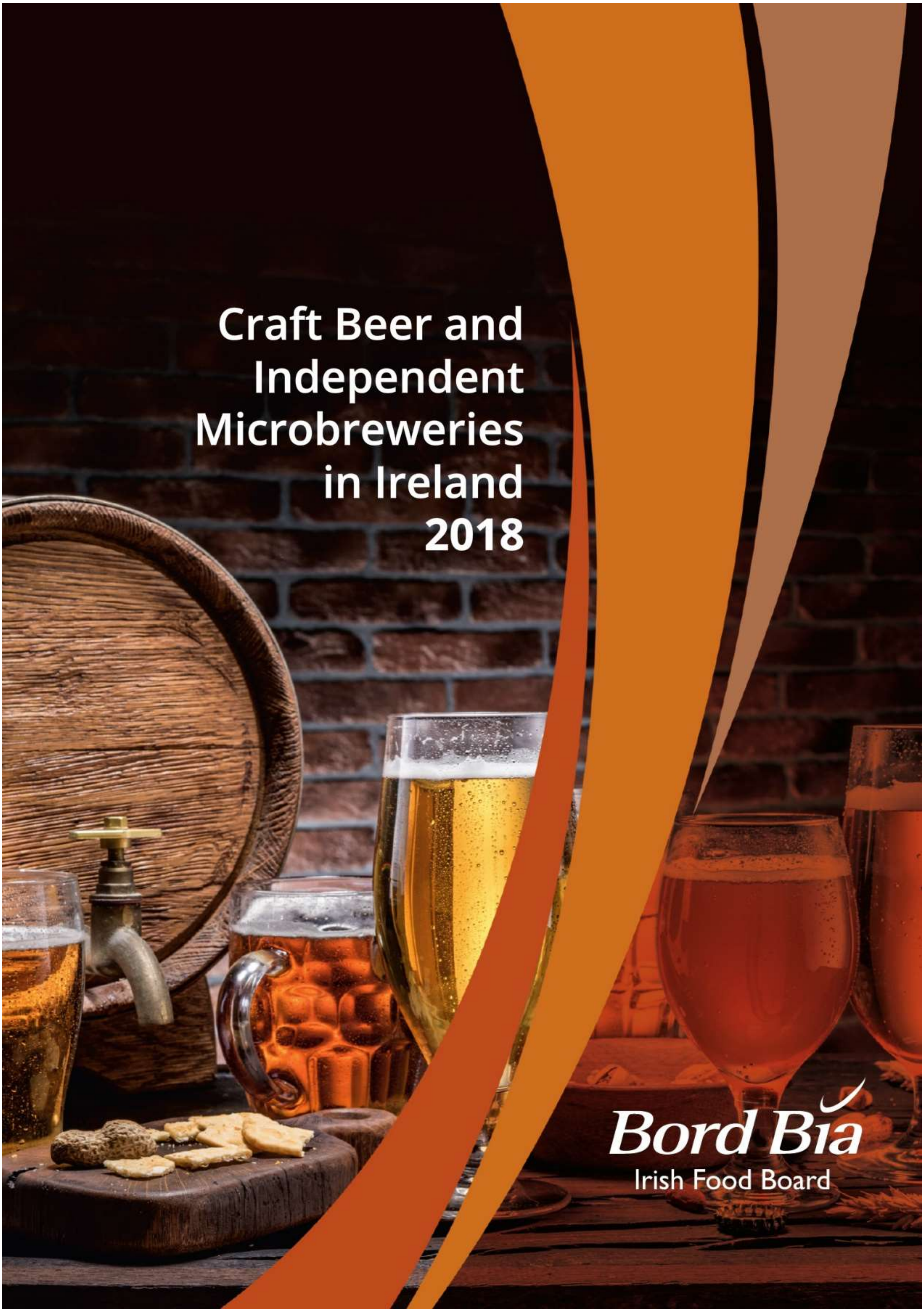
Craft Beer and Independent Microbreweries in Ireland 2018



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Craft Beer and Independent Microbreweries in Ireland, 2018

A Report for Bord Bia and the Independent Craft Brewers of Ireland

Final Report, October 2018

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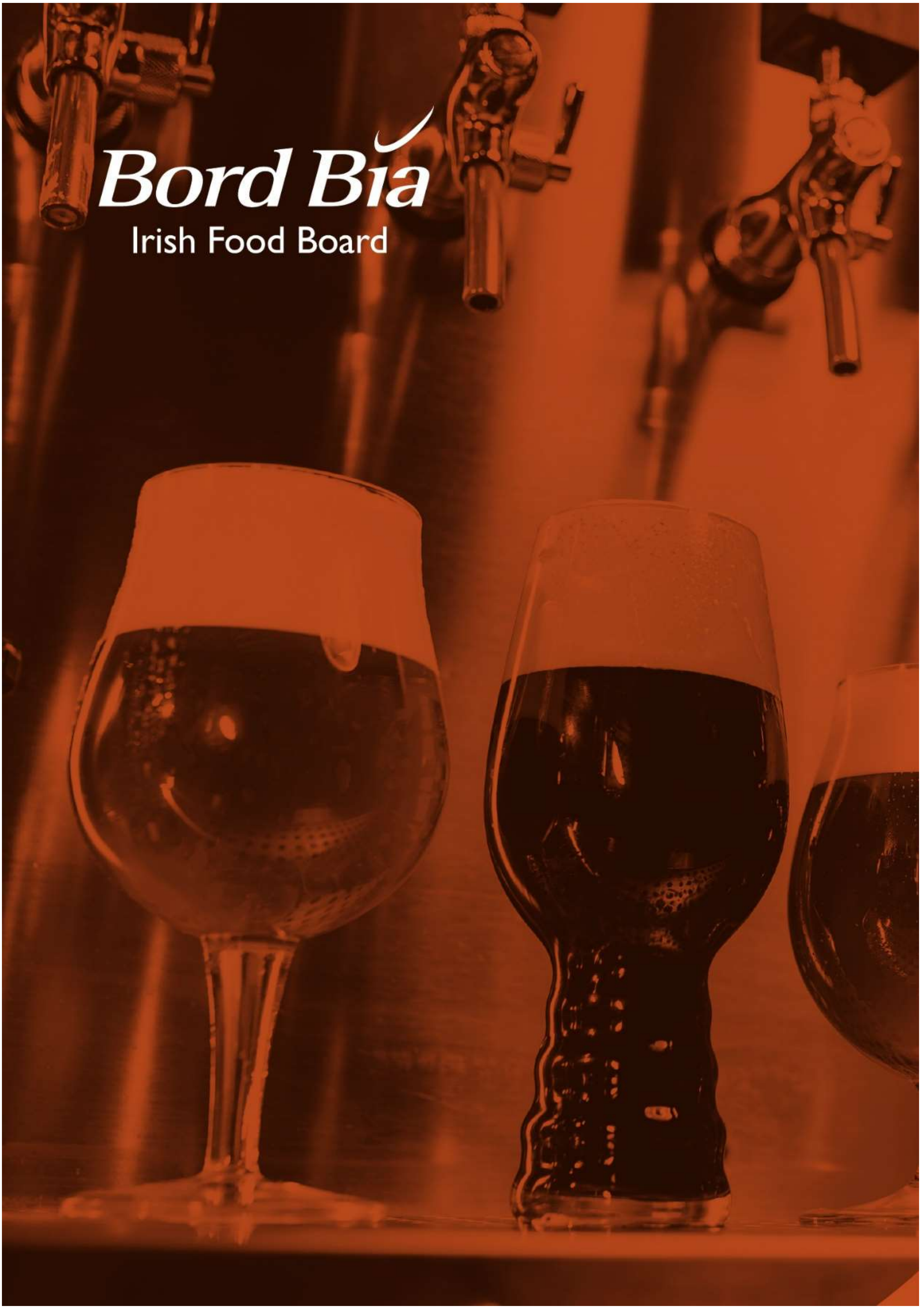
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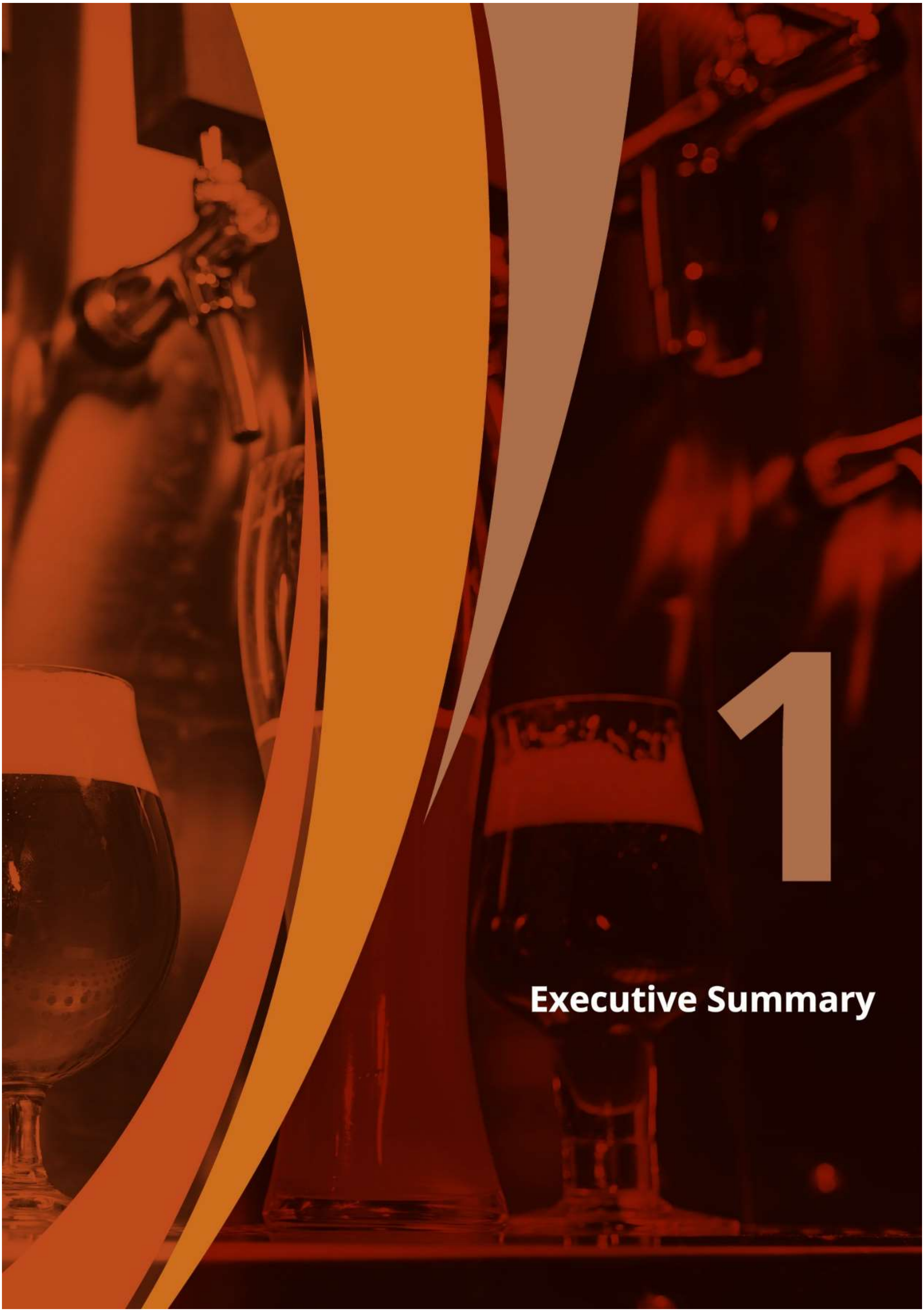


1

Executive Summary

Executive Summary

This report was prepared on behalf of Bord Bia and the Independent Craft Brewers of Ireland (ICBI). It is the fifth such study commissioned by the ICBI, following publication of an initial study in 2014 and update studies in 2015, 2016 and 2017.

