0.4	0.5	0.1	29.31	0.0015	0.0020	0.0004	99.97	99.99	0.03	0.01
61 LAOS	0.1	0.4	0.3	397.83	0.0003	0.0016	0.0012	99.97	99.99	0.03	0.01
62 LATVIA	0.6	0.3	(0.3)	(47.02)	0.0026	0.0014	(0.0012)	99.97	99.99	0.03	0.01
63 NAMIBIA	0.4	0.3	(0.1)	(25.12)	0.0017	0.0012	(0.0004)	99.97	99.99	0.03	0.01
64 ETHIOPIA	0.5	0.3	(0.2)	(42.97)	0.0021	0.0012	(0.0009)	99.97	99.99	0.03	0.01
65 ESTONIA	0.1	0.2	0.1	100.00	0.0004	0.0008	0.0004	99.97	99.99	0.03	0.01
66 IRAN	-	0.2	0.2	-	-	0.0008	0.0008	99.97	99.99	0.03	0.01
67 COSTA RICA	-	0.2	0.2	-	-	0.0007	0.0007	99.97	100.00	0.03	0.00
68 BOSNIA	-	0.1	0.1	-	-	0.0006	0.0006	99.97	100.00	0.03	0.00
69 REPUBLIC OF S. AFRICA	0.6	0.1	(0.5)	(76.72)	0.0028	0.0005	(0.0021)	99.98	100.00	0.02	0.00
70 GEORGIA	0.2	0.1	(0.1)	(27.03)	0.0009	0.0006	(0.0003)	99.98	100.00	0.02	0.00
71 SWEDEN	-	0.1	0.1	-	-	0.0004	0.0004	99.98	100.00	0.02	0.00
72 CHRISTMAS ISLAND	0.1	0.1	-	-	0.0004	0.0004	(0.0000)	99.98	100.00	0.02	0.00
73 CHILE	0.9	0.1	(0.8)	(89.80)	0.0040	0.0004	(0.0036)	99.98	100.00	0.02	0.00
74 FINLAND	-	0.1	0.1	-	-	0.0003	0.0003	99.98	100.00	0.02	0.00
75 ZIMBABWE	-	0.1	0.1	-	-	0.0003	0.0003	99.98	100.00	0.02	0.00
76 HUNGARY	0.5	0.1	(0.4)	(85.50)	0.0020	0.0003	(0.0017)	99.98	100.00	0.02	0.00
77 CAMEROON	0.1	0.1	(0.0)	(32.62)	0.0004	0.0003	(0.0001)	99.98	100.00	0.02	0.00
78 SLOVENIA	0.1	0.0	(0.1)	(67.25)	0.0006	0.0002	(0.0004)	99.98	100.00	0.02	-
79 ALBANIA	0.2	-	(0.2)	(100.00)	0.0009	-	(0.0009)	99.98	100.00	0.02	-
80 HONG KONG	2.6	-	(2.6)	(100.00)	0.0115	-	(0.0115)	100.00	100.00	0.00	-
81 MACEDONIA	0.1	-	(0.1)	(100.00)	0.0004	-	(0.0004)	100.00	100.00	0.00	-
82 NETH. ANTILLES	0.1	-	(0.1)	(100.00)	0.0005	-	(0.0005)	100.00	100.00	0.00	-
83 PANAMA	0.1	-	(0.1)	(100.00)	0.0006	-	(0.0006)	100.00	100.00	0.00	-
84 SRI LANKA	0.4	-	(0.4)	(100.00)	0.0018	-	(0.0018)	100.00	100.00	0.00	-
85 URUGUAY	0.1	-	(0.1)	(100.00)	0.0004	-	(0.0004)	100.00	100.00	0.00	-
TOTAL	23,070.3	23,518.7	448.4	1.94	100.0000	100.0000					

BREWING INDUSTRY RESEARCH PROGRAM II
THE OFFICE OF R.S. WEINBERG
March 31, 2004

© Copyright 2004, The Office of R.S. Weinberg