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GAIN Report

Global Agricultural Information Network

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Vodka Excise Tax and Minimum Set Price Rates for 2015

Report Categories:

Agriculture in the News

Agriculture in the Economy

Agricultural Situation

Retail Foods

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Report Highlights:

Excise tax rates for alcoholic beverages in Russia have increased steadily and significantly from 2011-2014. As a result, the cost of the cheapest bottle of vodka grew from 89 rubles in 2010 to 220 rubles in 2014. It also raised the prevalence of illegal vodka in the Russian market that, according to industry experts, accounted for 60 percent in 2014. In 2014, domestic vodka production declined by 22.3 percent reaching only 66.6 million decaliters – the lowest level in modern Russian history. As a result, the Russian government has agreed to freeze excise taxes and reduce the minimum set price of vodka at retail in 2015.

General Information:

Excise Taxes

Excise tax rates for alcoholic beverages in Russia have increased steadily and significantly from 2011-2014. As a result, the cost of the cheapest bottle of vodka grew from 89 rubles in 2010 to 220 rubles in 2014. It also raised the prevalence of illegal vodka in the Russian market that, according to industry experts, accounted for percent in 2014. In 2014, domestic vodka production declined by 22.3 percent reaching only 66.6 million decaliters – the lowest level in modern Russian history. Illegal manufacturers have quickly displaced legal vodka producers in the Russian alcohol market due primarily to the high excise tax system.

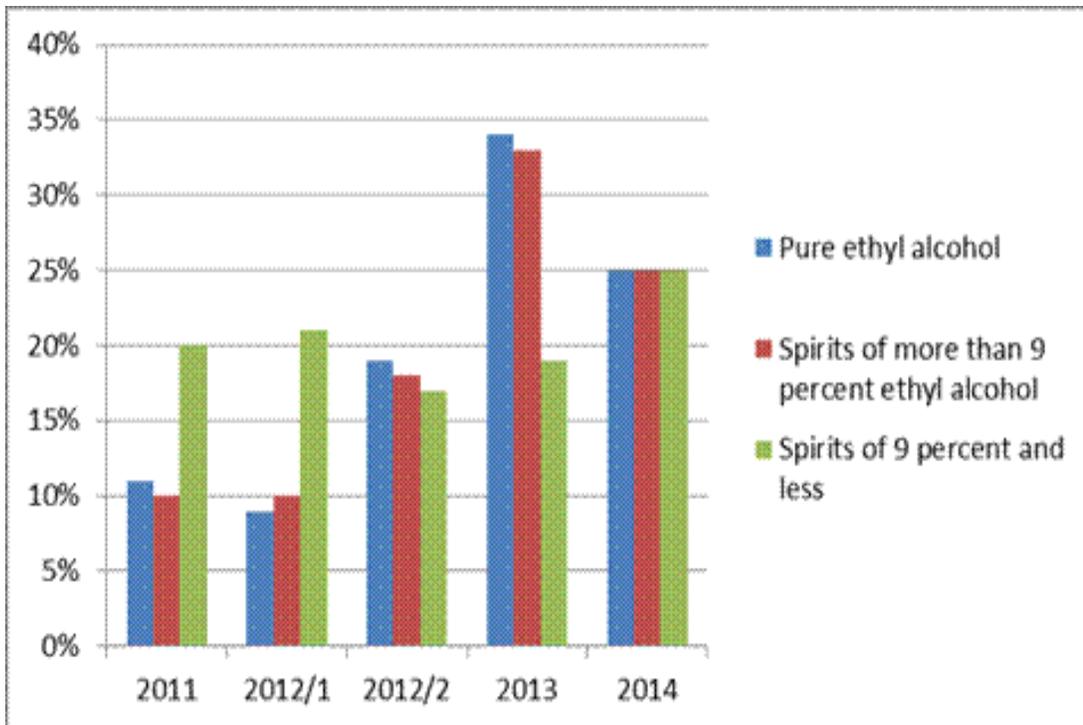
According to the Russian State Statistics Service, the most dramatic decline in vodka production took place in November 2014 – down 38.5 percent (to 7 million decaliters) and in December, the peak of the ruble crash, by 47.3 percent (to 7.3 million decaliters) compared to the same periods a year earlier. Such dynamics at the end of the year led the Russian government to freeze excise taxes on spirits at 500 rubles per liter of anhydrous alcohol for 2015-2016 – the same level as in 2014. In 2014, excise taxes for distilled spirits increased 25 percent, table wines 14.3 percent, sparkling wines 4.2 percent, and beer 20 percent, respectively.

