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## The Evolution of Craft Beer Industry in Brazil

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### Abstract

The present article investigated the craft beer industry in Brazil. Beer is the most consumed alcoholic beverage in Brazil with approximately 14 million kl/year, and Brazil is the third largest beer producer in the world. Almost 98 percent of beer consumption in Brazil is light beer, Pilsen, 3-5 percent alcohol. In the 1980s, craft beers began to be produced in increasing scale in North America. In the 2000s, the global trend on changing consumer habits struck Brazil. From 2002 to 2018, the number of regular craft brewing industries jumped from less than 50 to more than 830. This single case study investigated craft beer activities in the Brazilian market, its challenges, pitfalls, and ultimate performance, since its offsprings to the present. Discussion and recommendations for future research complete this article.

**Keywords:** Craft Beer, Brewing Industry, Brazil

### 1. Introduction

The present descriptive case study investigated the craft brewing industry in Brazil, as a unit of analysis of this case (Yin, 2009).

Following an international trend, craft beers (*cervejas artesanais*), skyrocketed sales in Brazil, with an increasing number of built factories, who jumped from 356 to 835 in the last four years, almost 2.5 times (G1, 2018). If *cervejarias ciganas* (gypsy brewing industries, out translation – i.e., those unregistered brewing industries) were counted, the number would jump to 1,200 (CERVBRASIL, 2018).

*Beer* is defined, as “an alcoholic drink made from yeast-fermented malt flavoured with hops” (p.1). In Brazilian Portuguese, it is called *cerveja*. The etymology of beer is originated from:

Old English *beor* "strong drink, beer, mead," cognate with Old Frisian *biar*, Middle Dutch and Dutch *bier*, Old High German *bior*, German *Bier*; a West Germanic word of much-disputed and ambiguous origin. (...) Probably a 6c. West Germanic monastic borrowing of Vulgar Latin *biber* "a drink, beverage" (from Latin infinitive *bibere* "to drink," from PIE root \**po(i)-* "to drink"). (...) Spanish *cerveza* is from Latin *cervesia* "beer." (Online Etymology Dictionary, 2018, p.1)

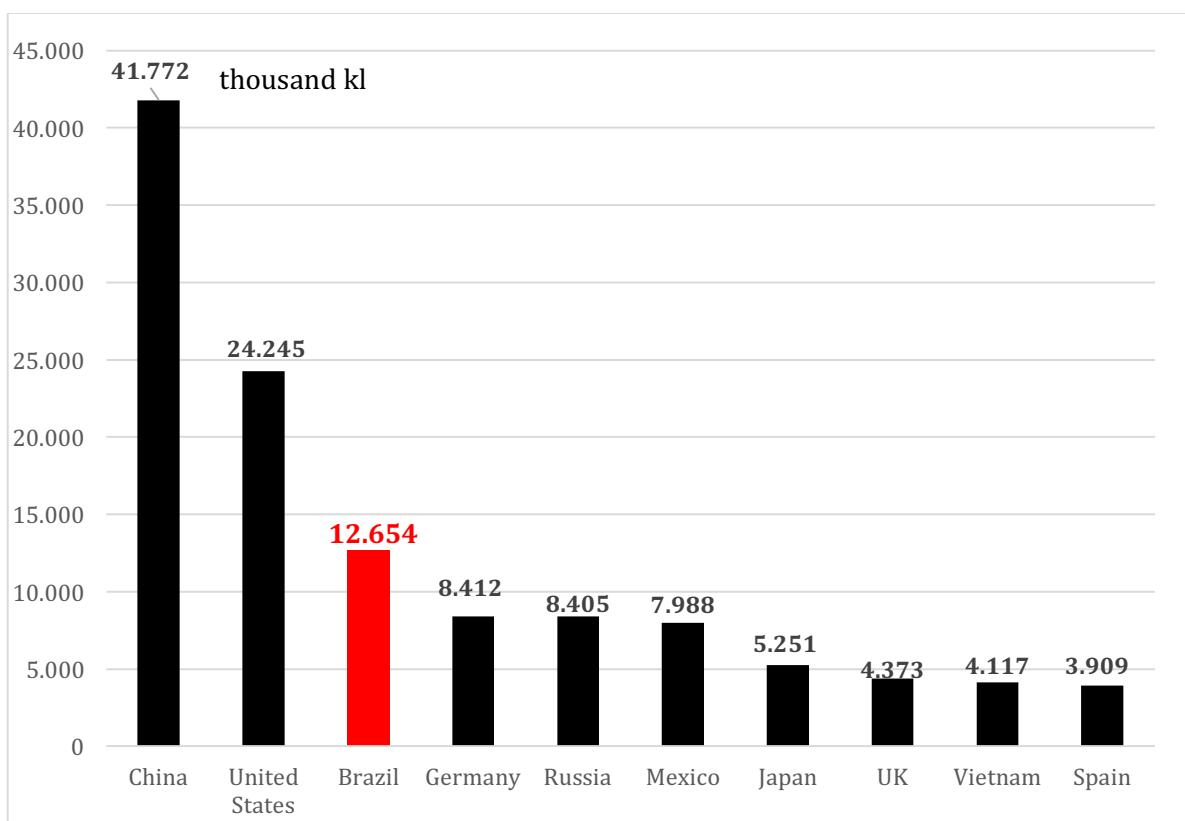
According to Law N° 8.918/94, Chapter II, Section I, Beer is classified as fermented alcoholic beverages, hereafter defined as: “the beverage obtained by the alcoholic fermentation of brewer's wort from barley malt and potable water, by the action of yeast, with the addition of hops” (Brasil, 1994, Art. 64).

