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Russian Federation

Alcohol

Russia increases restrictions on alcohol

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Report Highlights:
On November 1, Russia began implementing Resolution #1159 which substantially increased restrictions on the marketing of alcohol. Provisions of the new regulations cover alcohol of 28 proof and over and include monopolizing the manufacture and distribution of alcohol. Moscow also banned the sale of hard liquor at open-air markets.

Includes PSD changes: No
Includes Trade Matrix: No
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Executive Summary

On November 1, Russia began implementing Resolution #1159 which substantially increased restrictions on the marketing of alcohol. Provisions of the new regulations cover alcohol of 28 proof and over and include monopolizing the manufacture and distribution of alcohol. Moscow also banned the sale of hard liquor at open-air markets.

Russia increases restrictions on alcohol marketing

On November 1, the Russian government began implementing Resolution #1159, dated October 6, 1998, which will increase regulation of alcohol production and marketing. Under this resolution, domestic production and importation of ethyl alcohol will only be permitted for sale to state enterprises or in state owned firms. Of 184 registered producers, 120 are state controlled, 54 are less than 51percent state owned (i.e., mostly privately owned) and only 10 are completely private. The local media have speculated that the state will take control of the remaining private distillers and combine some of them into a firm to be called Rosspiritprom. There are no breakdowns available on the percentage of private versus state-controlled alcohol importers.

The decree applies to beverages greater than 28 proof (14percent alcohol) and will affect imports of raw alcohol by setting up a system of licenses and quotas while mandating the involvement of government-appointed firms. The effects of this system on imports will be to monopolize the distribution and wholesale market of certain alcoholic beverages but will not effect most U.S. wine and beer exports. This decree is similar to other proposals in the past which tried to use alcohol revenues to push up tax collections while getting control over unregulated producers. As a part of the October 6 resolution, all firms wishing to sell alcohol will be required to obtain a special state license. Because licensees are required to have modern equipment like electronic cash registers, considerable storage space and a good financial balance, it is likely that the vast majority of alcohol sellers will leave the business. If implemented, this resolution will leave only larger and high-priced stores able to sell these beverages and may increase prices considerably as low overhead sellers disappear and competition falls. As prices rise, there may be a steep increase in illegal alcohol sales.

Previous experience shows that prospects for enforcement are not good. A previous attempt to monopolize the alcohol industry in 1997 in the form Rosalkogolmonopoliya was disbanded earlier this year because it was unable to function effectively. The demands of carrying-out the regulations were too high for the bureaucracy to effectively implement. One provision that would require sellers to have electronic cash registers has been repeatedly delayed and will probably be dropped, calling into question the government's ability to implement this resolution.

Other barriers to U.S. alcohol imports that predate October, are expensive licensing requirements for alcohol distributers dating from earlier this year and high duties. Licensing requirements and fees for domestic trade, export and import of alcohol differ dramatically. Licenses for the right to produce, bottle, store and sell ethyl alcohol and alcoholic products or a general export license valid for one year costs about $2,500. Specific (one-time shipment) licenses for the right to export spirits and alcoholic products costs about $500. The cost of a specific license for importing, storage and wholesaling of alcoholic beverages will be approximately $5,000 per single license. A general (multiple shipment) license to import alcoholic products for one year costs $75,000.

This licensing scheme is an attempt to better regulate and control the production and sale of alcoholic beverages, and to close down illegal operations which are accused of avoiding taxes and selling poor-quality goods. This licensing scheme makes it more costly to buy imported alcoholic beverages as the cost of these import licenses will be included in the retail price. Some local restrictions are also causing difficulties for alcohol sellers (see RS8020 and below).

Moscow bans sale of hard liquor at open-air markets.

Starting November 9, Moscow banned the sale of hard liquor at open-air markets in an attempt to increase tax collections. It is hoped that new taxes and duties on alcohol along with more vigorous collection will allow alcohol to become a major source of budget revenue again. This also means that spirit prices are likely to increase. This should not effect most types of wine and beer. Moscow also currently requires an excise stamp on all bottles of alcohol sold in the city, including wine.

Trade and Consumption

In 1997, post estimates that Russia consumed more than 150 million decaliters (dl) of hard liquor. Official data suggest that spirit imports totaled only 1.5 million dl, an unlikely figure. Trade sources estimate imports to be many times higher. Wine consumption data are more reliable: In 1997, Russia consumed 54 million decaliters of non-sparkling wine and 22 million dl of sparkling wine. Russia only produced domestically 11 million dl of non-sparkling wine and 9.2 million dl of sparkling wine, giving imports an 80 percent and 58 percent shares of total consumption, respectively. Reflecting the preferential trade agreements, historical ties and physical proximity, the vast majority of total Russian wine imports (86 percent) came from the CIS countries. Post estimates that the vast majority of spirit imports also come from CIS countries. There are no data available on wine or spirit consumption since the current financial crisis began.

Trade Policy

Tariffs on alcoholic beverages range from 0.12 - 2.0 ECU per liter. Duties on beer are 0.6 ECU per liter, sparkling wine are 1.32 ECU per liter, most table wines are 0.12 - 0.5 ECU per liter, and most spirits are 2.0 ECU per liter. The excise tax was raised to 50 rubles per liter levied on absolute ethyl alcohol and the VAT is 20 percent. The most important preferential tariff is the duty-free zone with other CIS countries.

There are no substantial sanitary/health issues at the national level and Russia does not use quotas or other such import controls for wine. Russia does not use Technical Barriers to Trade against wine imports at the national level.