

Voluntary Report – Voluntary - Public Distribution

Date: April 22, 2021

Report Number: RS2021-0012

Report Name: Russia Wine Market Overview

Country: Russian Federation

Post: Moscow ATO

Report Category: Wine

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Report Highlights:

In 2019, Russia was the world's ninth largest importer of wine in both volume and value. However, the Russian Ministry of Agriculture is focused on making wine production one of the key branches of agriculture in the country. While domestic wine production is growing, so have wine imports. In 2020, an increase in excise taxes, a decrease in real incomes, and the restrictions on the food service sector due to COVID-19 led to a 10 percent drop in wine sales compared to 2019. The new 'Federal law on viticulture and wine-making in the Russian Federation,' aims to support domestic wine producers by reducing the amount of counterfeit wine sold, under the guise of Russian wine, support domestic producers, and introduce a number of new regulations that could potentially impact the largest bulk wine suppliers in the Russian Federation.

NOTE: Since June 2014, Crimean data are officially incorporated into Russian national statistics (ROSSTAT). Where possible, data reported by FAS/Moscow is exclusive of information attributable to Crimea.

Production and Vineyard Area

In 2020, the Russian Federation harvested 474,000 tons of grapes, 30 percent less than in 2019, and in January-August 2020 produced 6.4 million hectoliters (HL) of wine products, 16.9 percent less than in the same period of 2019. One reason for the decline in the grape harvest was the dry weather in the main regions where grapes are cultivated in the country. At the same time, conditions affecting the quality of grapes was exactly the opposite. The weather in 2020, although dry, was not as hot as 2019, allowing the grapes to ripen more evenly, and the low humidity helped grapes avoid fungal diseases.

The Russian government's implementation of [‘the law on viticulture and winemaking in the Russian Federation](#) restrictions on use of imported grapes and wine materials for wine production stimulated planting of new vineyards. In 2020, the plan was to increase the area of vineyards by 7,000 hectares, which is comparable to the increase in 2019. In 2020, the total area of vineyards in the country was 80,000 hectares. However, to fully supply the country with grapes, at least 250,000 hectares are needed, which will take more than 15 years to achieve.

In 2019, Russia imported 1.1 million HL of wine materials. Imports came primarily from Chile, Argentina, Australia, and Spain.

High-quality nurseries will become one of the most promising types of business over the next decade in Russia. This is because of less-available imported plant materials due to the growth of exchange rates, and the government also discussing a proposal to subsidize vineyards planted only with Russian materials. The new law on viticulture and wine making is expected to create new restrictions for imported wine and wine materials as well as barriers for domestic producers to increase the volume of wine production over the next seven years (the average indicator when the vine begins to bear fruit). A 10-15 percent rise in prices for domestic wines is projected for the second quarter of 2021. Overall, these factors are expected to lead to an increase in wine imports.

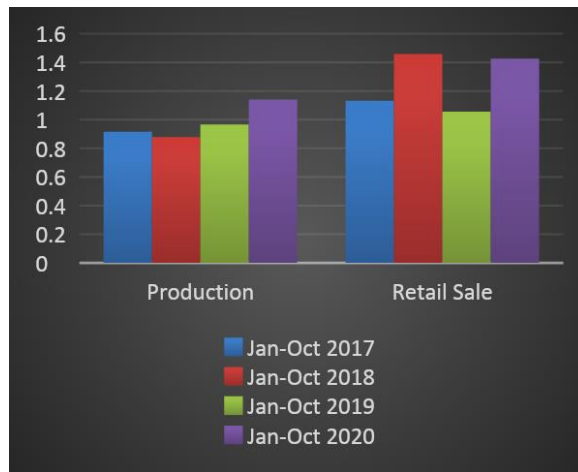
A third of Russia's vineyards are located in southern Russia's Krasnodar Region, which remains the leader in wine production in the country, occupying 45.3 percent of the market. From January - November 2020, the region produced 1.3 million HL of wine (an increase of 1.3 percent from 2019). The Krasnodar Territory has all the climatic conditions necessary for the cultivation of grapes: fertile soil, sufficient heat and moisture. The region hosts 65 specialized viticulture farms and 150 small businesses engaged in winemaking. In 2019, more than 2,000 hectares of young vineyards with a total area of 25,000 hectares were planted in the region.