Brazilian beers are classified according to Law N° 8.918/94, Art. 66: (a) light beer; (b) common beer; (c) Extra beer; (d) strong beer (item I). Regarding item II - for color: (a) light beer, with a color corresponding to less than 20 EBC (European Brewery Convention) units; (b) dark beer, the color of which corresponds to twenty or more EBC (European Brewery Convention) units. The same for item III - in terms of alcoholic strength in: (a) non-alcoholic beer; (b) beer with alcohol, when its alcohol content is equal to or greater than one-half percent by volume; item IV - for the proportion of barley malt in: (a) pure malt beer, one containing one hundred percent malt of barley by weight on the original extract as a source of sugar; (b) beer having a proportion of barley malt greater than or equal to fifty percent by weight on the original extract as a source of sugar; (c) beer bearing the name of the predominant vegetable, one having a proportion of barley malt greater than twenty-less than fifty percent by weight on the primitive extract as a source of sugar. Item V - for fermentation; a) low fermentation; and b) high fermentation (Brasil, 1994, Art 66, items I-V)

Beers in Brazil may be termed as "Pilsen", "Export", "Lager", "Dortmunder", "München", "Bock", "Malzbier", "Ale", "Porter", "Weissbier", "Alt" (Brasil, 1994, Art. 67).