The focus of the report is on the independent microbrewing sector in the Republic of Ireland. In essence, an independent microbrewery is one which is not under the legal or economic control of any other brewery and has a total output of beer not exceeding 40,000 hectolitres.

The report is largely based on an electronic survey of microbreweries, carried out during the period July to September 2018. The response rate to the survey was high, with 57 or 79% of microbreweries that were surveyed responding.

It is estimated that there are some 125 microbrewing companies operating in the Republic of Ireland, of which 75 are independent production microbreweries and at least 50 are brand owners that source all of their product from production microbreweries.

The number of production microbreweries has increased from 15 in 2012 to 75 in 2018, a fivefold increase. However, there were only five additional microbreweries operating in 2018, as compared with 2017. This is the lowest increase since 2012, when consistent data began to be compiled.

Ten new microbreweries entered the market in the year to mid-2018. However, new entrants were partly offset by failures: it is estimated that over the last two years, seven production microbreweries have gone out of business, with five failures in the year to mid-2018 alone. The emergence of a significant failure rate is a new departure and reflects changed market circumstances for independent production microbreweries.

The output of craft beer by independent production microbreweries amounted to some 157,000 hectolitres (hl) in 2017. This represents a 10.7% increase on the 2016 figure of 142,000 hl. In absolute terms, output rose by 15,000hl.

This represents a significant reduction in the rate of growth of output of recent years. In 2016 and 2015, output grew by 31% and 56% respectively. Almost 20% of microbreweries experienced a decline in output in 2017, an increase on last year's figures of one in six.

Total beer production in Ireland amounted to 8,019,000 hl in 2017. The Irish independent microbrewery production of 157,000 hl in 2017 represents 1.9% of the production market.

The consumption of beer in Ireland was 4,479,000 hl for 2017. Of the 157,000hl produced by independent microbreweries in 2017, some 126,500 hl were sold in the domestic Irish market, indicating an Irish independent microbrewery share of domestic beer consumption of 2.6%.

The total turnover of craft beer producers in 2017 is estimated at €44.3m, up 10.9% from €39.4m in 2016. More than one in six microbreweries had a turnover of less than €50,000 in 2017 and more than one-third had less than €100,000. Almost one in five microbreweries had a turnover in excess of €1m.

Of the 157,000 hl of craft beer produced the independent craft beer sector in Ireland in 2017, 126,500 hl was consumed in the domestic market, with 30,500 hl going for export. Thus, exports accounted for 19.4% of total production. This level of exports is only a marginal increase on export volumes of 29,600 hl in 2016. In contrast, sales to the domestic market grew by 12.7%.

Some 42% of microbreweries indicated are engaged in exporting. However, the quantities are often very small. Four microbreweries accounted for 75% of all exports by volume in 2017.

The current (2017) capacity of the microbrewing production companies is approximately 320,000hl. Capacity in the sector is high relative to output, with a capacity utilisation rate of 49.5%. Unused capacity is approximately 160,000hl Production microbreweries in Ireland currently (mid-2018) employ an estimated 522 people. Of the total of 522 persons employed, 364 represent full time jobs. Employment on a full time equivalent (FTE) basis has increased from 411 in 2017 to 425 in 2018.

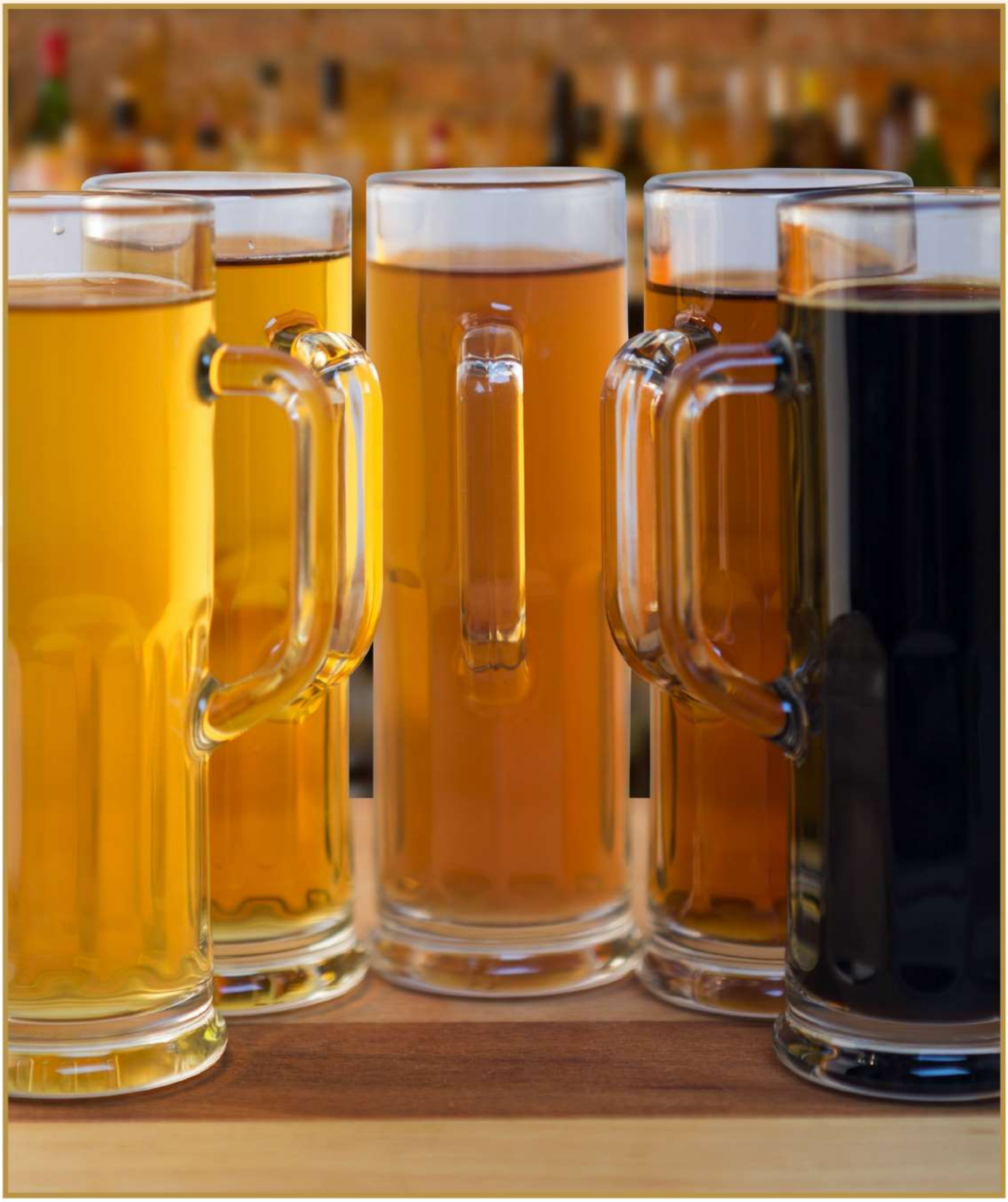
Indirect employment in enterprises supplying the sector was estimated at 442 persons for 2018. This means that every person employed in production micro-brewing is matched by at least another in the wider economy that supplies the industry. Induced employment is estimated to amount to 97 persons for 2018. On this basis, the craft brewing industry supports 960 jobs in Ireland.

There are microbreweries in operation in 24 of the 26 counties, with the exception of Westmeath and Offaly. Employment in the micro-brewing industry is thus very widely dispersed throughout the country. Microbreweries are sited in rural as well as urban areas, which enhances the local employment effect.

There is substantial potential, based on international experience, for further development of the Irish craft beer industry in terms of both numbers and output. There is currently substantial unused capacity and more is planned. This could facilitate major output growth in the short to medium term, if the growth in demand is strong.

However, the current state of the market gives cause for concern. There is now evidence of significant brewery failures. The growth in output from the sector has slowed dramatically and one in five microbreweries experienced a decline in output in 2017. Irish microbreweries have yet to make significant inroads in export markets.

There is a need to research issues affecting the microbrewing sector. In particular, research into consumer preferences and perceptions of craft beer would be useful, as well as an in-depth and fact-based study of beer distribution in Ireland.



1. Introduction

1.1 Purpose and Scope

This report was prepared on behalf of Bord Bia and the Independent Craft Brewers of Ireland (ICBI). It is the fifth such study commissioned by the ICBI, following publication of an initial study in 2014 and update studies in 2015, 2016 and 2017[1] .The findings of the first study contributed to the government decision in Budget 2015 to raise the production ceiling below which microbreweries can avail of excise duty relief, from 20,000 to 30,000 hectolitres.[2] In the 2016 Budget, excise tax relief was made available upfront instead of on a rebate basis. This was an issue highlighted in the 2015 report.

The purpose of the current study was to:

- *Provide an update on the development of the independent micro-brewing industry In Ireland; and*
- *Review the contribution that it is making to the economy;*

The focus of this report is on the independent microbrewing sector in the Republic of Ireland. An independent microbrewery is defined as one that falls within the definition adopted in legislation for determining whether a brewery is eligible for a reduced rate of excise duty. [3] In essence, an independent microbrewery is one which is not under the legal or economic control of any other brewery and has a total output of beer not exceeding 40,000 hectolitres.

In this context, it should be noted that the sector coverage employed in this report differs from that of previous reports mentioned above in that, previously, non-independent microbreweries were included. As a result, and because some changes to the report methodology were also made, the data presented in this report are not comparable to data from previous reports.

1 The Development and Economic Impact of Microbreweries in Ireland. Bernard Feeney for the ICBI, August 2014. Craft Beer and Microbreweries in Ireland, 2015. Bernard Feeney for the ICBI, August 2015. Craft Beer and Microbreweries in Ireland, 2016. Bernard Feeney for Bord Bia and the ICBI, August 2016. Craft Beer and Microbreweries in Ireland, 2017. Bernard Feeney for Bord Bia and the ICBI, September 2017

2 Breweries with a total output of 40,000hl or less are eligible for the tax relief.

3 See Revenue Commissioners PN 1888. Relief from Alcohol Products Tax for Beer Produced in Qualifying Microbreweries.

1.2 Methodology

Based on an internet search and ICBI and industry sources, a list of microbreweries was developed and these microbreweries were subject to an electronic survey during the period July to September 2018. The response rate to the survey was high, with 57 or 79% of the microbreweries that were surveyed responding. Of these, 52 provided comprehensive data, amounting to a 72% effective response rate. The data in the report is based on this survey and other research carried out by the author.

Appendix 1 discusses the organisation of the survey, provides details of the response rates achieved.

1.3 Layout of the Report

The report is organised as follows: Section 2 summarises the recent performance of the independent microbrewing sector in Ireland in terms of output, revenues and market share. The product and operational characteristics of the industry are described in Section 3. Section 4 assesses the impact of the microbrewing sector on the economy. Future growth prospects for the sector are discussed in Section 5. Section 6 presents conclusions.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2

Current Performance of the Independent Microbrewery Sector

2. Current Performance of the Independent Microbrewery Sector

2.1 Introduction

This section of the report reviews the current state of the microbrewery sector. It sets out the number of breweries in operation, their output levels, production capacity and market share as well as other relevant statistics.

2.2 Number of Microbreweries

In broad terms, microbrewing comprises two different types of brewing enterprise:

- *Microbreweries which produce beer on their own premises for sale on or off the premises;*
- *Brand owners that source all of their product from production microbreweries.*

Throughout the report, those that produce beer in their own right are referred to as "production microbreweries". These include pubs, hotels and restaurants that have a brewery on their premises. The focus of this report is on these production microbreweries.

