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Russian Federation

Wine

Russian Wine Market

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Report Highlights:

In 2001, Russia imported 256 million liters of wine - a 34 percent increase over 2000. Although low-cost imports from Moldavia, Georgia, and other CIS countries currently dominate the market, there is growing interest in better quality wines. This trend, combined with higher consumer incomes, suggests good opportunities for U.S. wine exporters.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow ATO [RS4], RS

Market Overview

The Russian market offers excellent opportunities for U.S. wine exporters. The rapid growth of wine sales is typical of the overall growth in the Russian food market, which is one of the fastest developing sectors of Russian economy. The total volume of the Russian wine market is estimated at 300 million liters per year. Annual per capita consumption is a low 2.7 bottles but increasing rapidly.

Before 1985, the Russian wine market was dominated by domestic wines produced from locally-grown grapes. However, during an “anti-alcohol campaign” in the mid-1980s, most local wineries were destroyed. As a result, domestic wine production fell by 80 percent and has still not recovered. With consumers continuing to switch from vodka, the traditional Russian alcoholic drink, to “softer” alcoholic beverages, wine consumption and imports are on the rise. This trend is expected to continue, particularly among younger, more affluent Russians.

While there are a number of U.S. labels available in the local market, Russian consumers generally are still unaware of the variety, quality, and value of U.S. wines. The following table highlights various factors which could influence the growth of wine consumption, in general, and the level of wine imports from the United States, in particular.

Advantages	Challenges
<ul style="list-style-type: none"> - Positive macroeconomic trends - New life-style standards - Wine consumption increasing as Russian drinkers switch from vodka - Russia depends almost entirely on imports of bottled wine or wine materials - Russian consumers are growing more sophisticated in their wine preferences - U.S. wines have a good reputation for high quality - In general, U.S. products enjoy a positive image among Russian consumers 	<ul style="list-style-type: none"> - Low per capita income - Often inefficient distribution chain typically results in high consumer prices - Most Russians still unaware of grape varieties and differences in quality & taste - Historically, Russia has not been a market for dry wines - High tariffs, restrictive and/or confusing labeling requirements, and lengthy inspection procedures

Consumer Preferences

Red wine accounts for the largest share of wine consumption for all price categories in Russia. The following table shows market share in Moscow and the other regions.

Wine Consumption by Variety (%)

<i>Variety</i>	<i>Moscow (%)</i>	<i>Other regions (%)</i>
Red	71.4	63.6
White	25.4	32.7
Rose	3.2	3.7

Semi-dry wine is the most popular type in the low- and medium-segments of the market while dry wine is the most common purchase in the expensive or elite wine segment. The following table provides market share by type for medium-price wines in Moscow and the other regions.

**Wine Consumption by Type, Medium Segment
(%)**

<i>Variety</i>	<i>Moscow (%)</i>	<i>Other regions (%)</i>
Semi-dry	49.7	50.9
Semi-sweet	41.1	25.6
Sweet	7.1	21.7
Dry	0.4	0.7

Source: Business Analytic

As the following table shows, only slightly more than ten percent of Russian consumers drink wine frequently (one or more times per week). However, more than 50 percent of all consumers claim to drink wine one or more times per month, which indicates good potential for developing a larger market for U.S. wines.

**Frequency of Wine Consumption
(1st quarter of 2001)**

<i>Frequency</i>	<i>Percent Population</i>
Less than once per month	36.4
Once per month	24.7
2 - 3 times per month	27.6

Once per week	6.3
Daily	5.0

Prices

The Russian wine market is dominated by low-end wines from Moldavia, Georgia, and other CIS countries priced at 80 rubles (about \$2.55) per bottle. An audit of sales by local research agency Business Analytic estimates this segment at 85 percent of the market. The share of moderately-priced wines in the range of 80-150 rubles (\$2.55-\$4.78) per bottle is estimated at approximately 10 percent.

The segment of elite wines priced at 150-430 rubles (\$4.78-\$13.69) comprises approximately three to five percent of the Russian wine market according to industry sources. Business Analytic puts the market share of elite wines at 16 percent in Moscow and almost 5 percent in other large cities. Consumer interviews conducted by another research agency, Komkon Group, suggest that the market share of elite wines is 19 percent in Moscow, 10 percent in St. Petersburg, and less than four percent in Novosibirsk, Nizhniy Novgorod and Ekaterinburg.

Imports

As there is only limited wine grape production in the Russian Federation, the wine market can be divided primarily into imported bottled wine and wine produced locally from imported wine material. The high-quality or elite wine market segment is comprised of imports from Italy, France, Spain, Hungary, and the New World countries such as the United States, Chile, Argentina, Australia and South Africa. Georgia is also a prominent supplier in the elite wine market sector. Moldova, the leading supplier of inexpensive wines and wine materials, holds only a very limited share of the elite segment.

The 1998 economic crisis and ruble devaluation resulted in sharply higher import prices for wine. Wine imports fell by more than 50 percent as other locally-produced drinks such as beer, low-alcohol cocktails, and even mineral water replaced imported wine, especially in the catering sector. The following table details Russian wine imports over the past several years.

Wine Imports, 1997-2001
(million liters)

<i>Country</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Moldava	247	136	120	125	136
Georgia	16	13	8	14	
Other CIS	87	50	17	38	96

Other foreign	68	65	43	14	24
United States					
Total	418	264	188	191	256

**U.S. Wine/Beer Exports to the Russian Federation, 1996-2001
(\$1,000)**

<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2001/2000 (%)</i>
13,788	1,372	753	552	550	1,130	114

Source: Department of Commerce, U.S. Census Bureau, Foreign Trade Statistics

Distribution channels

The Russian wine market can be generally divided into two major sectors: food service (hotels and restaurants) and large retailers (cash and carry stores, specialized wine stores, and supermarkets). However, the bulk of wine sales are made through the specialized wine stores, kiosks, and supermarkets.

There are estimated 50 wine traders who import wine into the Russian Federation. Nearly all have their head offices in Moscow or St. Petersburg. There are virtually no direct imports to the other regions of the Russian Federation.

Most of the importers have set up trading houses that serve as wholesaler/distributor of their wine portfolios. In general, the trading house has two departments: one in charge of distribution to the specialty stores and supermarkets, the other responsible for the hotel/restaurant business.

Market Access

As with all food and beverage imports, wine faces a number of significant -- and sometimes challenging -- import regulations. Labeling requirements and inspection procedures can be complicated and are subject to change without notice.

U.S. exporters are advised to review label and documentation requirements with their Russian importer prior to each shipment. In fact, it is advisable to have the label approved by Russian Customs authorities before the first shipment. Labels should be in Russian and must contain the following information:

- name of the producer
- legal address of the exporter
- name of the importer
- legal address of the importer
- origin of the product
- type of product

- product description
- date of production
- date of expiry
- storage requirements
- volume of contents

Tariffs/duties

Customs Tariff: 20 percent (based on CIF price)
Excise Duty: 3.25 rubles per liter
Value Added Tax: 20 percent (based on CIF price + Customs Tariff + Excise Duty)

Russian Wine Importers

For a list of Russian wine importers, please contact:

U.S. Agricultural Trade Office
PSC 77 AGR
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