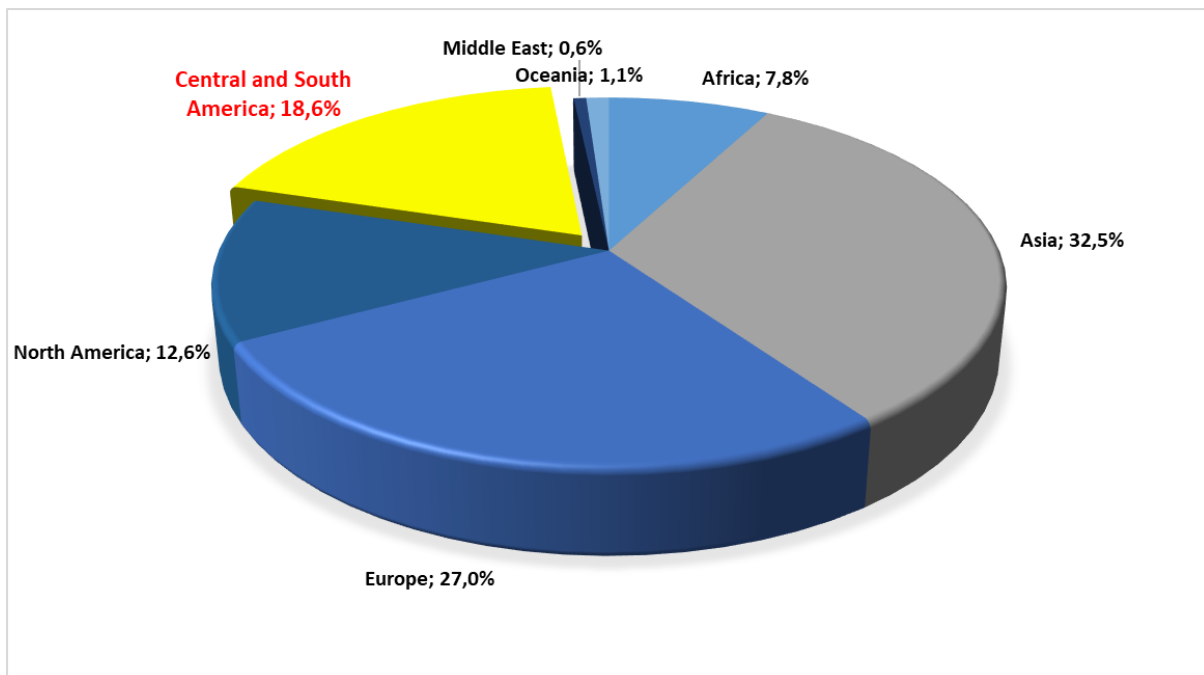
Finally, it is also prohibited in Brazil by Law N° 8.918/94, beers with “flavoring and artificial colors in the brewing” (Brasil 1994, Art. 70, single paragraph).

Brazil is the third country in global consumption, according to the Kirin Global Beer Report 2017, with 12,654 thousand kl consumption, representing 6.8 percent of the global beer market, as depicted in the following Figure 1:



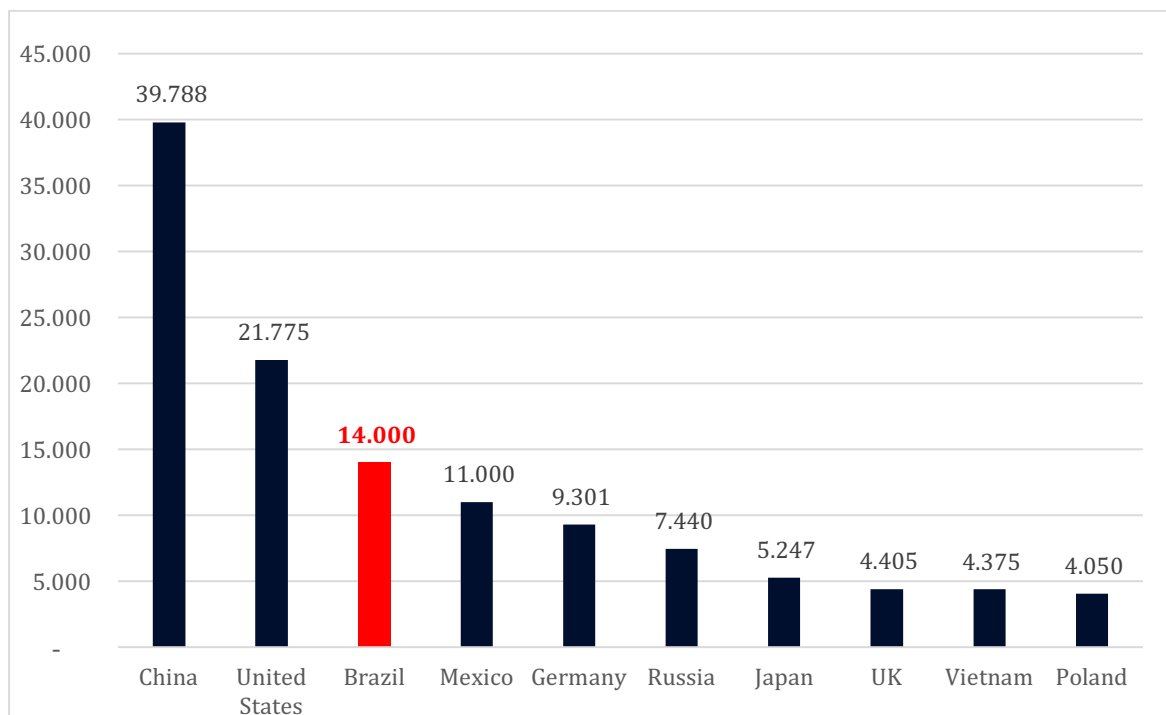
**Figure 1** World Consumption. Source: Global Beer Report 2017