Those that contract out production are referred to as "brand owners". Some brand owners that are in the process of establishing their own brewing plant go through an initial contract phase, before commencing production in their own right.

It is estimated that in mid-2018, there were over 125 microbrewing companies operating in the Republic of Ireland, of which 75 were independent production microbreweries and the remainder were brand owners.[4][5]

4 While every effort has been made to identify all existing microbreweries, it is possible that a small number may have been missed, particularly among brand owners.

5 It should be noted that data from all of the 75 microbreweries was not uniformly available. As a result, many of the tables presented below are based on a lower number of microbreweries than 75.

The number of production microbreweries has increased from 15 in 2012 to 75 in 2018, a fivefold increase. However, there were only five additional microbreweries operating in 2018, as compared with 2017. This is the lowest increase since 2012, when consistent data began to be compiled.

Figure 2.1: Number of Independent Production Microbreweries by Year

Source: Compiled by the author from survey and Bord Bia data. Figures refer to the number of breweries in production at approximately mid-year.

Table 2.1 presents the estimated number of new entrants in the past few years. As may be seen, the peak year for new entrants was 2014, when 19 production microbreweries entered the market.

Table 2.1: Estimated Number of New Production Microbreweries, 2014-2018

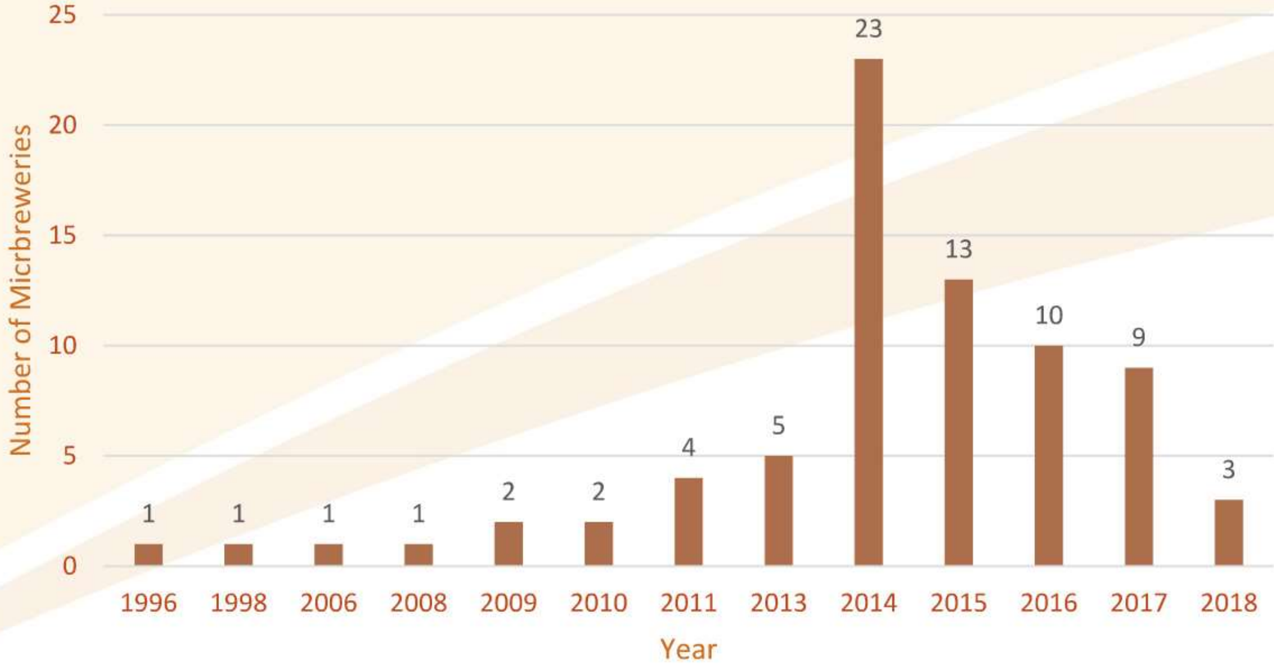
Year to Mid	*Number of New Entrants*
2014	9
2015	19
2016	12
2017	10
2018	10

Source: compiled by the author

Ten new microbreweries entered the market in the year to mid-2018. However, new entrants were partly offset by failures: it is estimated that over the last two years, seven production microbreweries have gone out of business, with five failures in the year to mid-2018 alone. The emergence of a significant failure rate is a new departure and reflects changed market circumstances for independent production microbreweries.

The high rate of new entry means that the majority of existing microbreweries have been in existence for a few years only. Of the 75 microbreweries in existence, 57 have entered the market in the last five years

Figure 2.2: Number of Production Microbreweries by Year Production Commenced



Source: Compiled by the author based on survey data; refers to 75 production microbreweries in operation in mid-2018.

2.3 Output

The output of craft beer by independent production microbreweries amounted to some 157, 000 hectolitres (hl) in 2017. This represents a 10.7% increase on the 2016 figure of 142, 000 hl. In absolute terms, output rose by 15, 000hl. This represents a significant reduction in the rate of growth of output of recent years. In 2016 and 2015, output grew by 31% and 56% respectively Almost 20% of microbreweries experienced a decline in output in 2017, an increase on last year's figures of one in six.

As part of the survey, microbreweries are asked about their anticipated output for the current year (2018). Usually, microbreweries tend to take an optimistic viewpoint of their situation. However, almost one in eight microbreweries are anticipating that their output will not increase in 2018.
The slowdown in the rate of growth of output overall, the brewery closures and

the more pessimistic outlook expressed by some brewers points to a changed market. While the rate of entry continues to be high, this is unlikely to be sustained in the near future, without further brewery closures.

A full analysis of the reasons for the changed market conditions are outside the scope of this report. However, as part of the survey, brewers were given the opportunity to comment on any matter that they wished to raise. By far the most common issue raised was the extent to which the sector was being held back in the on-trade by difficulties in gaining access to taps.

2.4 Size Structure and Output

Of the 70 breweries in mid-2018 that were also in production in 2017, 31 or 44.3% produced 500hl of beer or less in that year. A further 14 or 20.0% of breweries produced between 500hl and 1000hl of beer, so that two-thirds of microbreweries produced 1,000 hl or less. Only 11% of microbreweries produced more than 5,000hl in 2017 (see Table 2.2).

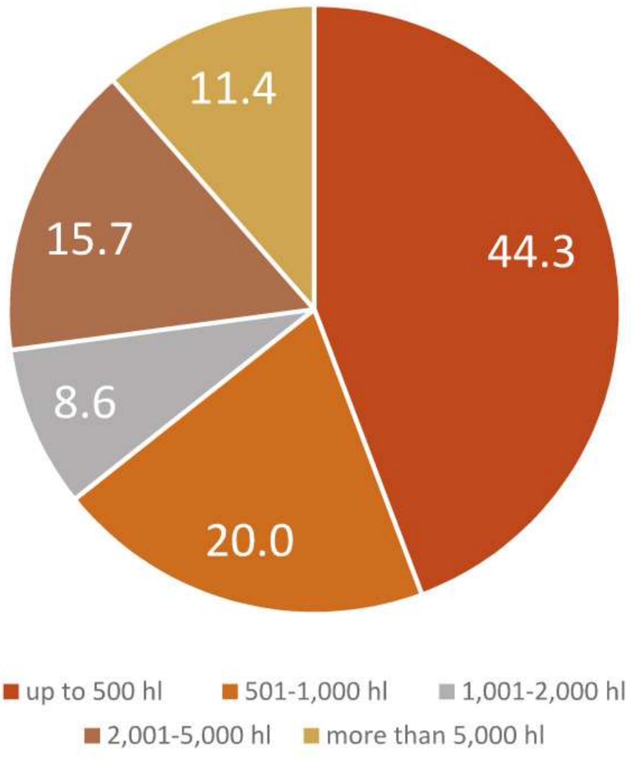
Some of the 31 microbreweries that were in the 500hl of beer or less category, produced only very small amounts, so that this group accounted for 6,500hl in aggregate or just over 4% of the total output of the sector. In contrast, the 8 microbrewers that produce more than 5,000hl accounted for 84,000hl in total or 56.3% of the output of the sector. Thus, the output of the microbrewing sector is dominated by relatively few microbrewers.

Table 2.2: Size Distribution and Output of Microbreweries, 2017

Size Category	*Number of Microbreweries*	*Proportion of Microbreweries (%)*	*Output 2017 (HL)*	*Proportion of Output 2017 (%)*
Up to 500	31	44.3	6,519	4.4
501 -1,000	14	20.0	11,974	8.1
1,001-2,000	6	8.6	10,874	7.3
2,001-5,000	11	15.7	35,519	23.9
More than 5000	8	11.4	83,575	56.3
All	**70**	**100.0**		**100.0**

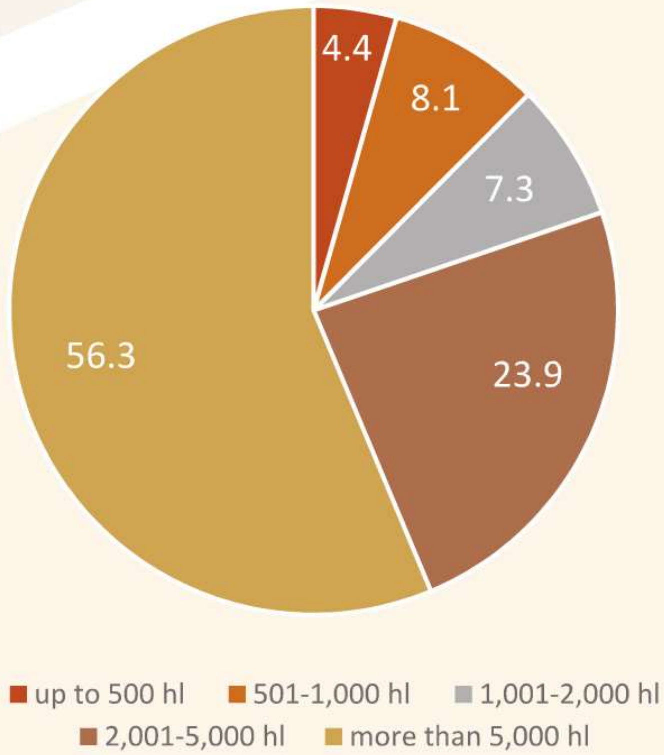
Note: Compiled by the author from survey data and other sources; based on 70 production microbreweries

Figure2.3 : Proportion of Microbreweries by Size Category, 2017(%)



Note: Compiled by the author from survey data and other sources; based on 70 production microbreweries

Figure 2.4: Proportion of Sector Output by Size Category of Microbrewery, 2017 (%)



Note: Compiled by the author from survey data and other sources; based on 70 production microbreweries

2.5 Irish Microbrewery Market Share

The IBA reports that total beer production in Ireland amounted to 8,019, 000 hl in 2017.[6] The Irish independent microbrewery production of 157, 000 hl in 2017 represents 1.9% of the production market.

The Revenue Commissioners estimate the consumption of beer in Ireland at 4, 479, 000 hl for 2017. Of the 157,400hl produced by independent microbreweries in 2017, some 126,000 hl were sold in the domestic Irish market, indicating an Irish independent microbrewery share of domestic beer consumption of 2.6%.

6 IBA, Beer Market Report, 2016, 2017.

While overall beer production in Ireland rose by 4.6% in 2017, independent craft beer production increased by 10.7%, leading to an increase in market share of independent microbreweries from 1.8% in 2016 to 1.9% in 2017.