Chart 1. Russia’s Table Wine Production (1,000 HL)



Source: Russian Federation Analytical Center

Chart 2. Russia’s Sparkling Wine Production (1,000 HL)



Source: Russian Federation Analytical Center

Wine Consumption and Market Trends

In 2020, Russians consumed about 11 million HL of wine products, which shows a slight increase (up 13.4 percent) compared to 2019. The sales growth was supported by increased demand for alcoholic beverages during the period of quarantine restrictions in Russia (March - June 2020). During this time there was also high demand for domestic tourism in the wine regions of the Russian Federation after the closure of the borders, and an active wine discount campaign in retail chains. At the same time, market operators had the opportunity to keep wine prices low due to the stocks formed in 2019-2020. Russian wine stocks already included wine from several sources, including wine domestically produced in 2019 following a record grape harvest and in anticipation of an increase in excise taxes; wine produced from imported wine materials before the law restricting their use came into force; and imported wine imported before the exchange rate appreciation.

The closure of bars and restaurants during the COVID-19 pandemic had little impact on alcohol sales in Russia. Only four percent of alcohol sales is represented by drinking in public establishments, with the exceptions of whiskey, rum, gin, absinthe, and tequila (their consumption in bars accounts for 12-13 percent of total alcohol sales). However, this volume in the pandemic was completely taken over by retail stores.

The topic of wine production and wine varieties is gaining popularity among the population. More and more, Russian wine consumers want to learn about the product being consumed, which is reflected in the growing influence of beverage retailers on the retail distribution of wine. These outlets represent a source of information and knowledge, as well as products for many Russian wine lovers. Large retailers have hired wine sommeliers to organize collections of wines at different price points, conduct training programs for cavistes and ‘cellar masters,’ and create mobile applications which help customers choose wine.

Since 2018, the Government of the Russian Federation has sponsored several projects aimed at supporting and popularizing wines produced from grapes grown in Russia. One of these projects is the bi-annual festival, "Russian Wines Days." During the festival, the largest retail chains of the country, restaurants, and wine boutiques, offer wines at special prices, along with experts confirming the Russian origin and the quality of the grapes.

In 2019, the Ministry of Industry and Trade and the Ministry of Agriculture of Russia launched the Wine Guide of Russia, an annual project for the study of wine products. Through this project, a special commission made up of leading domestic and international experts and sommeliers assess the quality of Russian wines. Consumers can then get acquainted with the rating of the wines selected by the tasting commission.

Wine tourism is a relatively new to Russia, but it is a rapidly developing sector in the country. By the summer season of 2021, the Russian Federation plans to increase the infrastructure for wine tourism – which includes wineries with their own hotel, restaurant, tasting room, and brand store – by greatly increasing the number of wineries who host tourists. According to the Russian Quality System (Roskachestvo) statistics, 26 percent of the 71 Russian wineries already hosting tourists have their own tourist infrastructure. The most popular destination for Russians is the Southern Federal District, where most of the wineries are located.

Domestic winemakers also actively conduct social networks where they share wine production news with their subscribers, as well as cooperate with bloggers and sommeliers who present their wines in social networks and at tastings.

All these measures gradually help to gain the buyer's confidence in Russian wines.

For so long, the consumption of beer and vodka has prevailed over wine in Russia, and the wine-consuming culture among Russians is only being formed. Therefore, all of the measures mentioned previously will gradually helping to gain consumers' confidence in Russian wine.