Figure 2 depicts the global market share by world region, as follows:



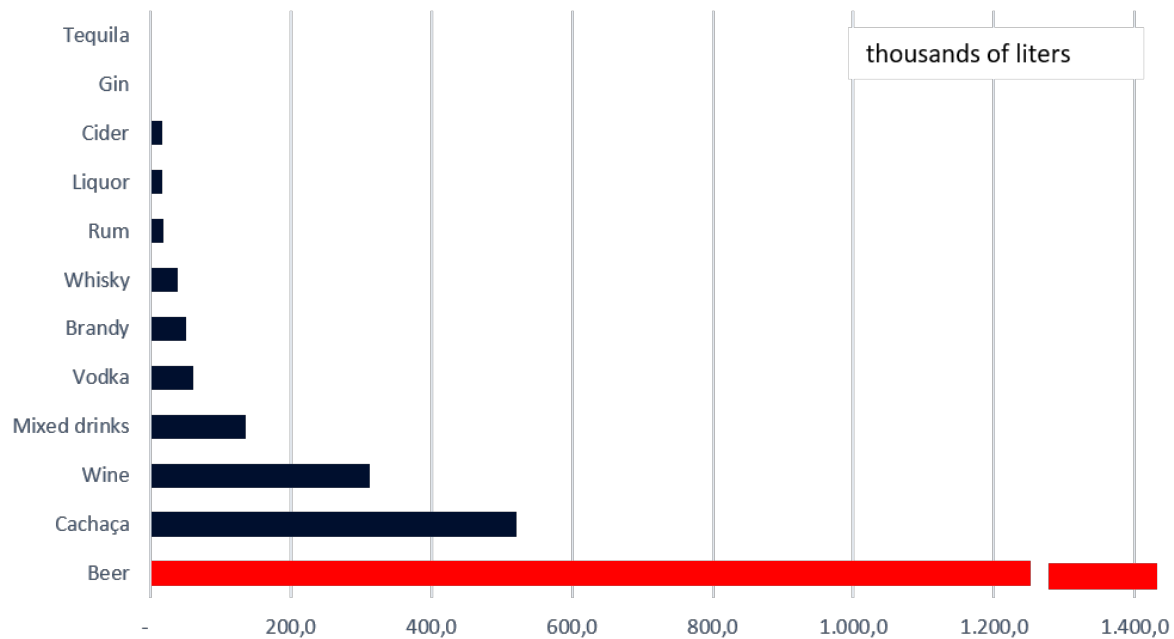
**Figure 2** Market Share by region. Source: Global Beer Report, 2017

Figure 3 depicts the global beer production, which shows Brazil as the third largest beer producer, as follows:



**Figure 3** Global beer production 2017. Source: Global Beer Report, 2017

Figure 4 depicts the beer consumption in Brazil. Beer is, by far and large, the most consumed alcoholic beverage in Brazil. Beer consumption is approximately 24 times the second one, the popular *cachaça*, according to Euromonitor (2018) statistics, as follows:



**Figure 4** Brazilian consumption per type of beverage. Source: Euromonitor, 2018.

## 2. Methodology

This is a qualitative, inductive, interpretive, multiple methods study, involving extensive archival research, direct observation, and single case study, which unit of analysis (Yin, 2009) is the craft beer industry in Brazil. This research is limited to the Brazilian beer market, excluded other countries and beverages, such as *cachaça*, and wine, for instance. This work is limited to the Brazilian Beverage the Law N° 8.918, from July 14, 1994 (Articles 64 to 71). The present study is also limited by the Decree No 2.314, from September 4, 1997, which regulates, in turn, the Law N° 8.918/94.