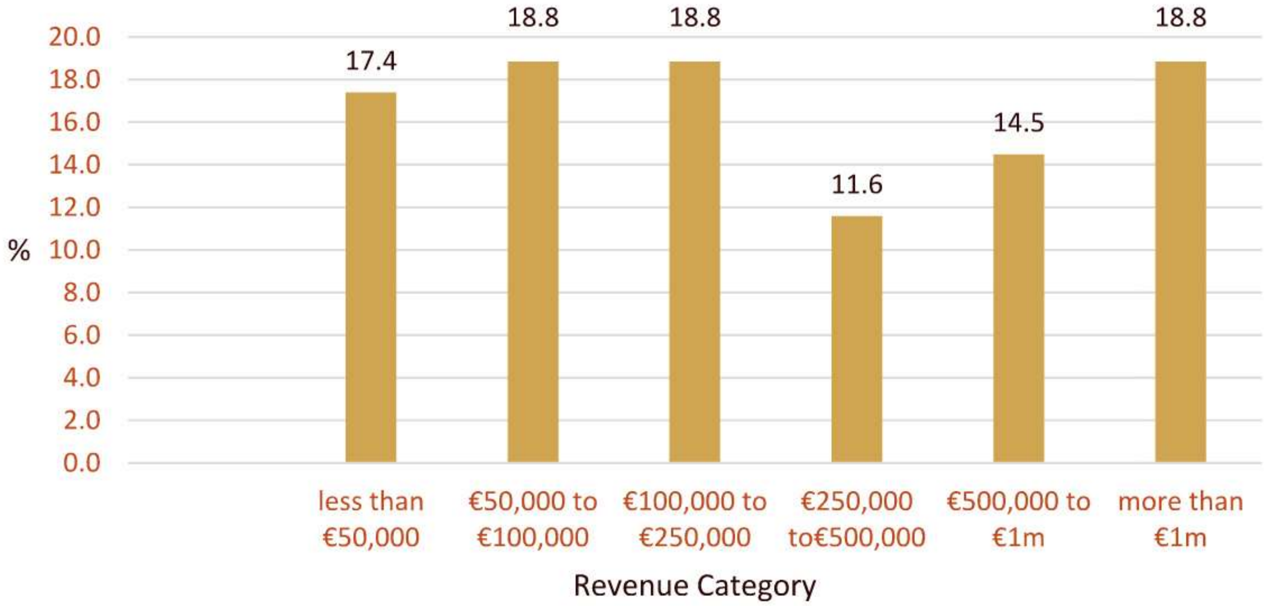
Consumption of beer declined by 2.1% in Ireland in 2017, while that of Irish craft beer rose by 12.7%, so that there was an even greater increase in market share of independent microbreweries from 2.5% in 2016 to 2.8% in 2017.

Table 2.3: Irish Craft Beer Market Shares, 2016 and 2017 (%)

Market Share (%)	*2016*	*2017*
Production (%)	1.8	1.9
Consumption (%)	2.5	2.8

Note: Compiled by the author from survey data and data from the Revenue Commissioners and IBA.

Figure2.5: Distribution of Microbreweries by Turnover , 2017 (%)



Note: Estimated by the author based on survey data; refers to 71 microbreweries.

2.6 Turnover

The total turnover of craft beer producers in 2017 is estimated at €44.3m, up 10.9% from €39.4m in 2016.

More than one in six microbreweries had a turnover of less than €50,000 in 2017 and more than one-third had less than €100,000. Almost one in five microbreweries has a turnover in excess of €1m. See Figure 2.5.

Smaller microbreweries account for a disproportionately small amount of the revenue accruing to the microbrewery sector as a whole. There were 25 microbreweries earning less than €100,000 in 2017 and these accounted for only 2.8% of the total revenue. In contrast, 13 microbreweries earned more than €1m in revenue each and in aggregate this amounted to over €30m or 70% of the total revenue accruing to the microbrewery sector.

Table 2.4: Revenue by Size of Microbrewery, 2017

Revenue	*Number*	*Aggregate Revenue (€000)*	*Proportion of Revenue (%)*
Less than €50,000	12	306	0.7
€50,000 to €100,000	13	917	2.1
€100,000 to €250,000	13	2,208	5.1
€250,000 to €500,000	8	2,637	6.2
More than	10	6,815	15.7
€1m€500,000 to €1m	13	30,457	70.2

2.7 Structure of Market Demand

Of the 157,000 hl of craft beer produced by the independent craft beer sector in Ireland in 2017, 126,500 hl was consumed in the domestic market, with 30,500 hl going for export. Thus, exports accounted for 19.4% of total production. This level of exports is only a marginal increase on export volumes of 29,600 hl in 2016. In contrast, sales to the domestic market grew by 12.7%.

Table 2.5: Sales to Domestic and Export Markets, 2016 and 2017

Market	*2016*	*2017*
Domestic Sales	112,200	126,500
Export Sales	29,600	30,500
Total	141,800	157,000

Source: Estimated from Survey Data

Of the microbreweries that responded to the survey, 42% indicated that they were engaged in exporting. However, the quantities are often very small. Four microbreweries accounted for 75% of all exports by volume in 2017.

2.8 Export Markets

Survey respondents, who were engaged in exporting, were asked to rank their top three export markets in order by export volume. Thirteen export markets were mentioned, with France receiving the most mentions followed by the UK and then Italy. The USA, Russia and the Netherlands also featured strongly. Other countries mentioned were Netherlands, Belgium, Denmark, Austria, Spain, and Canada.

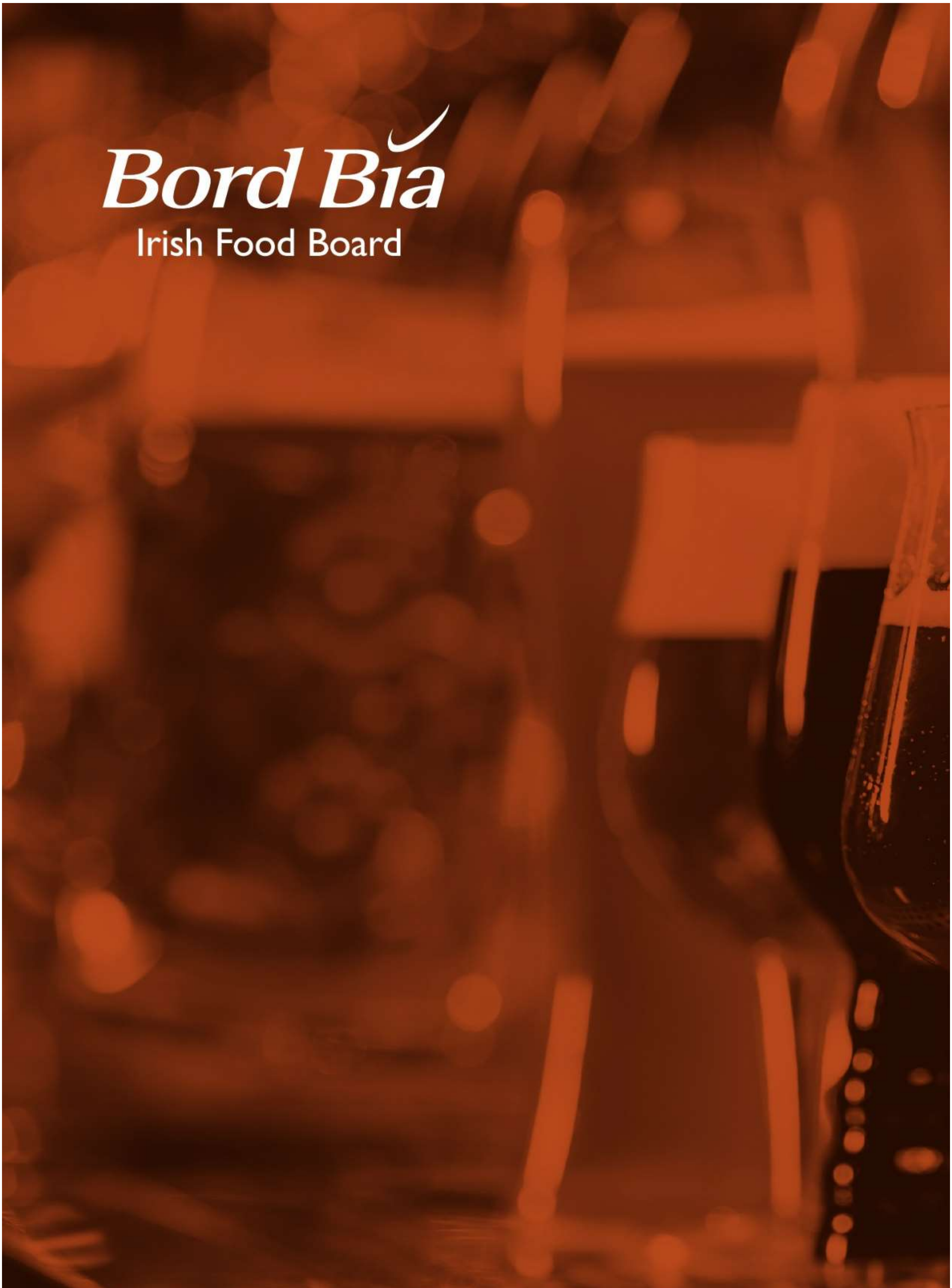
Existing exporters were also asked to nominate the countries they believed were the markets with the most potential for them. France again emerged as the market with most perceived potential, followed by the USA, Italy and Spain. Some 58% of microbrewers do not currently export, but 57% of these intend to develop export markets in the next few years. When non-exporters were asked to nominate the markets with the most potential, many were uncertain and indicated geographical regions, such as “EU” or “Asia” rather than specific countries. However, the USA emerged as their first choice for markets with potential, followed by France and Italy.

2.9 Production Capacity

The survey asked respondents to report their current annual capacity. Based on the data provided, it is estimated that the current (2017) capacity of the microbrewing production companies is approximately 320,000hl.
It is clear that capacity in the sector is high relative to output. As output is 157,000 hl for 2017, the capacity estimate of 320,000 hl suggests a capacity utilisation rate of 49.5%. This is a low utilisation rate. Unused capacity is approximately 160,000hl.

The indications are that capacity will continue to grow apace. One in three of responding microbreweries stated that they are currently investing in even more capacity. In some cases, the proposed addition to capacity is very substantial in microbrewing terms, amounting to typically more than 50% of existing capacity.