Table 1. Russia: Excise Tax Rates, 2011-2014, in Russian Rubles

	2011	2012/1	2012/2	2013	2014	2015
Rubles per liter of ethyl alcohol content						
Pure ethyl alcohol	34	37	44	59	74	93
Spirits of more than 9 percent ethyl alcohol	231	254	300	400	500	500
Spirits of 9 percent and less	190	230	270	320	400	400
Rubles per liter of alcohol product						
Sparkling wine	18	22	22	24	25	25
Table wine	5	6	6	7	8	8
Beer with 8.6 percent or less ethyl alcohol	10	12	12	15	18	18
Average exchange rate per \$1	29.35	31.07	31.07	31.82	37.97	

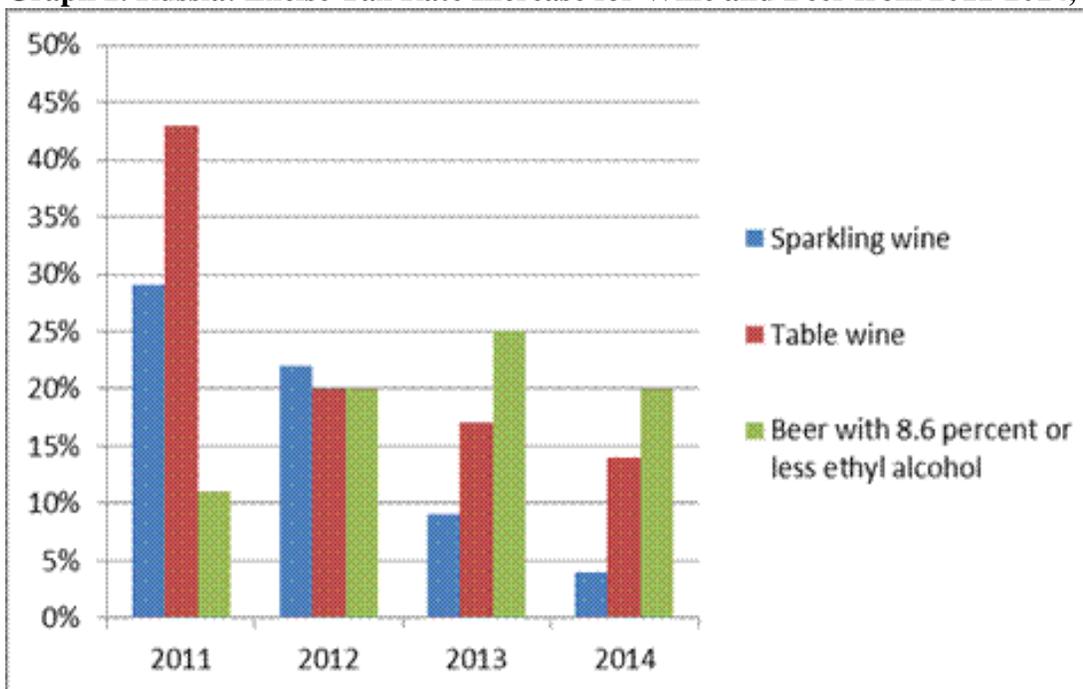
Source: Tax Code of Russian Federation

Graph 1. Russia: Excise Tax Rate Increase for Spirits from 2011-2014, in %



Source: Tax Code of Russian Federation

Graph 2. Russia: Excise Tax Rate Increase for Wine and Beer from 2011-2014, in %



Source: Tax Code of Russian Federation

Table 2. Russia: Excise Tax Growth from 2011-2015, in %

	2011	Jan- Jun 2012	Jul- Dec 2012	2013	2014	2015
Pure ethyl alcohol	11%	9%	19%	34%	25%	29%
Spirits of more than 9 percent ethyl alcohol	10%	10%	18%	33%	25%	0
Spirits of 9 percent and less	20%	21%	17%	19%	25%	0
Sparkling wine	29%	22%	0	9%	4%	0
Table wine	43%	20%	0	17%	14%	0
Beer with 8.6 percent or less ethyl alcohol	11%	20%	0	25%	20%	0
Inflation, %	6.1	6.6		6.5	11.4	

Source: *Tax Code of Russian Federation*

* 2012 the Russian Government increased excise taxes in two parts of the year.

Taxation of alcohol beverages adds about 300 billion rubles each year to the Russian coffers which makes up about 1.3 percent of the entire budget. Since January 1, 2012, Russian authorities planned to increase the level of alcohol excise taxes to European levels. They did not, however, take into account annual inflation which is much higher than in Europe. As a result, the cost of the cheapest bottle of vodka grew from 89 rubles in 2010 to 220 rubles in 2014. It also raised the percent of illegal vodka in the Russian market, which according to industry experts' was about 65 percent in 2014.