## 3. Beer laws: background

The first Law on Beer k quality known in Europe, was the German Beer Purity Law (*Reinheitsgebot*), issued by Duke William IV of Bavaria (southern Germany), on April 23, 1516. *Reinheitsgebot* established that beers should be made only with water, barley malt, and hops. This law fixed the quality of ingredients, not the way the should be prepared. However, only in 1906 *Reinheitsgebot* was extended to all Germany (before, it was limited to the Bavarian states). Then, after World War II, the *Reinheitsgebot* was then incorporated to the current Beer German Law *Biersteuergesetz* (Cervesia, 2014).

The United Kingdom (UK) Parliament issued the *Beerhouse Act* in 1830, aiming at fostering the brewing industry, also reducing *gin* consumption, and other much stronger spirits, among other formalities, reducing taxes for beer production and granting selling licenses to public houses and breweries all over UK (Cervesia, 2014).

Despite issuing restrictive alcoholic consumption Laws, such as (a) *Vandervelve Act* from 1919 (Belgium) (b) *Volstead Act* – also known as National Prohibition Law (US), from 1919.

In Belgium, the (a) *Vandervelve Act* from 1919 prohibited beer to be commercialized in public places, aiming at combating alcoholic abuses. Also ruled traditional monk trapist beer production, providing stricter production norms.

In the same vein, the North American Government issued the (b) *Volstead Act*, on October 28, 1919, to prohibit alcohol consumption, and "intoxicating beverages, and to regulate the manufacture, production, use, and sale of high-proof spirits for other than beverage purposes, and to ensure an ample supply of alcohol and promote its use

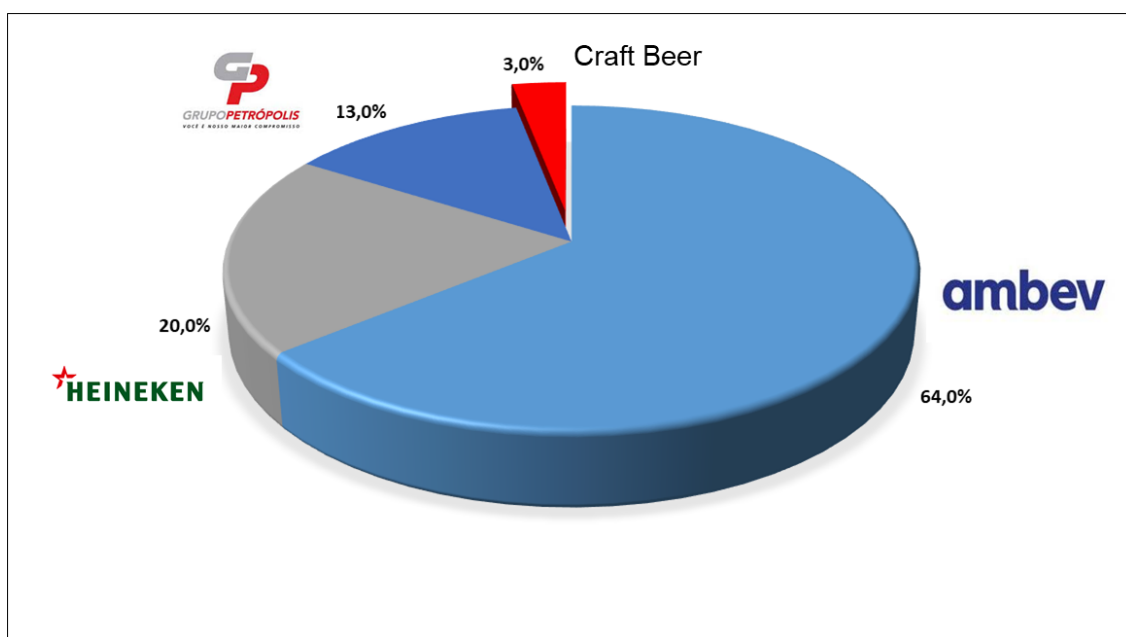
in scientific research and in the development of fuel, dye, and other lawful industries" (Volstead Act, 1929, p.1). The prohibition helped to create a parallel alcoholic beverage market, driven by gangsters like AlCapone, among others. Such prohibition lasted until the elected president, Franklin Delano Roosevelt, extinguished Volstead Act in 1930. In Brazil, alcoholic consumption has never been criminalized in the whole history of the Country.