Thus, it is clear that capacity will not act as a restraint on supply. Rather, with the current slowing in the rate of growth of demand and the continued investment in capacity, the prospect is that capacity will continue to substantially exceed output for several years to come.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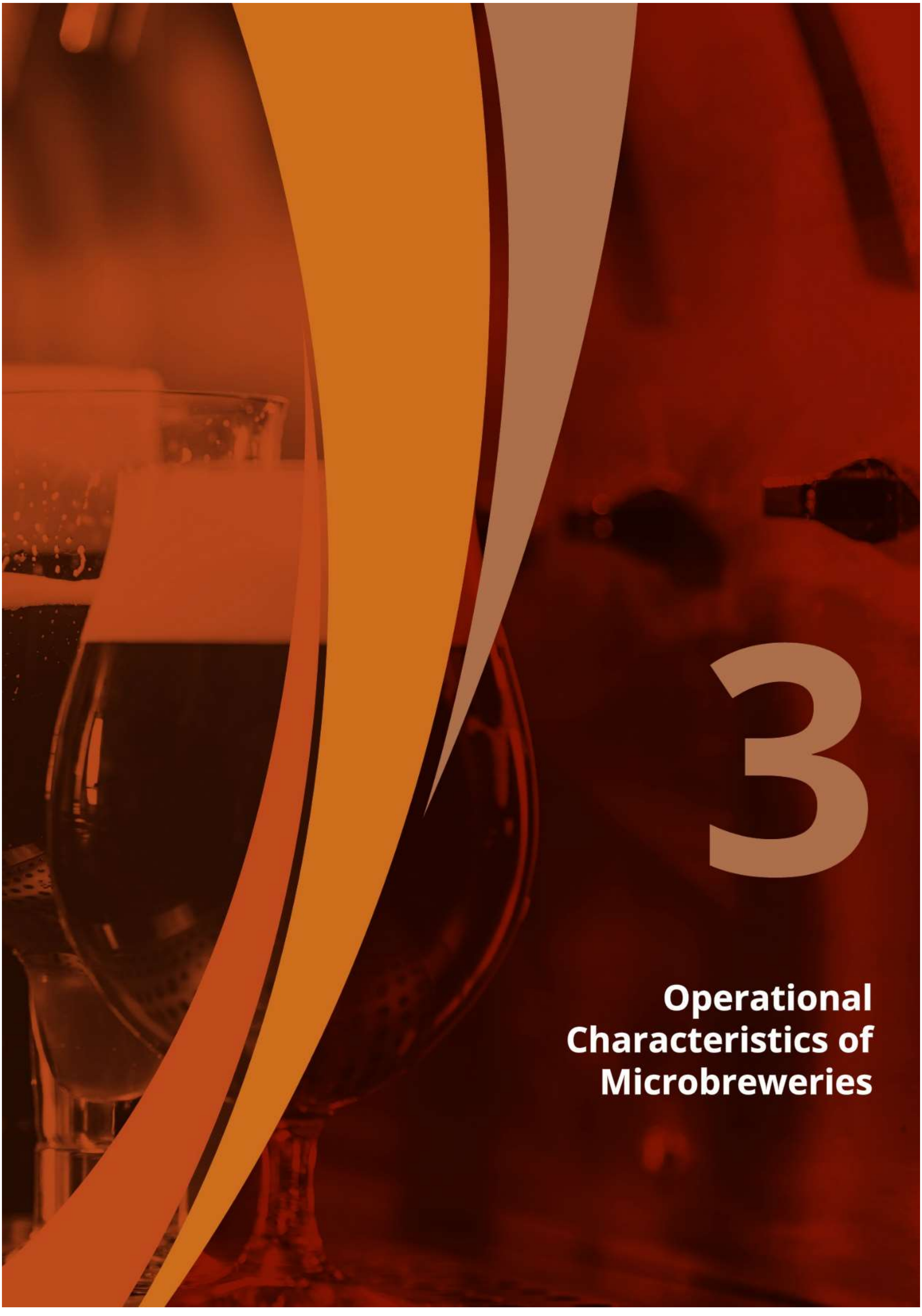


3

Operational Characteristics of Microbreweries

3. Operational Characteristics of Microbreweries

3.1 Introduction

This section of the report presents information on the product mix of microbreweries and their operational characteristics, such as their distribution channels and packaging options.

3.2 Number of Products Offered

Microbreweries typically produce both year-round and seasonal or occasional beers. The latter are difficult to track because of their ephemeral nature. However, it is possible to identify the number of year-round beers that breweries offer. Table 3.1 summarises this data for the year 2017, based on analysis of 68 microbreweries.

Only 6 microbreweries offer only one year-round product. The most common approach is to offer 4. One in six microbreweries offer 7 or more products.
Table 3.1: Distribution of Microbreweries by Number of Beer Products Offered, 2017

Number of Beer Products	*Number of Microbreweries*	*Proportion of Microbreweries (%)*
1	6	8.8
2	4	5.9
3	12	17.6
4	16	23.5
5	9	13.2
6	10	14.7
7	3	4.4
8	3	4.4
9+	5	7.4
All	**68**	**100.0**

Source: Compiled by the author

3.3 Beer Styles

The 68 microbreweries had 321 different year–round beer products on sale in 2017. These beer products encompassed different beer styles such as pale ales, stouts and lagers. Table 3.2 analyses the 321 products by beer style.

Table 3.2: Distribution of Microbrewery Beer Products by Style of Beer

Beer Style	*Number of Products*	*Proportion of Products (%)*
Pale Ale	57	17.8
India Pale Ale	57	17.8
Stout	45	14.0
Porter	12	3.7
Red Ale	41	12.8
Kolsch	6	1.9
Wheat Beer	12	3.7
Saison	6	1.9
Blond and Golden	19	5.9
Ales	10	3.1
Pilsner	25	7.8
Lager	13	4.0
Amber Ale	6	1.9
Brown Ale	12	3.7
Other		
All	**321**	**100.0**

Source: Compiled by the author

Table 3.3: Number and Proportion of Microbreweries by Beer Style, 2017.

Beer Style	*Number of Microbreweries*	*Proportion of Microbreweries (%)*
Pale Ale	44	63.8
India Pale Ale	40	58.0
Stout	34	49.3
Porter	12	17.4
Red Ale	38	55.1
Kolsch	5	7.2
Wheat Beer	12	17.4
Saison	6	8.7
Blond and Golden Ales	17	24.6
Pilsner	10	14.5
Lager	21	30.4
Amber Ale	13	18.8
Brown Ale	6	8.7
Other	5	7.2

Source: Compiled by the author.

Pale ales and India pale ales are the most common beer styles offered, accounting for 35.6% of all beer products. Stouts and porters (17.7%) and Red Ales (12.8%) are next in importance. Lagers and pilsners are relatively less common at 10.9% of all year–round beer products.

Table 3.3 indicates the number and proportion of microbreweries offering a particular beer style. For example, 44 of the 68 or 63.8% of microbreweries offered a pale ale, while 49.3% offered a stout. At the other end of the scale, only 6 (8.7%) offered a saison style beer. Taking pale ales and India pales ales together, 57 or 82.6% of microbreweries offered one or the other. The equivalent numbers for stouts and porters were 48 microbreweries or 69.6%. Only 30 or 43.5% of microbreweries offered either a lager or a pilsner

3.4 Alcohol Content of Craft Beer Products

It is often assumed that the alcohol content of craft beer products is much higher than that for mainstream beers. Table 3.4 shows that the average alcohol content of 294 craft beer products is 5.2%. This encompasses beers that range from 3.5% to over 11% alcohol content. [7]

Macrobreweries now produce a range of products that have a typical alcohol content of 3.5% to 8%. This means that, in terms of alcohol content, the product offering of both macro and microbreweries are very similar.

Table 3.4: Average Alcohol Content of Different Craft Beer Styles

Beer Style	***Number of Products***	***Average Alcohol by Volume (%)***
Pale Ale	50	4.9
India Pale Ale	55	6.1
Stout	39	5.2
Porter	10	5.4
Red Ale	39	4.7
Lager	22	4.5
Kolsch	6	6.3
Wheat Beer	5	4.9
Golden Ale	11	4.9
Amber Ale	14	6.1
Pilsner	9	4.5
Saison	6	5.2
Blond Ale	9	4.7
Weiss	6	4.6
Brown Ale	4	4.9
Other	9	5.0
All	**294**	**5.2**

Source: Compiled by the author

7 It should be noted that average of 5.2% does not relate to product sold

3.5 Packaging

Microbreweries have a number of ways of packaging their product: bottles, cans, kegs or casks. Table 3.5 sets out the number and proportion of microbreweries using each packaging option. Keg is the most frequently used packaging option with 46 out 47 responding microbreweries (97.9% of microbreweries), using that packaging option. Bottle is the next most favoured option with 83%. Cask is the least used option at 23.4%.

Only 5 (10.6%) of the surveyed microbreweries used all four packaging options. Table 3.5: Number and Proportion of Microbreweries using Various Packaging Options, 2016.

Packaging Option	***Number of Microbreweries***	***Proportion (%)***
Bottle	39	83.0
Can	21	44.7
Cask	11	23.4
Keg	46	97.9

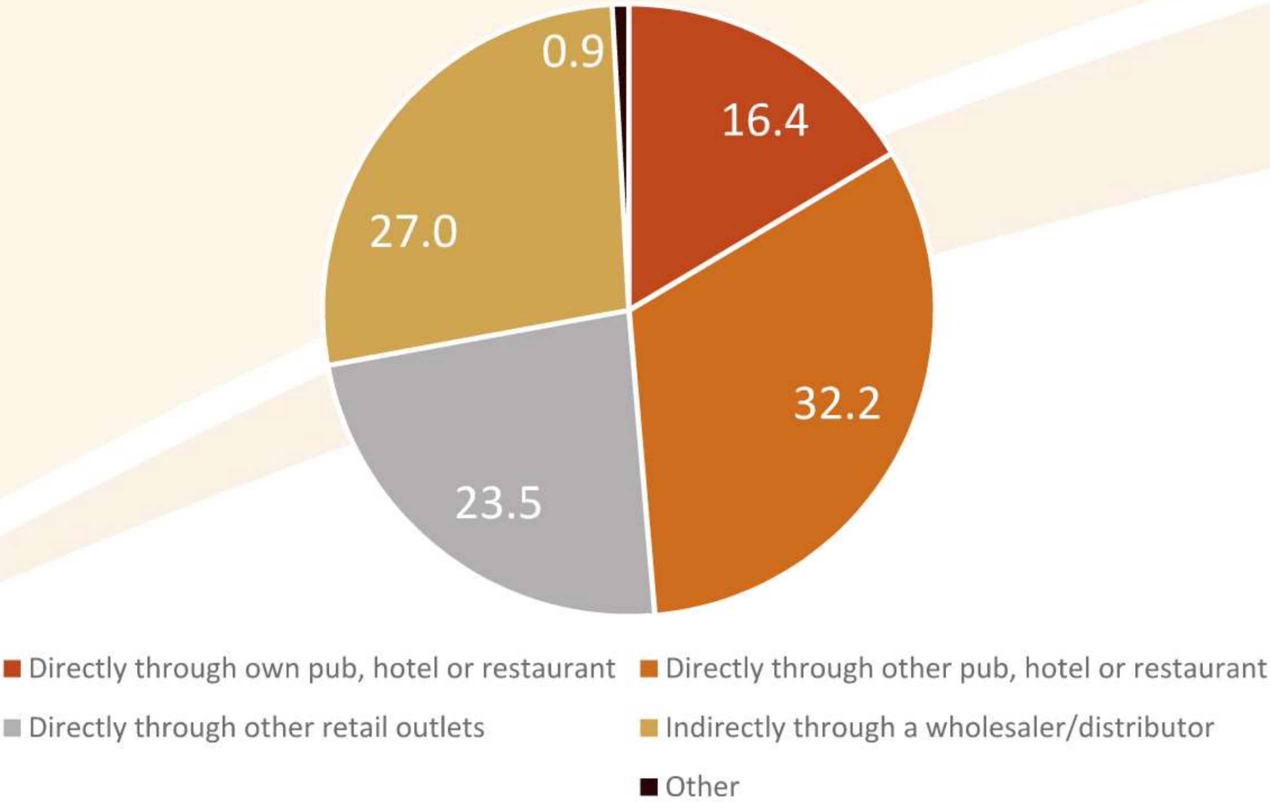
Source: based on a survey of 47 microbreweries

