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Russian Federation

Product Brief

Russia's Alcohol Spirits Market

2005

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Report Highlights:

Russia's spirits market is worth \$12.2 billion and imports \$1 billion in alcoholic beverages each year. With a developing taste for imported elite alcoholic drinks, the Russian market holds great potential for U.S. spirits exporters. The emergence of an urban middle class attracted to prestigious Western-style spirits and the poor performance of Russia's traditional drink, vodka, has driven demand for higher priced imported spirits. However, Russia's wine and spirits market may be poised to undergo a large regulatory change and effective January 1, 2006, will update its procedures on excise stamps and import licenses. See GAIN RS 5316 for more on the new import regulation.

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

Market Overview

The Russian spirits market in 2004 was worth \$12.2 billion and was well over 2 billion liters, according to Euromonitor, International. This accounts for 13 percent of the food and drinks retail market – a huge sum. Spirits are the leading beverages by value in per capita spending in Russia, and a 12 percent annual growth in value over the last 5 years demonstrates a strong preference for higher quality drinks. ATO expects this level of spending to increase by at least 12 percent annually, resulting the market doubling in size by 2009.

Vodka, Russia's traditional drink, is still very much the leader in sales, both by volume and value. In 2004, vodka sales accounted for nearly \$10.2 billion. In spite of a three percent drop in volume in the last couple of years, vodka still accounts for over 90 percent of spirits sales. According to Euromonitor International, this figure includes both legal and so-called "shadow" vodka sales, which can make up as much as 40 percent of total vodka volume sales. Even though local vodka still dominates the market and foreign spirits more typical in the West only account for 4-6 percent of the spirits market in Russia today; ATO believes that the marked rise of imported spirits since 1999 and increased diversification of the type of spirits available indicates a growing trend of consumers choosing more higher quality, foreign products in smaller quantities. The emergence of premium vodkas illustrates an overlying trend throughout the spirits market of increased consumer preference and financial ability to pay for premium spirits.

In Russia, imported spirits are traditionally classed as elite by both industry and consumer due to the high unit price and perceived higher quality. Foreign spirit sales have dramatically increased since recovery from the 1998 financial crisis. While the statistics for vodka, brandy and nalivka (herb-infused vodka or brandy based drink, that is usually locally produced) demonstrate that Russians still very much enjoy drinking for the sake of drinking, one cannot ignore that whiskey, cognac and tequila sales have all tripled since 1999. ATO believes this clearly illustrates that those who can afford to, are willing to spend more money on a more prestigious product. As one of the key organizers of Moscow's annual Bourbon Festival, held in October 2005, told ATO Moscow, "The cultured consumer who has traveled to other countries and is curious to vary his taste experiences, will choose the more premium drink". With rising disposable incomes, and a taste for all things novel, ATO believes this trend will continue to open the door of the spirits market to imports and premium foreign brands.

Consumption of brandy has steadily increased since the recovery of the financial crisis in 1998. Brandy, which often is misnamed "Cognac" in Russian, accounted for close to 80 million liters and over a \$1 billion in domestic sales in 2004. Imports of French Cognac has tripled since 1999. Cognac has enjoyed a different status than other spirits throughout Russia; it is primarily purchased as gifts. Yet classy cognac cafés, PR events and successful marketing are convincing more consumers and the trade to branch out and enjoy the drink rather than simply shuffle bottles as gifts from one person to the next.