In Brazil, Beer brewing industry is ruled under the Law N° 8.918, from July 14, 1994, which “provides for the standardization, classification, registration, inspection, production and inspection of beverages” Brazil (1994, caput). However, Law N° 8.918/94 is driven to any beverages, alcoholic and non-alcoholic ones. Also the Decree No 2.314, from September 4, 1997, which regulates the Law N° 8.918/94. On Article 2, beverages are considered: “any industrialized product intended for human consumption, in liquid form, for non-medicinal or therapeutic purposes” (MAPA, 1997, Art. 2, item I).

#### 4. Brazilian Beer Industry

According to the Brazilian Association of the Brazilian Beer (*Associação Brasileira da Indústria da Cerveja – CERVBASIL*), the Brazilian beer industry is responsible for 1.6 percent of the Brazilian GDP, producing more than 14 billion l/year, collecting near 21 billion BRL (approximately 7 billion USD) taxes to the Brazilian Federal Government per year, with approximately with 38 thousand vehicles in the fleet, with 1.2 million outlet points, attending 99 percent of the Brazilian households (CERVBASIL, 2018).

The Brazilian Beer brewing market is divided between (a) Ambev, (b) Heineken, (c) Grupo Petropolis, and (d) others, as depicted in the following Figure 5, as follows:



**Figure 5** Brazilian Beer market. Source: Euromonitor, 2018.

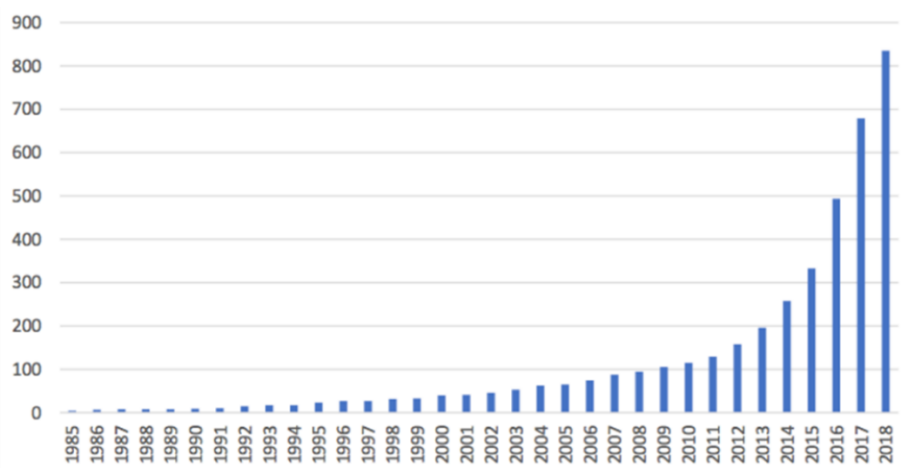
Ambev in Brazil is the owner of the following beer brands: (a) Skol, (b) Brahma, (c) Stella Artois, (d) Quilmes, (e) serra Malte, (f) Corona, (g) Colorado, (h) Franziskaner, (i) Hertog Jan, (j) Hoergaarden, (k) Löwenbräu, (m) Bucanero, (n) Patagonia, (o) Polar, (p) Budweiser, (q) Caracu, (r) Leffe, (s) Original, (t) Negra Modelo, (u) Norsteña, (v) Bohemia, (w) Wäls, (x) Goose Island, (y) Adriatica, (z) Beck’s and (a.1) Antarctica.