3.6 Distribution

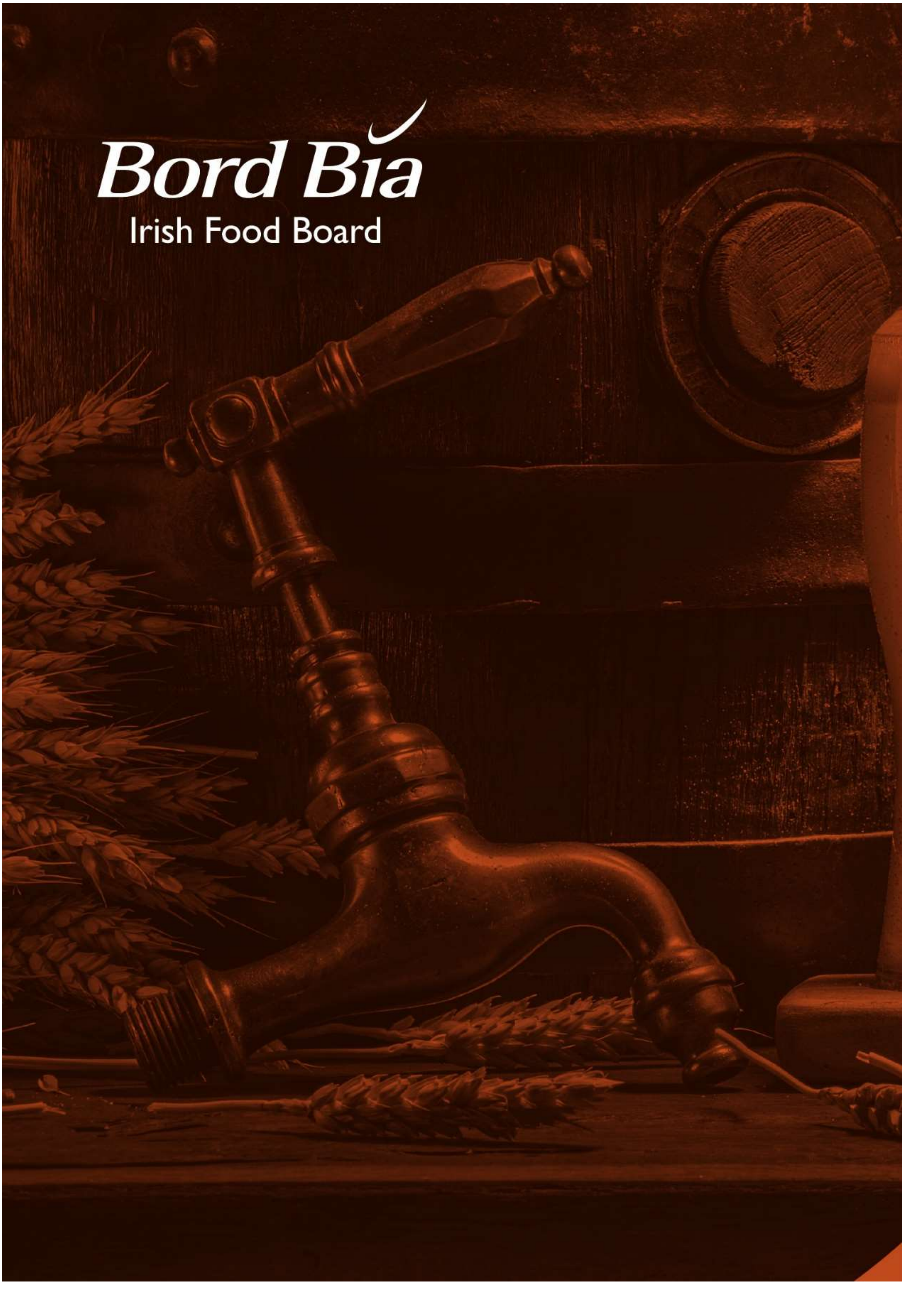
Microbreweries have a number of distribution channels open to them. They can distribute their product themselves or use a wholesaler/distributor. Figure 3.1 depicts the proportion of domestic sales through various channels for 2016. It shows that almost three-quarters of sales (72.1%) are directly distributed by the microbrewers themselves, principally through pubs, hotels and restaurants. Of this, 16.4% is through brewery-owned pubs, hotels or restaurants. Some 32.2% of sales are through other pubs hotels and restaurants, while 23.5 % are directly through other retail outlets (mainly off licences).

Microbreweries typically use at least two or three out of the four channels to some degree. However, only 11.4% of microbreweries used all four distribution channels.

Figure3.1: Proportion of Domestic Sales by Distribution Channel (%), 2017



Source: estimated by the author using data from 43 production microbreweries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4

Economic Impact of the Independent Microbrewing Sector

4. Economic Impact of the Independent Microbrewing Sector

4.1 Introduction

This section of the report examines the impact of the independent microbrewing sector on the economy. It considers direct and indirect employment effects as well as taxes arising.

4.2 Direct Employment

Microbreweries provide employment in the brewing process, in marketing and distribution of the product, as well as in general administration. Because many breweries are small or in the start-up phase, they often employ personnel on a part-time basis. Equally, because demand is subject to variation and seasonal products are produced, staff are also employed on an occasional basis.

Production microbreweries in Ireland currently (mid-2018) employ an estimated 522 people. Of the total of 522 persons employed, 364 represent full time jobs. There are also 102 employed part-time, and 56 persons employed on a seasonal basis. At 522, the total number of persons employed is 3.3% up on 2017.

Employment on a full time equivalent (FTE) basis has increased from 411 in 2017 to 425 in 2018.

Of the 466 persons employed on a regular basis, 86, or just under one-fifth, are female. Some three-quarters of microbreweries have a staff member with a formal brewing qualification. It is estimated that there are some 87 persons in the sector as a whole with formal brewing qualifications, amounting to 24% of all persons employed full-time.

Microbrewing is a much more labour intensive activity than conventional large scale brewing. With regard to the brewing industry as a whole, the Irish Brewing Association (IBA) estimate that there were 1,064 full time employees in the industry in 2017 producing 8.0m hl, or 133 full time employees per m hl.[8]At the current rate of employment, the equivalent figure for the micro-brewing industry would be 2,322[9]. This makes micro-brewing in Ireland almost 18 times more labour intensive than macro-brewing in terms of direct employment. It

8 IBA. The Irish Beer Market, 2017 (undated)
9 Estimated by the author based on survey results for 2018 levels of employment and output for 2017.

should be noted, however, that macrobrewers outsource much of their inputs, which means that this is not strictly a like-for-like comparison. However, it is clear that microbrewing is several orders of magnitude more labour intensive than macrobrewing.

4.3 Indirect and Induced Employment

The micro-brewing industry sources over half of its brewing ingredients by value domestically. For example, almost 95% of microbreweries source supplies of malted barley from within the Republic of Ireland, typically amounting to 80% to 90% of all their malted barley inputs. [10] Distribution is another source of local spin-off activity. As was indicated above, 27% of the output of the sector is currently channelled through wholesalers/distributors.

Thus, there are significant downstream benefits for the agricultural and other sectors in Ireland.

By identifying the sectors from which the micro-brewing industry purchases and the use of the CSO's Input-Output tables, it is possible to estimate the wages and salaries to which these purchases give rise.[11] An indirect employment effect can then be calculated.

This indirect employment was estimated at 442 persons. This means that every person employed in production micro-brewing is matched by at least another in the wider economy that supplies the industry.

The craft brewing labour force earns incomes that are spent on goods and services produced in Ireland. The production of these goods and services also gives rise to employment. Based on the CSO's Input-Output Tables, this induced employment is estimated to amount to 97 persons for 2018. On this basis, the craft brewing industry supports 960 jobs in Ireland (see Table 4.1).

10 Based on the survey
11 The CSO Input-Output Tables for 2010 were used

Table 4.1: Employment Supported by the Independent Microbrewing Industry in Ireland, 2018 (FTEs)

Category of Employment	*Number of Persons Employed (FTEs)*
Direct	425
Indirect	442
Induced	97
Total	**964**

Source: estimated by the author

4.4 Regional Impact

Of the 75 production microbreweries in operation in mid-2017, 11 are in County Dublin and 9 in County Cork. There are a further 12 in the counties of Wicklow, Kildare and Meath that make up the wider Dublin Region.

There are microbreweries in operation in 24 of the 26 counties, with the exception of Westmeath and Offaly. Employment in the micro-brewing industry is thus very widely dispersed throughout the country. It is also worth noting that microbreweries are sited in rural as well as urban areas, which enhances the local employment effect.

Table 4.2 depicts the current regional distribution as of mid-2018.

Table 4.2: Number of Independent Production Microbreweries by County, 2018

County	*Number of Microbreweries*	*County*	*Number of Microbreweries*
Carlow	1	Louth	3
Cavan	1	Longford	1
Clare	3	Mayo	3
Cork	9	Meath	2
Donegal	6	Monaghan	1
Dublin	11	Offaly	0
Galway	6	Roscommon	1
Kerry	4	Sligo	2
Kildare	4	Tipperary	2
Kilkenny	1	Waterford	2
Laois	1	Westmeath	0
Leitrim	1	Wexford	2
Limerick	2	Wicklow	6
		Total	**75**

Source: compiled by the author; refers to 75 breweries in production in mid-2018

Microbreweries are also focussed to a significant degree on local markets. On average, 56% of their sales are within a 50 kilometre radius of their brewery. Some breweries have a much more local focus. Some 10% of microbreweries are focussed exclusively on the local market (i.e. within 50 kilometres radius)

4.5 Tax Revenue Benefits

While microbreweries benefit from a tax rebate, they still pay substantial excise duties to the Revenue Commissioners. Based on estimates of domestic sales for 2017, it is estimated that microbreweries will pay the Revenue Commissioners some €6.7m in excise duties in respect of 2017 production.[12]

12 Based on a 4.7% ABV content.

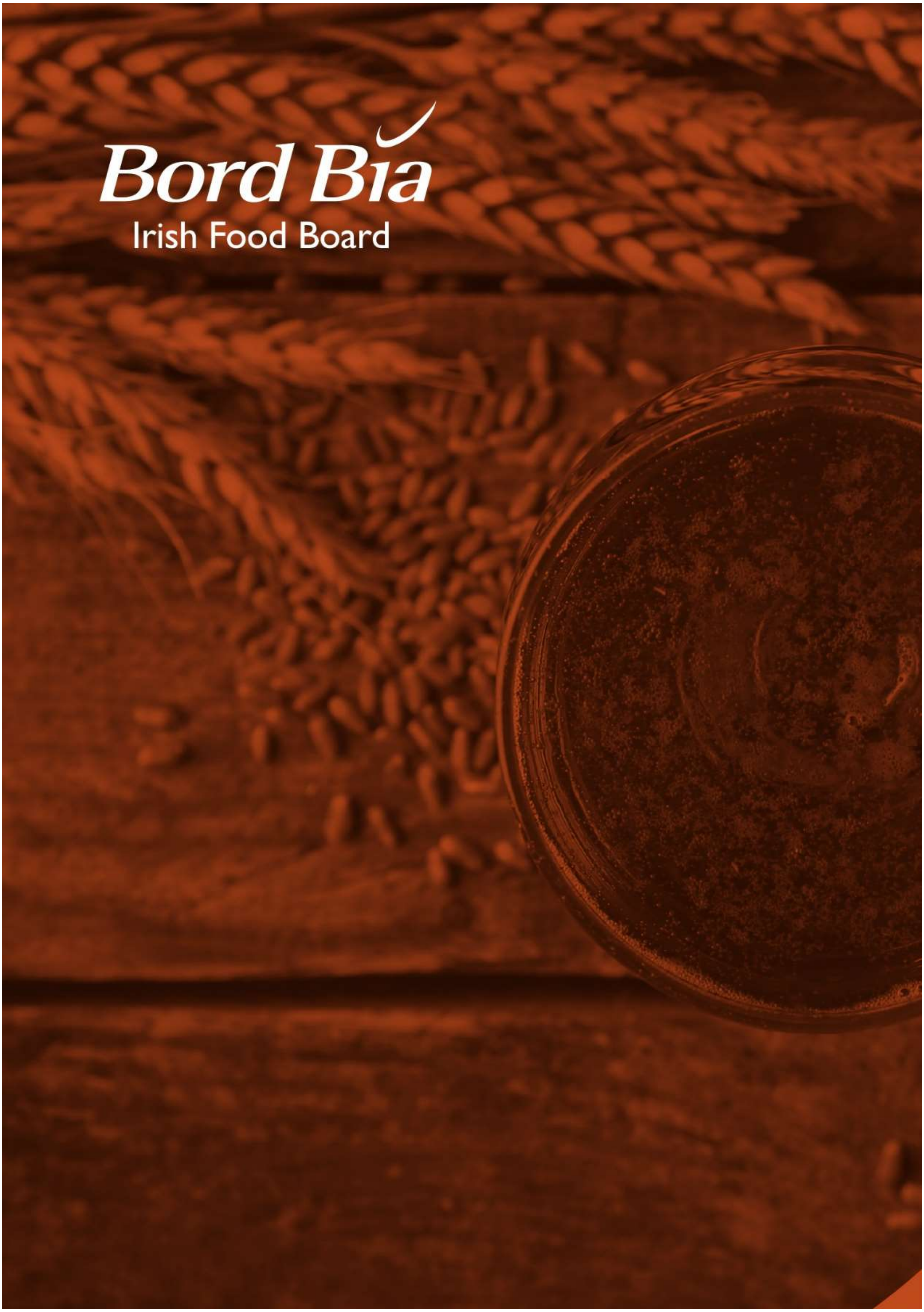
In addition to the above, the wages that microbreweries pay out give rise to income tax and PRSI payments to the Exchequer. These arise from direct, indirect and induced employment. The anticipated income tax and PRSI which will be paid by the industry and its employees in respect of production in 2016 are set out in Table 4.3. The micro brewing industry is expected to generate over €3.4m in income tax, USC and PRSI receipts for the Exchequer. This rises to €9.0m when indirect and induced tax and PRSI revenues are taken into account. [13]
The tax and PRSI revenues arising from the microbrewery industry at 2017 production levels at €9m exceeds the expected excise tax rebate in respect of 2017 production.