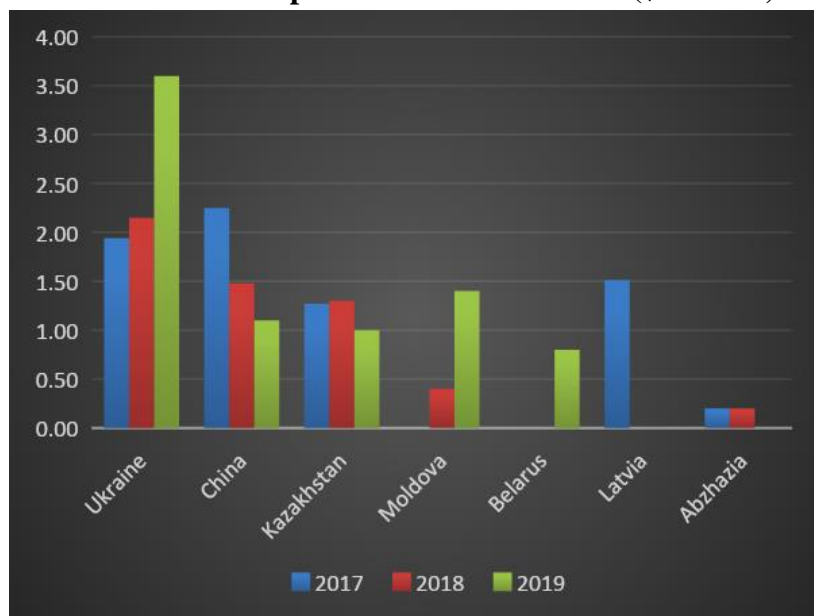
Wine Exports

Wine exports in Russia began to develop only very recently, in 2015, when they accounted for less than one percent of the total volume of wine production in the country: 88 percent of exports to Ukraine, 3.5 percent to Abkhazia, and 2.6 percent to China. By 2020 the country has increased its exports by 55 percent, and from January - September 2020 wine exports amounted to 30,000 HL of wine, valued at \$5.7 million. Ukraine remained Russia's largest export destination, and its export volume and value grew significantly – by 46 percent in volume and by 40 percent in value, compared to the same period in 2019. Russian wine exports to China continued to trend upward by 32 percent in volume but declined in value by 2 percent.

State subsidies to producers of Russian alcohol for export and promotional support from the Ministry of Industry and Trade underpin exports. A wide range of support measures are available to Russian wine

exporters, including: preferential participation in major international exhibitions, business missions to target countries, promotion through e-commerce channels, transport subsidies, reimbursement of part of the costs of product certification and trademark protection. By 2030, wine exports could account for 5 percent of the country's total production.

Chart 3. Russia’s Exports of Wine 2017-2019 (\$ Million)



