

The background of the top half of the page is a dark, moody photograph of three glasses filled with alcoholic beverages. Each glass is garnished with a slice of lemon and has a clear straw inserted. The lighting is dramatic, highlighting the condensation on the glasses and the texture of the lemons.

ALCOHOLIC BEVERAGES:

post-pandemic industrial opportunity,
restrictions, and alternatives for its
growth in Colombia.

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COLOMBIAN CONTEXT

In recent years, the Colombian alcoholic beverage market has found ways to achieve innovation and competitiveness, even though it continues being restrictive and with an important margin of development.

Regulatory changes for alcoholic beverages industry have been the result of the policies promoted by the Andean Community of Nations and the Organization for Economic Cooperation and Development (OECD), which have advocated regulatory coherence for the development and growth of the industry, while maintaining the monopolies of liquor manufacturing, without tax discrimination and market access.

Both large and small companies have decided to expand the market with innovative products, ranging from local craft beers, ancestral liquors, ready to drink, hard seltzers, wines from new regions, and non alcoholic drinks.

This scenario and the potential modernization of the alcoholic beverage industry in Colombia becomes a window of opportunity to accelerate the country's economic growth, supported by entrepreneurship, innovation, simplification of procedures and equity.



GLOBAL TRENDS

In recent years, global consumer trends have been marked by the development of new technologies and their use, new business models and the reinvention of companies and their brands.

In the wake of the pandemic and the measures governments have taken to face it, consumers have changed the way they seek and access the products needed. Technologies and communications are protagonists, now more than ever, because the consumer has the need to integrate them into their daily lives.

Euromonitor International, reveals every year a study on global consumer trends. In its latest study for 2020 and 2021, it defined the following trends:

- **Back to the roots and the traditional:**
- **Accessing content in less time:**
- **Without leaving home:**
- **Personal wellness :**
- **Pre-planning experiences is the way to consume in the new reality.**
- **Seeking spaces in remote areas of cities for distraction**
- **Integration of the physical and the virtual.**



The Colombian alcoholic beverages industry faces multiple challenges to be at the vanguard of global trends and to find a way to be innovative and competitive. Despite being one of the industries that contributes the most to territorial finances to strengthen social investment, it has been faced with a restrictive environment that little by little has begun to evolve.

In this way, governmental conditions that have impacted the alcoholic beverages trade persist in the country, such as regional limits, obsolete procedures, and variations in the tax order. However, there are some strategies that have recently been promoted to foster the modernization of the industry through laws that have given clarity and have set a guideline for the operation of the industry in the country and contribute to its economic growth.

This text aims to analyze opportunities for the development of the industry. First of all, there is a context of this industry in the country, as well as the global trends marked in 2020 and those expected for 2021. On the other hand, different Latin American cases of alcoholic beverages that have reached successful levels of export are analyzed, as a result of brand strategies, protection, international agreements for trade and the promotion of their products at an international level.

The innovation challenge in the country for businessmen and entrepreneurs is discussed in these documents. There have been successful examples of alcoholic beverage brands that have understood trends and brought their products to international trade. Additionally, the actions of the government in relation to support the formalization of companies are highlighted, as well as national strategies and plans that eliminate certain barriers and seek to streamline operations.

Lastly, a vision of the challenges and opportunities that the alcoholic beverages industry must improve, is its competitiveness to expose. For which the regulatory landscape is analyzed in relation to the tax scheme, price certification and procedures for the introduction and trading of products. A series of conclusions and recommendations are made for the modernization of the industry, among which stands public policies designs for the development and technological transformation, which apply to global and regional trends.



The beverage alcohol industry must review these trends and accelerate its innovation process, supporting its customers and its channels in order to offer multifunctional solutions for access to its products.

INNOVATION REGIONAL EXPERIENCES

Regionally there are three experiences of alcoholic beverages that have become emblematic of their countries, with great notoriety and international projection, so they have a great cultural and economic importance for the country. Factors such as national identity, designation of origin, international trade agreements and international promotion of these products have contributed to their consolidation and growth.

Pisco: Perú and Chile

Pisco exports amounted during 2019 to US \$6.85 million with a variation of 17.65% compared to 2018 and 1.25 million liters exported, opening the way to new markets in the Asian continent.

In the case of Chile, pisco exports totaled US\$6.8 million in 2019, registering a growth of 18% over the previous year. The main export destination countries, according to total export value, were the United States (31.8%), Canada (10.7%), Germany (7.9%), Spain (6.1%), France (6.1%) and China (5.3%) (ODEPA, 2020).