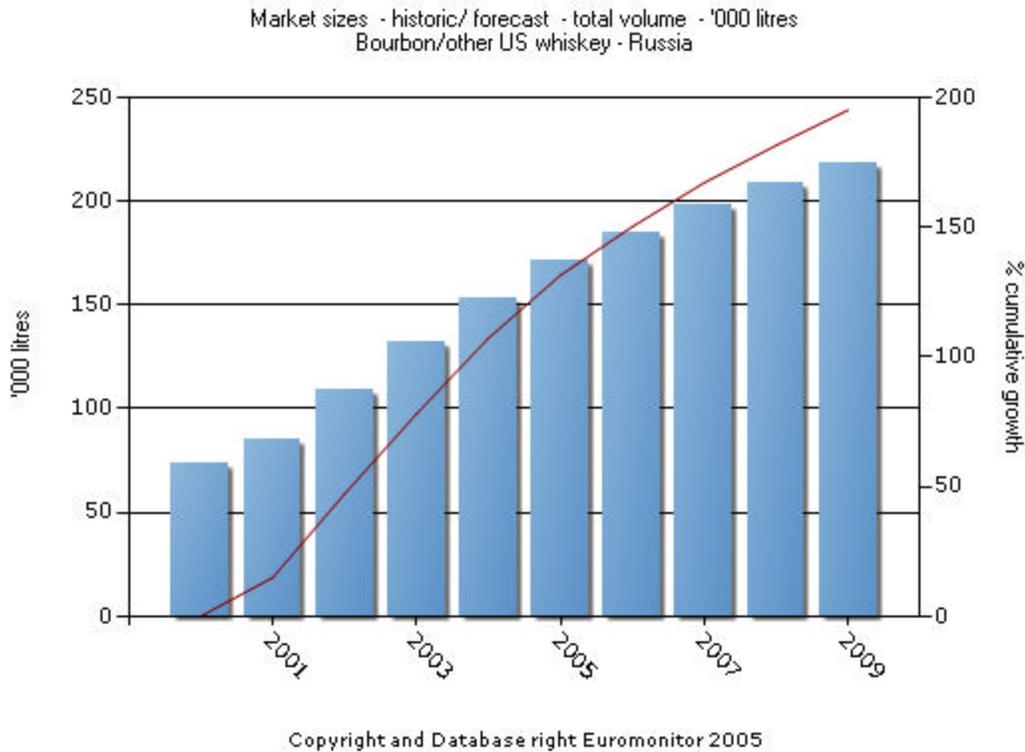
Size of the Russian Market for Spirits
Total volume - '000 liters

	2000	2001	2002	2003	2004
Spirits Total	2,339,951	2,312,808	2,271,436	2,241,853	2,221,573
Whiskey	1,859	2,168	3,075	4,007	4,998
Single malt Scotch whiskey	-	-	40	73	98
Blended Scotch whiskey	1,735	2,026	2,845	3,707	4,637
Bourbon/other US whiskey	74	85	109	132	153
Canadian whiskey	-	-	17	20	23
Irish whiskey	50	57	65	76	86
Brandy and Cognac	58,863	63,034	67,756	73,973	80,595
Brandy	57,930	61,866	66,318	72,273	78,619
Cognac	933	1,168	1,438	1,700	1,975
White spirits	2,200,921	2,164,652	2,114,025	2,072,888	2,040,770
Gin	660	763	835	894	979
Vodka	2,200,261	2,163,888	2,113,190	2,071,994	2,039,791
Rum	113	131	141	148	159
Tequila (and mezcal)	225	262	339	425	514
Liqueurs	859	933	1,012	1,100	1,197
Other spirits	77,112	81,629	85,089	89,313	93,341
Nalivka/Nalewka	77,112	81,629	85,089	89,313	93,341

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Whiskey leads imports

Whiskey sales have exploded since the 1998 financial crisis and are expected to continue to be one of the fastest growing spirits in the market. According to Euromonitor, whiskey sales have more than tripled in volume terms, rising from 1.6 million liters in 1999 to 5 million liters in 2004. Whiskey sales have come close to tripling in value terms over the same period as well, reaching \$285 million in 2004, according to Euromonitor statistics. Even more interesting, during the same period of time, the selection of whiskey has dramatically diversified. In 1999, the only type of whiskey on the market was blended scotch. Over the last 5 years, single malt, bourbon and Irish whiskey have all gained small but significant shares of the whiskey market; demonstrating that whiskey not only benefits from an increasingly positive image in Russia, but that the Russian spirits market has also become increasingly sophisticated and diverse. Even less popular types of whiskey are currently benefiting from a 14-16 percent volume increases. With .2 million liters of sales in 2004, bourbon and other U.S. whiskey now holds second place in whiskey sales. Though the market share is minimal in comparison with blended scotch, bourbon and U.S. whiskey sales have doubled since 2003 and are well positioned to continue expanding in a market open to further diversification.



The two biggest Bourbon brands are Jim Beam and Blanton's. While Jim Beam White and Black labels can be found in nearly all specialized wine and spirits shops and super/hyper markets, other brands are a lot more difficult to come by.

In Russia, Bourbon appeals to a younger group of consumers than whiskey and scotch. The annual Moscow Bourbon Festival was launched in 2003, drawing over 1000 guests in its second year. Jim Beam regularly sponsors PR events and theme parties throughout Moscow's many casinos and bars, which have dramatically increased consumer awareness. Whiskey and Bourbon specific bars, such as "Ballantine's" and "Bourbon Street" in the center of Moscow, have become hip, young, trendy alternatives to the more closed and traditional cognac clubs. There is much momentum in the market for quality U.S. spirits and an increasing demand for bourbon is coupled with a peaking interest in an elite American lifestyle and consumers' desire to diversify their tastes.