Table 4.3: Summary of Anticipated Income Taxes and PRSI, 2017

Category of Payment	*Income Tax (€m)*	*PRSI (€m)*	*USC (€m)*	*Total (€m)*
Direct	1.5	1.3	0.6	3.4
Indirect	2.1	1.8	0.8	4.6
Induced	0.5	0.4	0.2	1.0
Total	4.1	3.5	1.5	9.0

Source: estimated by the author

13 This assumes that, at the current high rate of unemployment, additional employment in micro-brewing will reduce unemployment numbers by the same amount. The net expenditure gain to the Exchequer in terms of reduced social welfare payments has not been included in the above figures.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5

Future Growth of the Independent Microbrewing Sector

5. Future Growth of the Independent Microbrewing Sector

5.1 Introduction

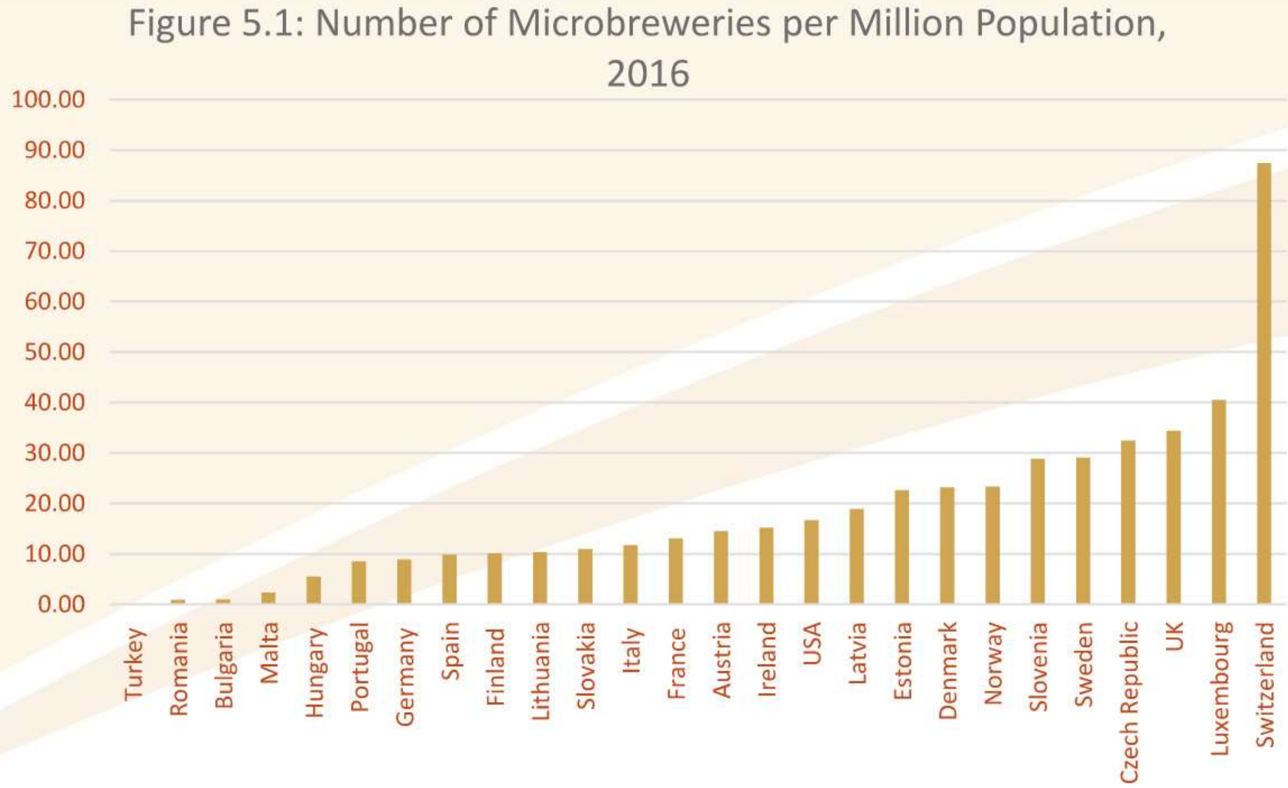
The future growth of the microbrewing sector will be determined by the demand for the Irish craft beer product and the capacity of the sector to respond to that demand. A detailed analysis of the demand for and supply of craft beer is outside the scope of this report.

However, this section of the report seeks to illuminate some of the issues involved. It starts by considering the long term potential of the sector through examining the Irish craft beer sector in an international context. It then looks at the current state of the sector and outlines some of the factors that may need to change if the potential is to be realised.

5.2 The Development of Irish Microbrewing in an International Context

Ireland had just over 15 microbreweries per million inhabitants in 2016. At this level, Ireland is still well below a number of other countries,

For example, Ireland had less than half the rate of the UK and the Czech Republic. Switzerland has an exceptionally well-developed craft industry at 87 breweries per million population, or almost six times the rate in Ireland.



Sources: compiled by the author from data provided by Beer Europe, the Brewers Association USA, United Nations statistics as well as survey data. Due to rounding, zeros mean less than one.

If, ultimately, Ireland were to match countries such as the Norway and Denmark with over 20 microbreweries per million, then a total of at least one hundred microbreweries could be envisaged for the Republic of Ireland as a whole. Another perspective is provided by comparative levels of production of craft beer at home and abroad. Such data are more difficult to obtain, however, the USA experience is well documented. In 2017, craft beer sales in the USA accounted for 12.7% by volume of all beer sales.[14] This compares with the equivalent figure of just under 2% for Irish craft beer in the same year. It is clear that, on this measure, Irish craft beer production still has substantial potential for growth.

5.3 Current State of the Market and Issues Arising

There is substantial potential, based on international experience, for further development of the Irish craft beer industry in terms of both numbers and output.

There is currently substantial unused capacity and more is planned. This could facilitate major output growth in the short to medium term, if the growth in demand is strong. A positive development in this regard is the passing of the Intoxicating Liquor (Breweries and Distilleries) Bill. On foot of this, 14% of microbreweries have installed a visitor centre, with a further 59% planning to do so.

However, the current state of the market gives cause for concern. Although the number of microbreweries continues to grow, there is now evidence of significant brewery failures. The growth in output from the sector has slowed dramatically and one in five microbreweries experienced a decline in output in 2017.

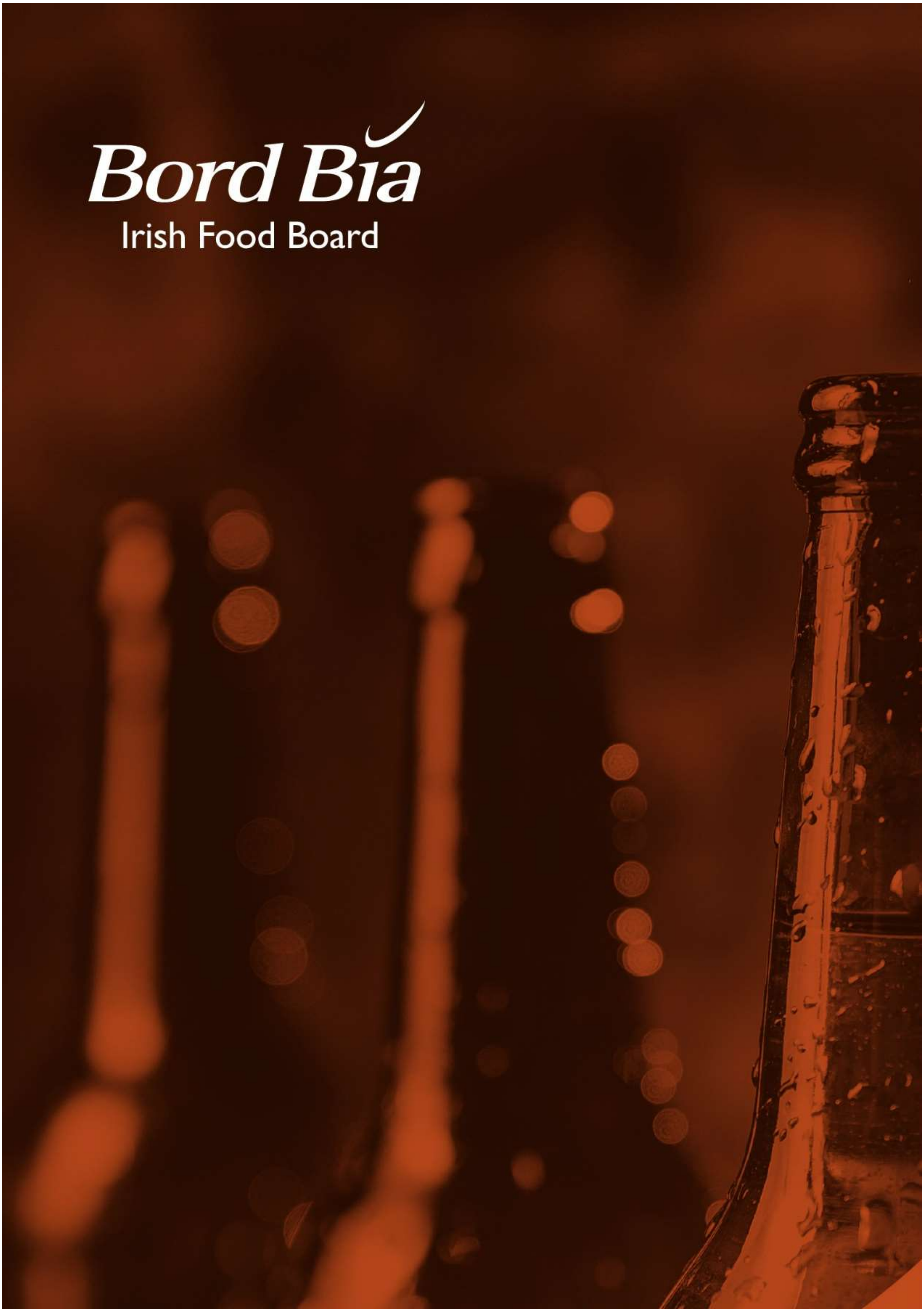
Irish microbreweries have yet to make significant inroads in export markets. While 42% of microbreweries are engaged in exporting, the quantities are often very small. Four microbreweries accounted for 75% of all exports by volume in 2017. The independent microbrewing sector comprises a large number of very small enterprises with low turnover. While there is a small number of microbreweries operating on a scale that would facilitate development of export markets, there are few that are progressing to join them.