Tequila: Mexican Emblem

Tequila exports show a 10.6% growth for 2020 over 2019 exports. According to the Tequila Regulatory Council, sales to international markets increased to 154 million liters from January to July 2020, while in the same period of 2019 it was 146 million liters.

The designation of origin is the ideal means for the promotion of the country, as it ensures the authenticity of its product in the process of elaboration, characteristics and qualities of its geographical region.





Wines of Mendoza Argentina

National Law 25. 163 of 1999 established the regulations to position Argentine wines by setting up a system for the recognition and protection of the country's geographical names. Likewise, the National Law 25. 849/03 created the Corporación Vitivinícola Argentina (COVIAR), with the purpose of managing and coordinating the implementation of the Strategic Plan Argentina Vitivinícola 2020 -PEVI, as a tool for the design and application of long-term policies for the sector.

This stage of modernization has led to the emergence of new wineries, the positioning of Mendoza wines internationally and an increase in exports (wines and must grew in liters 10. 41% and 43. 70% respectively, in 2019 compared to 2018, representing about US \$810 million) (Mendoza Government, 2020).



ADVANCES FOR INNOVATION IN COLOMBIA



In Colombia, the industry has been able to take advantage of several global trends, offering new products and at the same time the Government has developed policies to promote its development.

A relevant case is "La Hechicera" Rum, inspired by the charm and enchantment of the Colombian Caribbean, which seeks to celebrate the country and its biodiversity. La Hechicera was developed by a family that has been at the forefront of the rum industry and focused on the development of its flavor and quality, leading it to be a worldwide award-winning product.

Likewise, the growth of craft breweries in the country is evident. Consumers want a broader portfolio of beers produced on a smaller scale and with less industrialized processes. According to figures from the craft brewers guild, between 2007 and 2018 craft breweries had an annual growth of 46 percent.

At the same time, the Government has sought to promote and strengthen entrepreneurship and business formalization through different actions:



Law 1955 of 2019, National Development Plan 2018-2022 "Pact for Colombia, Pact for Equity", outlines the course of action to remove obstacles and transform the conditions that make possible accelerate economic growth and equal opportunities based on three structural pacts: Legality, entrepreneurship and equity.

- Decree 1366 of 2020, which reduces the costs of the necessary procedures to be carried out by micro-entrepreneurs at the sanitary entity in order to accelerate their formalization and promote the growth of the industry.
- Law 2005 of 2019, "Whereby incentives are generated for the quality, promotion of consumption and commercialization of panela, honeys and their derivatives, as well as the conversion and formalization of the mills in Colombia and other provisions are issued". The sugarcane sector has the capacity to develop its production processes in a competitive and sustainable way, developing new alternatives such as the production of rum and liquors.

There are other opportunities for innovation in the ancestral beverage market. Asawaa, for example, is a product from the Department of La Guajira, which uses distilled corozo, panela and iguaraya, traditional fruits of the Guajira desert. Its producers, in addition to highlighting the flavors of their region, also intend to highlight the traditions, fauna and flora in their packaging. The products are not only liquors, they are the identity and values of an ancestral region. Not only the consumption of a drink is promoted, but also a whole region.

Another example of innovation is La Roja, a beer produced in the Territorial Space for Training and Reincorporation, Antonio Nariño, where several demobilized FARC members began producing it since December 2018. Currently between 1,200 and 1,500 liters of beer per month, using natural elements such as barley, hops and natural water from the area.

It is evident how in Colombia some industrialists and entrepreneurs have taken advantage of the trends, developing and offering products that meet the expectations of the consumer and at the same time it is evident the interest of the Government to promote policies that allow to positively transform the conditions of the industry. However, it is necessary to accelerate these transformation initiatives, eliminating institutional barriers, allowing access to the market and assertively defining a tax system to promote the commercialization of these products throughout the national territory and even promote them internationally.



THE CHALLENGE OF INNOVATION IN THE COLOMBIAN MARKET

The opportunity is based on the ability to adapt quickly to new consumer trends, including those defined by the new reality, which demand product diversification, fast delivery of information, efficiency in supply and distribution. These demands have great potential to encourage innovation, not only in the development of differentiated products that meet consumer expectations, but in all the processes necessary to get them into their hands.