Current taxes and duties for whiskey and bourbon :

Import taxes:	2 euros/ liter
Excise stamp:	146 rubles/ liter
VAT	18%
Customs and duties for spirits containing more than 9% ethyl alcohol:	8 euros/ liter

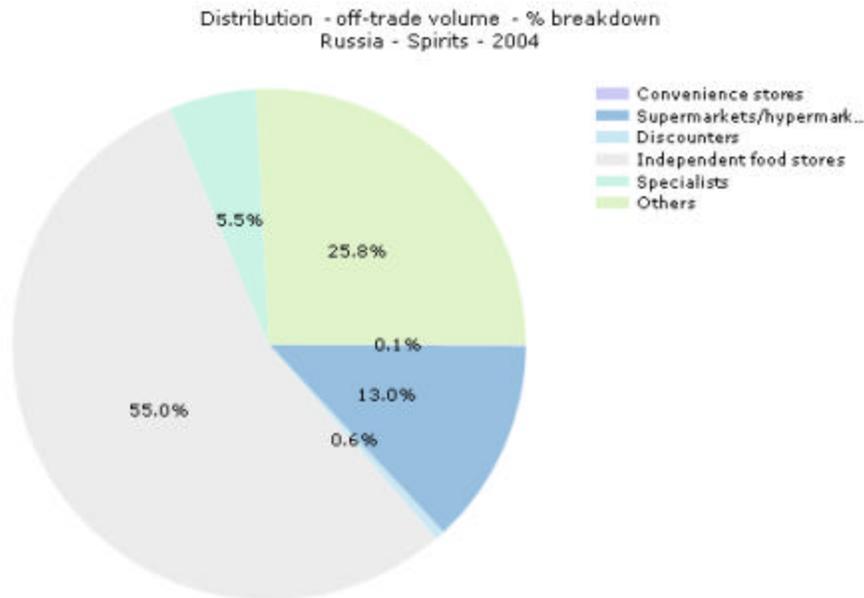
Source: Russian State Customs Committee

Moscow Leads Russia in Alcoholic Drinks

Moscow, a region of 14 million consumers, is by far the most developed market for premium alcoholic drinks. According to industry analysts, between 30-40 percent of sales of cognac, for example, take place in Moscow. Higher wages, the gap in living standards and in products available between Moscow (and to a lesser extent St. Petersburg) and the rest of the country is still remarkable. But in a country of 150 million people, where many regions are rapidly developing and the number of affluent consumers increasing, the Russian regions hold great potential. Every year increasing number of foreign brands appear in the regions and a greater number of consumers can afford to buy them. Education, branding and training of personnel are all key to capitalizing on this potential.

Off Trade Dominates Sales

Off-trade sales dominate the spirits sector. Euromonitor, International reports that off trade value for spirits was \$11.2 billion in 2004 while on trade value represented a mere \$1.03 billion, less than 10 percent of total sales. While specialized shops only account for 5.5 percent of spirit sales today, the number of specially trained stewards has boomed since 1999 and is expected to grow.



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Changing Laws

Russia's wine and spirits market may be poised to undergo a large regulatory change and effective January 1, 2006, will update its procedures on excise stamps and import licenses. The most revolutionary change is the mandatory requirement for application of excise stamps on the Russian territory only. Current strip stamps are applied at bottling or packaging facilities in the country of origin. The Association of European Business has actively protested this regulation and contends that the rule violates WTO practices because domestic producers can apply excise stamps mechanically and imported product boxes must be unpacked and reprocessed. For more on the new law please read FAS ATO Moscow GAIN report RS 5316, submitted Nov. 29, 2005.

Copyright/Trademark Laws

U.S. and multinational companies report counterfeiting of patented and trademarked goods as a problem, especially for consumer goods, distilled spirits, and other products. U.S. firms need to take steps to protect their intellectual property, including registering their trademarks with the Russian Federal Service for Intellectual Property, Patents and Trademarks (Rospatent). Some U.S. companies have had difficulty registering and protecting well-known trademarks in Russia, although recently approved legislation has improved protection for such trademarks.

Promotional Opportunities and contacts:

There are many shows and opportunities for U.S. exporters to offer their products and increase sales to Russia. **For more information contact Nadia Dmytriw at the U.S. Agricultural Trade Office in Moscow: atomoscov@usda.gov, tel: +7 095 728 5521, fax: +7 095 728 5069.**