

# The Government Alcoholises the Belarusians

Lately many in Belarus talk about prohibition to sell cheap poor quality alcohol and fight against alcoholisation of population in Belarus. However, sales of vodka in Belarus amount to a half of the market share.

Moreover, the government as watchdog and owner of most of distilleries in Belarus is steadily increasing production of vodka over the last years, effectively guaranteeing one of the most sustained sources of raising money for the budget. It turns out that the campaign against drinking is in direct conflict with replenishment of the state budget?

According to the latest Belstat data, the vodka sales continue to expand in Belarus. Between January and October this year sales of vodka increased by 1.2 per cent as compared to the same period of last year. Ten and a half million dekalitres (dL) of vodka were sold; its share in the total volume of alcohol sold amounted to 49.8 per cent (45.6 per cent in the period between January and October 2011). The other half accounts for all other pleasures, i.e. fruit and berry wine, beer, liqueurs and spirits, wine and brandies.

## **The State Constantly Increases Quotas for Production of Spirits**

The alcohol market in Belarus is subject to government regulations. Production and sale of alcohol are licensable activities. Therefore, the share of counterfeit goods in the market is very miserable if not nil. This positive element was repeatedly emphasised by experts from Ukraine, Russia and Poland at one of the recent international conferences.

At the same time, the government sets and, if needed, adjusts

quotas for alcohol production. The quotas are based on alcohol consumption and the government programme of fight against alcoholism, we were told in the Beldziarzhkharchpram consortium.

However, the quotas for production of vodka and other liquor increase steadily. If in 2010 they amounted to 17.2m dL and in 2011 to 18.6m dL, in 2012 they increased to more than 20m dL. This upward trend takes place against the background of drop in production of fruit wines ("plonk" in common language), which represents simple substitution but not fight against alcoholism as it is presented by officials.

The Beldziarzhkharchpram consortium says that increase in production of spirits is oriented mostly towards export sales and not towards domestic consumption. However, export sales amount so far to less than 5 per cent. In 2011 1.3m dL of vodka and liquor were exported, and the plan for 2012 is 1.8m dL. The share of imports in the Belarusian market is small. It is 0.4 per cent for vodka and 3.2 per cent for liquor.

The main producers of alcohol are local companies most of which are government-owned. According to the data of the Beldziarzhkharchpram, since 2005 the number of vodka and liquor producers increased from 17 to 25 companies. Eighteen of them are controlled by the government.

During this period their production capacity increased twofold. If in the beginning of 2005 this figure amounted to 13.6m dL, at the beginning of the current year it was 26.1m dL. As we can see, the production capacity of domestic producers allow them to further expand sales of the "firewater".

### **State Producers of Spirits**

The Belarusian producers of spirits can be divided into three groups.

The first is represented by a single company, Minsk-Kristall. This is the largest producer with 30 to 33 per cent market share. Also, achievements of the Minsk company were recognised at the international level. The same-name vodka of the Minsk plant, according to the magazine *Drinks International*, was rated 9<sup>th</sup> among the world's bestselling vodkas and got into the top 50 of the most sold alcoholic drinks.

Minsk-Kristall recently opened a 7,000-sq.meter logistic centre in Kaliadzicy. For this purpose, BYR 122.1bn (\$14,3m) were spent, including BYR 88.9bn (\$0,5m) of borrowed money. It is clear that the Minsk company should increase sales in order to recover the costs. One of the latest examples is resumption of bottling of alcoholic drinks under the Nemiroff brand at the facilities of Minsk-Kristall.

The second group of producers of vodka and liquor includes five major government-owned companies located in every administrative region of Belarus whose dwellers are their main customers. These are Prydzvinnie from Viciebsk, Belalko from Brest, Liquor Plant from Klimavicy, Radamir from Homiel and Niomanoff from Hrodna. Their total share is estimated at about 40 to 45 per cent.

### **Private Producers of Spirits**

The third group is private producers of spirits. This is the least representative group but three quite strong players stand out with total share of 17 to 20 per cent. First of all, one should note the Malinauscyzna Alcohol and Vodka Plant Akvadiv, which is located in the vicinity of Maladziecna. It is owned by companies of the pro-governmental businessman Uladzimir Pieftsijeu and *Minks-Kristall*. Such partnership between the private sector and the government assured Akvadiv a place among the top five producers of spirits.

Winery Dionis founded in 2003 by businessman Siarhiej Barok, previously an importer of alcohol, is also located in Minsk

region. Its production facilities are situated in the vicinity of the town of Zaslauje. Despite the fact that the company has the word "wine" in its name, its 40° products are also sold with a bang.

Dionis will badly need additional resources in the near future. Siarhiej Barok must build a sailing centre for the government before 2014. In return for this, Dionis received a plot of land on the Pieramozcau Avenue in Minsk for building a health complex and a business centre.