Additionally, it is important to take into account the opportunity in the own production of potable alcohol as raw material for the elaboration of alcoholic beverages, under the optimal conditions of the agricultural activity of the country, especially sugar cane, without leaving aside other agricultural products that can be used for this purpose. However, due to low profitability, national liquor companies and industries have shifted from the production of their own alcohol to imports, mainly from Ecuador, Peru, Brazil and Bolivia, due to the strict technical and environmental requirements demanded by the institutions and the increase in molasses prices.

Then, the implementation of new technologies and the elimination of unnecessary barriers and restrictions are essential to facilitate the processes of introduction and commercialization in the country. This would be a big step towards modernization, as restrictions linked to the protection of the liquor monopoly have discouraged local and foreign investment. In addition to this, the regulations governing the operation of producers, importers and marketers, represents a challenge for the competitiveness and innovation of the industry.



REGULATORY LANDSCAPE

The spirits, wines and aperitifs sector has faced recurrent changes in its regulatory framework, especially with regard to its tax structure.

The main regulatory aspects to be taken into account are described below.

A. Tax scheme

The resources collected from the excise tax on liquor, wine and aperitifs and the tax on beer, soda and soft drinks are an essential part of the financing of health, education and sports in the departments.

The calculation of the tax for spirits and wines is based on two components: i) Specific: rate per alcoholic strength; ii) Ad-valorem: set based on the retail price issued by DANE, 25% on that base price for spirits and 20% for wines. It should be noted that an additional 5% VAT is paid. On the other hand, the tax on beers contemplates a specific tariff plus a VAT of 19% multiphase.

B. Retail Price Certification

Since the implementation of Law 1816 of 2016, the DANE has been in charge of certifying the taxable base for each of the specific products subject to the consumption tax. For this purpose, it uses a methodology that aims to certify the retail price of spirits, wines, aperitifs and similar products. Despite the fact that the methodology was modified in 2019, criticism of its relevance continues from producers and importers of different types of alcoholic beverages.



C. Procedures for the introduction and marketing of products

The simplification of procedures is an opportunity to modernize and increase the efficiency of the industry. However, even though the National Government has made progress such as the issuance of Decree 2106 of 2019 of the Administrative Department of Public Function "By which rules are issued to simplify, eliminate and reform unnecessary formalities, processes and procedures existing in the public administration", through which the procedures for the commercialization of liquor in Colombia are simplified, there are delays in its implementation.

This decree represents advances for the modernization of the industry, as it unifies the codification of alcoholic beverages and integrates all the information in a single system. It implements a unique signaling system (unique stamp) and also allows introducers to establish their own warehousing system. This would be done from the Integrated System of Support to Consumption Tax Control - SIANCO.

CONCLUSIONS AND RECOMMENDATIONS.

The alcoholic beverage industry is in a period of modernization, in which some innovative experiences stand out, such as the artisanal liquor Asawaa, Hechicera rum and multiple artisanal breweries. These success stories point to a consumer with preferences for artisanal, eco-friendly, conscious, authentic and simpler products, to be at the forefront of global trends.

It also highlights how the alcoholic beverage industry can represent an opportunity for the development of productive projects with social impact. However, there are still regulatory barriers for the technological transformation, development and growth of the industry, such as: i) the procedures for the production, importation and commercialization of products; ii) the risk of changes in tax structures and consequently the increase in taxes; iii) the restriction for a complete operation of the sector under free market dynamics, from the figure of monopoly to the allocation of prices.



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In this context, a commitment to a process of profound modernization of the sector is necessary to broaden the outlook for competitiveness and investment in the country. This leap additionally implies a more efficient response in the introduction and commercialization processes, as well as regulatory frameworks that promote the competitiveness of the industry. Likewise, it is important to understand the opportunities of the agricultural sector in the context of local production of potable alcohol from different agricultural products that can leverage the growth of the industry, accompanied by regulations that benefit the sector.

In addition to this, it is necessary to explore the market for ancestral beverages with the opportunities represented by the categorization of denomination of origin, as well as to build a strategy that strengthens the productivity of high quality alcoholic beverages, increases export capacity and integrates the different links in the market chain.

That is why Vali Consultores, with the aim of contributing to the discussion, offers this holistic view of the industry in Colombia and recommends a joint work between the public sector, companies, associations and other actors in the private sector, in order to build, design and implement a long-term plan that benefits the entire production chain.

In addition to this, the modernization stage can be accelerated through technology transfer processes from world leaders to local companies through maquilas, public-private alliances and others. This would stimulate local and foreign investment in this sector, which is a key factor for the dynamism of the industry, as successful experiences in the region show.



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