Source: Russian Federation Analytical Center

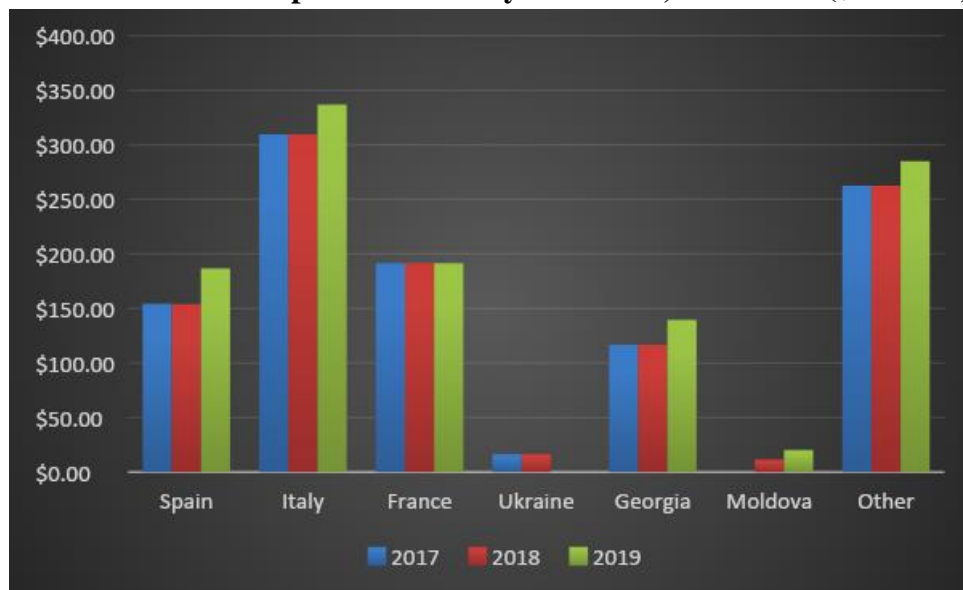
Wine Imports

Russia’s wine imports in January – September 2020 showed a drop of 23 percent in volume by 2.29 million HL and totaled \$669 million, which is 10 percent lower than in the same period in 2019. The decrease in imports is due to several factors, including significant increases in excise taxes on alcohol from January 1, 2020; the weakening of the ruble in the second quarter of 2020; and the government-mandated shutdown of the country’s HRI industry from April to June 2020 due to the COVID-19 pandemic. With the opening of the HRI industry and food services in June 2020, there was no need to import wines given the already sufficient stock.

In 2019, Russia’s wine imports showed an increase of 9 percent compared to 2018 and were estimated at 4.47 million HL valued at \$1.16 billion. Italian, French and Spanish wines accounted for 61 percent of the value of imports in 2019. Imports of Italian wines represented the largest share in total imports at 29 percent, followed by France at 17 percent, and Spain at 16 percent. Moldova wines registered 81 percent import growth, the highest compared to other origins.

Direct 2019 U.S. wine exports increased by 39 percent in volume (2.43 million liters) and by 19 percent in value (\$9.71 million). FAS Russia research has found that some U.S. wines enter Russia directly, but some are also transshipped through Europe.

Chart 4. Russia’s Imports of Wine by Countries, 2017-2019 (\$ Million)



Source: Russian Federation Analytical Center

Table 1 shows the list of major Russian wine importers. Ten top companies supply almost half of imported wine to Russia.

Table 1. Top 10 Russian Wine Importers by Value, October 2018-September 2019

	Company	Wine imports (\$ Million)
1	<u>GK Simple</u>	69.7
2	<u>TD Aroma</u>	37
3	<u>GK Luding</u>	35.5
4	<u>Logistic Trade</u>	33.9
5	<u>Polini Import</u>	29.6
6	<u>Logistika Alternativa</u>	29.6
7	<u>Beluga Group</u>	27.8

8	<u>Moro Ltd</u>	25.1
9	<u>Alianta Group</u>	24.2
10	<u>Marine Express</u>	21.7

Source: *Russian Custom Data*

Excise Taxes

As a result of the wine excise taxes reform implemented January 1, 2020, equal excise taxes were placed on domestically produced and imported wine, as well as new excise taxes introduced on grapes and wine materials. Since 2016, reduced tax rates have been applied to wine produced in Russia. The preferential categories included wine with a protected geographical designation of origin. The cancellation of such benefits is associated with a violation of the World Trade Organization (WTO) rules, in which it is unacceptable to organize tax benefits. A tax deduction is provided to wine producers using grapes personally produced and grown in Russia.

The introduction of a tax on grapes and wine materials is intended to prevent wine from being imported as raw materials to avoid paying excise taxes.

Table 2. Russia: Excise Tax Rates, 2018-2022 (Per Liter, in Rubles)

Product	2018	2019	2020	2021	2022
Wine, fruit wine, produced in Russia	5	5	31	32	33
Wine, fruit wine, imported	18	18	31	32	33
Sparkling wine, produced in Russia	14	14	40	41	43
Sparkling wine, imported	36	36	40	41	43
Cider, honey wine	21	21	22	23	24
Grapes used for wine production, per ton*	NA	NA	30	31	32
Wine materials*	NA	NA	31	32	33

Source: *Russian Federation Tax Code.*

*Grapes for wine production and wine materials were not taxed.

Attachments:

No Attachments.