The Minsk Winery, or rather its Brest branch which produces the full line of spirits, gains serious momentum in the market of vodka. In particular, during the first half of 2012 the Brest branch of the Minsk Winery bottled more than 1,1m dL of liquor which is 88 per cent more than during the same period of last year.

The Minsk Winery is among the top three producers of liquor in the country. But shareholders of the Minsk Winery Siarhiej Litvin and Uladzimir Vasilko are not going to rest on their laurels. They are going to build a large alcohol-producing plant in Dziarzynski district.

As we can see, in the future Belarus is not going to decrease production of spirits. The fact is that this business is a steady source of raising money for the budget. The excise tax and VAT command a significant part (40 per cent) in the price of a bottle of spirit.

### **Spirit Producers – the Largest Taxpayers**

Thus, nothing surprising in the fact that all above companies are among the major taxpayers in the entire country as well as in their respective regions. Two companies are among the top ten taxpayers in Belarus for 9 months of 2012. Minsk-Kristall is the 7<sup>th</sup> in the list, and the Minsk Winery is the 10<sup>th</sup>. They are also among the top ten revenue-generating companies in

Minsk.

For Minsk region, Akvadiv is among major revenue-generating companies, for Homiel region is Radamir, and for Viciebsk region is Prydzvinnie. Belalko is the largest taxpayer in Brest region. Niomanoff and Klimavicy Liquor Plant are among the top three in Hrodna and Mahiliou region respectively.

Whether the authorities are interested in giving up a steady source of raising money for the budget and thus creating additional trouble for them is probably a rhetorical question.

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## [Cheap Booze for the People of Belarus](#)

As the economic crisis deepens prices on nearly all products rise sharply in Belarus with one remarkable exception – alcohol. These days a bottle of vodka in Belarusian restaurants often costs less than a packet of orange juice – US\$3.

In a supermarket half a liter of a cheap alcoholic drink with around 30% alcohol content costs around US\$0.65. Yesterday the government increased taxes on alcohol and tobacco, but the state policy of providing affordable alcohol and tobacco remains unchanged.

This policy arises from Alyaksandr Lukashenka's own understanding of what Belarusians need. At a June press conference he explained: "People would not survive without vodka, bread and cigarettes and we help them".

The Belarusian Ministry of Economics ensures that alcohol and cigarettes remain cheap by imposing price caps, which sellers cannot exceed. This policy sharply contrasts with that of other northern European countries, which have the world's highest alcohol taxes. The affordable alcohol policy comes at a very dear price to Belarus.

In August the Belarusian government increased quotas on the production of spirits by around 15 percent. Although alcoholic drinks in Belarus are inexpensive, producing them is even cheaper. Nearly all alcohol production is in the state's hands, which makes it a good source of revenue. Moreover, a significant number of alcoholic drinks produced go to Russia in exchange for much needed hard currency.

This year a monthly salary of merely US\$200 has become normal for many Belarusians. This is the result of a nearly 300% devaluation of the national currency. Although US\$200 dollars does not sound like a serious sum, one can afford 230 bottles of cheap alcohol for this money. And alcohol sales have significantly increased. The numbers released by the Belarus National Statistics Committee last month suggest that the sales of vodka and other liqueurs increased by more than a third in the first half of 2011.

The General Prosecutor's office reported that every fourth crime in Belarus is committed by intoxicated offenders. They also registered a 10% increase of alcohol abusers. This is a serious blow to the health of Belarusians who are already distressed by the economic crises. A report released this year by Hrodna State Medical University suggests that at least 30% of deaths of working age adults in Belarus are now related to

alcohol.

The real figure is even higher because the Hrodna study did not include deaths resulting from cardiovascular diseases related to alcohol abuse or alcohol-related accidents and crimes. The report points out that only Russia has comparable figures in Europe. It should be noted that this year Russia registered a drop in per capita consumption of alcohol while consumption of alcohol in Belarus is growing.

The Belarusian state supplies abundant cheap alcoholic drinks, a significant part of which is of very poor quality. The cheapest and the most popular drink among Belarusian alcoholics is called *charlik*: a mixture of a poor quality apple juice, cheap alcohol and colouring agents which costs less than a dollar per bottle. Not only is the drink very addictive, but it also contributes significantly to the onset of liver disease.

Although the authorities like to demonstrate that they are taking measures to tackle the growing alcohol epidemic, their approach lacks consistency. For instance, they have limited drinking in public places and reduced the permitted alcohol level in blood of drivers. But these measures do little to alleviate the problem. As long as alcohol is ridiculously cheap and salaries are so low, alcohol will [remain](#) the most affordable pleasure for many Belarusians.

Ironically, Alyaksandr Lukashenka, the main proponent of cheap alcohol and tobacco, has a reputation as a non-smoker who rarely drinks. Apparently the current Belarusian regime views alcohol as a source of stable revenue, which also helps people forget about political problems and the dire economic situation.