Heineken is also the owner of the following brands: (a) Heineken, (b) Sol, (c) Kaiser, (d) Bavaria, (e) Bavaria 0.0%, (f) Xingu, (g) Amstel, (h) Kirin Ichiban, (i) Schin, (j) Schin 0.0%, (k) No Grau, (l) Devassa, (m) Baden Baden, (n) Eisenbahn, (o) Glacial, (p) Birra Moretti, (q) Desperados, (r) Dos Equis, (s) Edelweiss.

Grupo Petropolis holds the following brands: (a) Itaipava, (b) Crystal Beer, (c) Lokal, (d) Black Princess, (e) Petra, and (f) Weltenburger-Kloster.

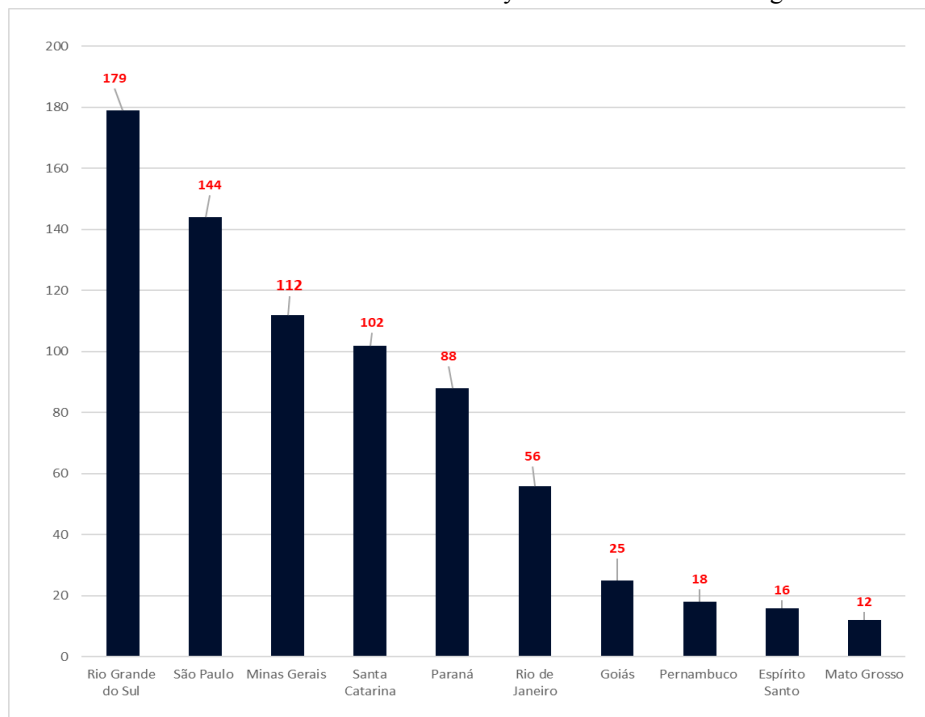
**5. Evolution of the Craft Beer Industry in Brazil**

The craft beer market in Brazil, although not representative in comparison to other brands, is a growing one. From the last decades, passed from scarce initiatives to a growing market. According to the Ministry of Agriculture, Fishing and Supply (2018), there are 835 registered craft beer industries in Brazil, according to Figure 6, depicted as follows:



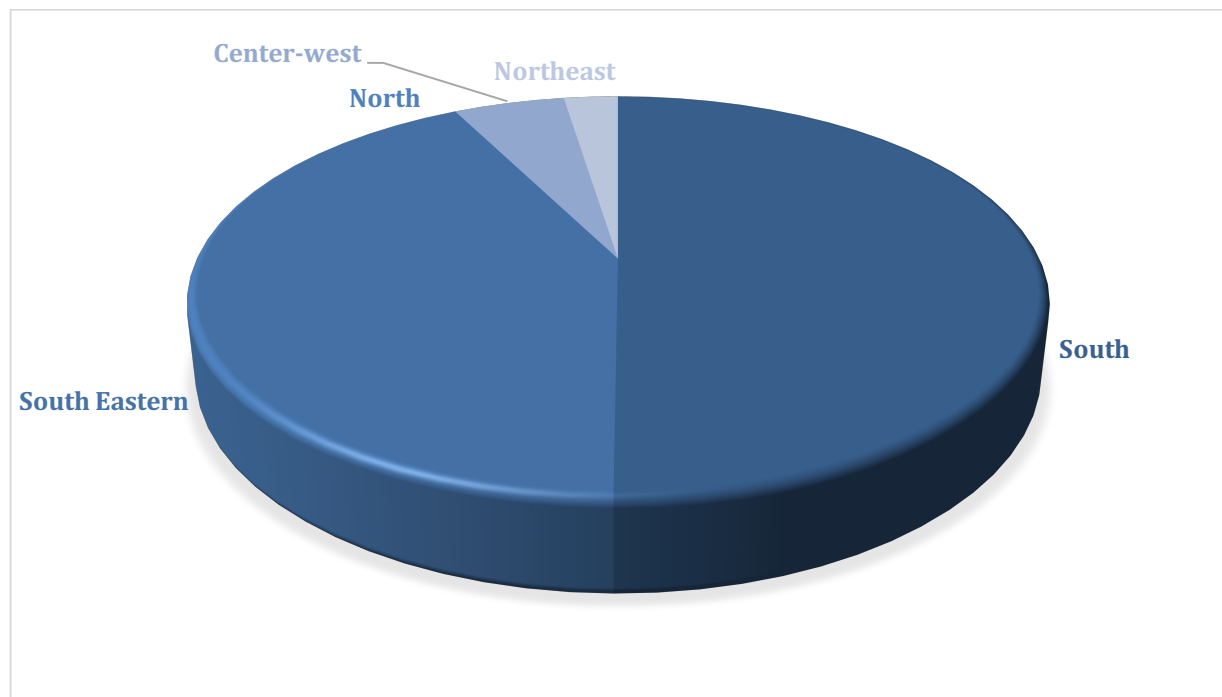
**Figure 6** Craft beer industries in Brazil (1985 to 2018) . Source: Ministry of Agriculture, Fishing and Supply, 2018.

The craft beer industries are located in the Brazilian territory as shown in the next Figure 7:



**Figure 7** Craft beer industries in Brazil, per state . Source: Ministry of Agriculture, Fishing and Supply, 2018.

Figure 8 depicts the distribution of craft beer industries per region. Note the concentration of industries through South and Southeastern regions (92 percent), as follows:



**Figure 8** Craft beer industries in Brazil, per state . Source: Ministry of Agriculture, Fishing and Supply, 2018.

## 6. Discussion: Challenges and Pitfalls

Enterprises in Brazil have experienced similar challenges on adaptation to Brazilian consumers' habits, not restricted to: Netflix (Dias & Navarro, 2018), VLT Carioca (Dias & Teles, 2018), Dudalina (Dias et al. 2014, 2015), Fiat Chrysler in Brazil (Dias & Duzert, 2016). Dias (2018) also investigated the acquisition of Brasil Kirin by Heineken.

Craft beers are being popularized in Brazil, without the support of television media, which is directed to the brand leaders (Dias, 2018). According to the Brewers Association, craft beer consumption in The United States is about 20 percent of the market (Brewers Association, 2018). It may suggest that the Brazilian market has room for expansion.

The three bigger competitors in Brazil, perceiving the consumer habits changes, also started buying craft beer industries. It is the case of Eisenbahn and Baden Baden, Brazilian craft beer brands, acquired by Heineken in 2017 (Dias, 2018).

The fact is that the Brazilian do consume a large amount of beer (Dias, 2018). The conclusion is that the Brazilian consumer is benefited with this fierce competition, in the outlet points, bars, restaurants, supermarkets. Never in the overall Brazilian history was too easy to find beers from different brands. In comparison to Jamaica, where the Red Stripe is the only locally available beer, in Brazil, there are hundreds of different types of beers, with the majority of global brands available to the Brazilian costumers.

It is possible in the future that Grupo Petropolis mergers with one of the main competitors, ABInBEV or Heineken. This research was limited to the Brazilian beer beverage market. Other countries should be investigated in separate studies, as well as the evolution of the craft beer market in these countries.

For future research, it is encouraged the case visitation as well as the investigation of the craft beer performance in the Brazilian beer, and other markets as well.



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