14 Brewers Association, USA

A full analysis of the issues that are hindering the short term development of the microbrewing sector is outside the scope of this report. However, some of the factors are likely to include:

- The increased competition from macrobreweries, arising from an expansion of their product range and high levels of advertising spend;
- Increased competition from foreign craft and speciality beers as the market for craft beer in Ireland has developed;
- The geographic spread and the considerable influence of macrobreweries in domestic beer distribution;
- The product mix offered by microbrewers, with a majority not offering a lager and 50% not offering a stout or porter as standard, when these two beer styles account for the vast bulk of the conventional beer market in Ireland; and
- The lack of resources available within the sector to successfully market a separate brand identity for Irish craft beer

There is a need to research these and other issues affecting the microbrewing sector. In particular, research into consumer preferences and perceptions of craft beer would be useful, as well as an in-depth and fact-based study of beer distribution in Ireland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6 Conclusions

6. Conclusions

6.1 Key Findings

It is estimated that there are some 125 microbrewing companies operating in the Republic of Ireland, of which 75 are independent production microbreweries and at least 50 are brand owners that source all of their product from production microbreweries.

The number of production microbreweries has increased from 15 in 2012 to 75 in 2018, a fivefold increase. However, there were only five additional microbreweries operating in 2018, as compared with 2017. This is the lowest increase since 2012, when consistent data began to be compiled.

Ten new microbreweries entered the market in the year to mid-2018. However, new entrants were partly offset by failures: it is estimated that over the last two years, seven production microbreweries have gone out of business, with five failures in the year to mid-2018 alone. The emergence of a significant failure rate is a new departure and reflects changed market circumstances for independent production microbreweries.

The output of craft beer by independent production microbreweries amounted to some 157,000 hectolitres (hl) in 2017. This represents a 10.7% increase on the 2016 figure of 142,000 hl. In absolute terms, output rose by 15,000hl. This represents a significant reduction in the rate of growth of output of recent years. In 2016 and 2015, output grew by 31% and 56% respectively Almost 20% of microbreweries experienced a decline in output in 2017, an increase on last year's figures of one in six.

In 2017, 31 of 71 or 44.3% of microbreweries analysed produced 500hl of beer or less in that year. A further 14 or 20.0% of breweries produced between 500hl and 1000hl of beer, so that two-thirds of microbreweries produced 1,000 hl or less. Only 11% of microbreweries produced more than 5,000hl in 2017. Some of the 31 microbreweries in the 500hl of beer or less category produced only very small amounts, so that this group accounted for 6,500hl in aggregate or just over 4% of the total output of the sector. In contrast, the 8 microbrewers that produce more than 5000hl accounted for 84,000hl in total or 56.3% of the output of the sector.

The IBA reports that total beer production in Ireland amounted to 8,019,000 hl in 2017.[15] The Irish independent microbrewery production of 157,000 hl in 2017 represents 1.9% of the production market.

The Revenue Commissioners estimate the consumption of beer in Ireland at 4,479,000 hl for 2017. Of the 157,400hl produced by independent microbreweries in 2017, some 126,000 hl were sold in the domestic Irish market, indicating an Irish independent microbrewery share of domestic beer consumption of 2.6%.

While overall beer production in Ireland rose by 4.6% in 2017, independent craft beer production increased by 10.7%, leading to an increase in market share of independent microbreweries from 1.8% in 2016 to 1.9% in 2017.
Consumption of beer declined by 2.1% in Ireland in 2017, while that of Irish craft beer rose by 12.7%, so that there was an even greater increase in market share of independent microbreweries from 2.5% in 2016 to 2.8% in 2017.
The total turnover of craft beer producers in 2017 is estimated at €44.3 m, up 10.9% from €39.4m in 2016. More than one in six microbreweries had a turnover of less than €50,000 in 2017 and more than one-third had less than €100,000. Almost one in five microbreweries has a turnover in excess of €1m.
Of the 157,000 hl of craft beer produced the independent craft beer sector in Ireland in 2017, 126,500 hl was consumed in the domestic market, with 30,500 hl going for export. Thus, exports accounted for 19.4% of total production. This level of exports is only a marginal increase on export volumes of 29,600 hl in 2016. In contrast, sales to the domestic market grew by 12.7%.

Some 42% of microbreweries indicated are engaged in exporting. However, the quantities are often very small. Four microbreweries accounted for 75% of all exports by volume in 2017.

The current (2017) capacity of the microbrewing production companies is approximately 320,000hl. Capacity in the sector is high relative to output, with a capacity utilisation rate of 49.5%. Unused capacity is approximately 160,000hl
Production microbreweries in Ireland currently (mid-2018) employ an estimated 522 people. Of the total of 522 persons employed, 364 represent full time jobs. Employment on a full time equivalent (FTE) basis has increased from 411 in 2017 to 425 in 2018.

15 IBA, Beer Market Report, 2016, 2017.

Of the 466 persons employed on a regular basis, 86, or just under one-fifth, are female. Some three-quarters of microbreweries have a staff member with a formal brewing qualification. It is estimated that there are some 87 persons in the sector as a whole with formal brewing qualifications, amounting to 24% of all persons employed full-time.

Indirect employment in enterprises supplying the sector was estimated at 442 persons for 2018. This means that every person employed in production micro-brewing is matched by at least another in the wider economy that supplies the industry. Induced employment is estimated to amount to 97 persons for 2018. On this basis, the craft brewing industry supports 960 jobs in Ireland.

There are microbreweries in operation in 24 of the 26 counties, with the exception of Westmeath and Offaly. Employment in the micro-brewing industry is thus very widely dispersed throughout the country. Microbreweries are sited in rural as well as urban areas, which enhances the local employment effect. There is substantial potential, based on international experience, for further development of the Irish craft beer industry in terms of both numbers and output. There is currently substantial unused capacity and more is planned. This could facilitate major output growth in the short to medium term, if the growth in demand is strong.

However, the current state of the market gives cause for concern. There is now evidence of significant brewery failures. The growth in output from the sector has slowed dramatically and one in five microbreweries experienced a decline in output in 2017. Irish microbreweries have yet to make significant inroads in export markets.

There is a need to address the issues affecting the microbrewing sector. In particular, research into consumer preferences and perceptions of craft beer would be useful, as well as an in-depth and fact-based study of beer distribution in Ireland.

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Appendix 1: Organisation of the Survey

Introduction

This Appendix summarises the approach adopted to the Survey of microbrewing companies.

Identifying the Population

The first task was to identify the population of microbrewing companies to be surveyed. Although the emphasis was on the establishing the volume of craft beer produced in Ireland by production microbreweries, it was also considered useful to survey contracting companies where possible. Based on an internet search and industry sources, a list of microbrewing companies was developed. This list identified 75 production microbreweries and over 50 contracting companies that were in operation in mid-2018 – a total of more than 125 companies in all.

Survey Methodology

The survey was undertaken electronically using Survey Monkey. A questionnaire was developed and dispatched to respondents via Survey Monkey. Respondents could then fill in the survey electronically by ticking boxes in respect of closed questions or writing in answers.

Sample Size

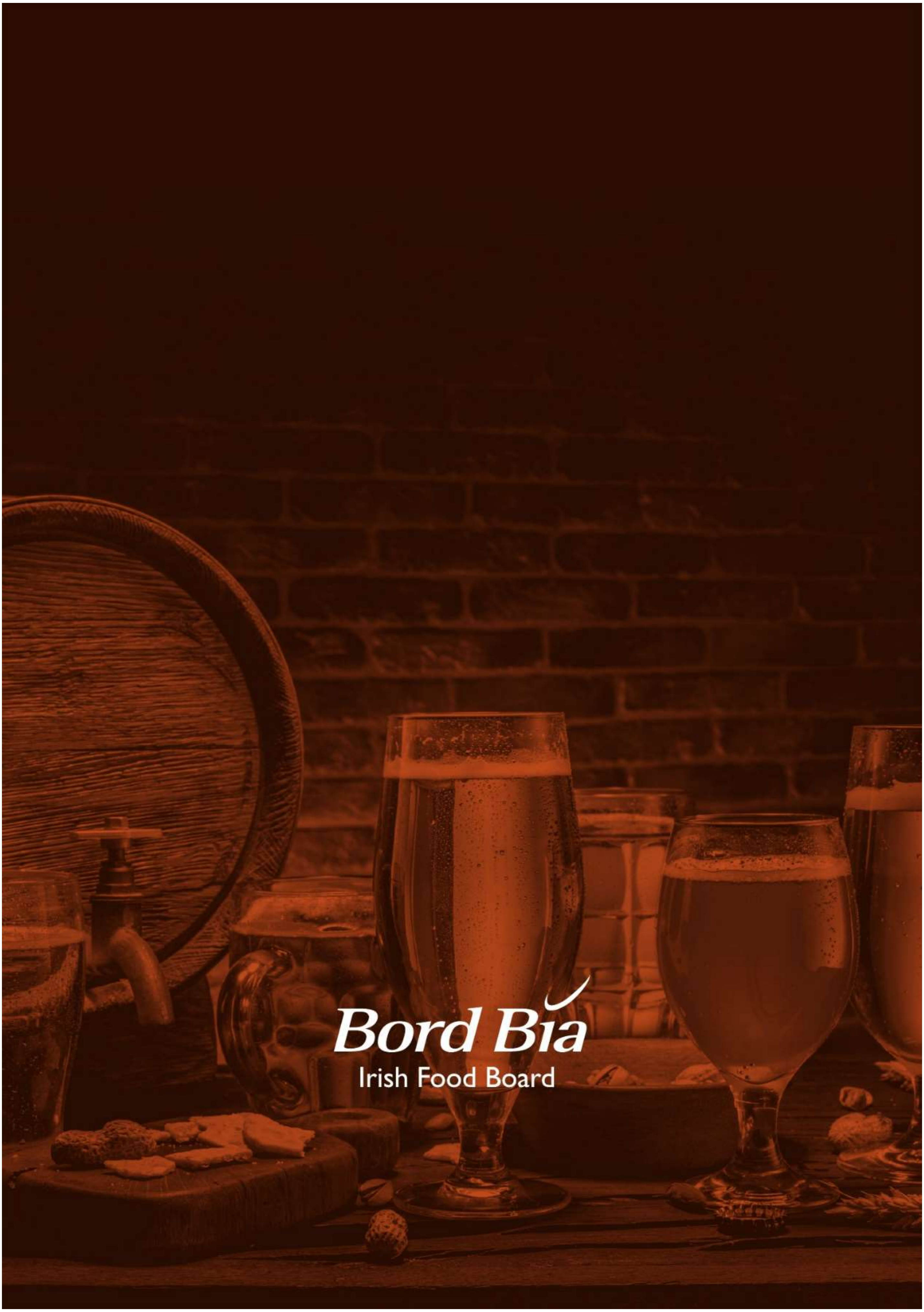
The survey focused on the 72 production microbreweries. Three production companies were excluded as they had only recently commenced production. A small number of contract companies were included, where there was a possibility that they had progressed to production in their own right.

Questionnaire

A questionnaire was developed for use in Survey Monkey. The emphasis was on the use of closed questions, so that the response could be in the form of ticking boxes. It was designed so that it could be completed in approximately five minutes if respondents had the information to hand.

Survey Response

Of the total of 72 production microbreweries companies, 2 were not contactable and 2 opted out. 57 opened the survey and 51 provided data – an effective response rate of 72%. A key statistic sought from respondents was their production level in 2016. Forty-seven production microbreweries or 67 % of the total provided such data.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