Price Regulation

The Federal Service on Regulation of Alcohol Market (FSRAM) sets minimum prices for alcoholic beverages (at 56 proof and higher) in Russia. FSRAM has set the minimum retail price for a half liter bottle of vodka or vodka product (both local and imported) since 2009. The minimum price for alcohol includes production costs, excise tax, VAT of 18 percent, minimum wholesale margin of 10 percent and minimum retail trading margin of 20 percent. Some alcohol industry experts have stated that the function of minimum price setting for alcoholic beverages is very important because it helps to identify black market alcohol products.

The minimum price for vodka was increased twice in 2014 to 220 rubles retail for a half liter bottle of vodka or vodka product, 179 rubles at wholesale and 171 rubles in production. On December 26, 2014, the FSRAM signed Order # 409, which set a new minimum retail price for a half liter bottle of distilled at 185 rubles – down from 220 rubles in 2014.

Table 3. Russia: Minimum Prices of Alcoholic Beverages for Half Liter Bottle, in Rubles

Alcoholic beverages	2014				2015				
	In production		At wholesale		At retail		In production	At wholesale	At retail
Vodka	154	171	162	179	199	220	162	170	185
Brandy	228		239		293		228	239	293
Cognac	250		262		322		250	262	322

Source: *FSRAM Order #409*

Regional vodka producers were not able to compete with the big national players selling known brands at 280-290 rubles per bottle when the minimum price for half liter bottle in retail was 220 rubles. Now local vodka producers are in a better situation and local governments are interested in increasing alcohol production in the regions. According to article 56 of the Budget Code, 40 percent of collected alcohol excise taxes in regions go to the regional budgets.

FSRAM is responsible for introducing minimum prices for half-liter bottles of hard liquor over 28 percent abv. FSRAM has not changed minimum prices for brandies and cognac for 2015. Minimum prices for brandies will remain at 293 rubles per liter at retail, 239 rubles at wholesale and 228 rubles in production. Minimum prices for cognac are 322 rubles per liter at retail, 262 rubles at wholesale and 250 rubles in 2015.

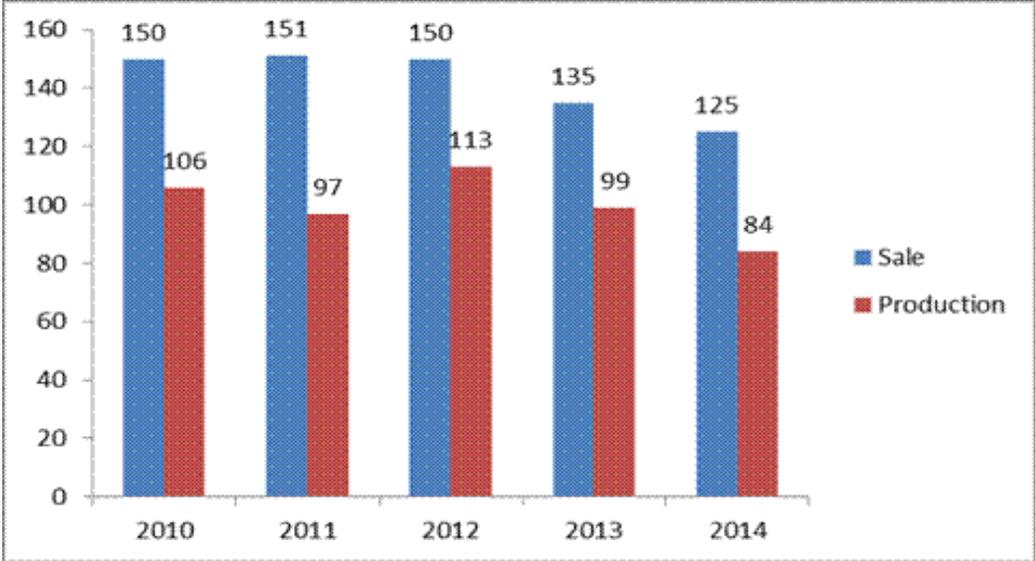
Table 4. Russia: Minimum Prices for Alcoholic Growth/Reduction from 2014-2015, in %

Alcoholic beverages	2013/2014			2014/2015		
	In production	At wholesale	At retail	In production	At wholesale	At retail
Vodka	29.5%	29.7%	29.4%	-5.3%	-5%	-16%
Brandy	16.3%	16.6%	17.2%	0	0	0
Cognac	13.6%	13.9%	15%	0	0	0

Source: FSRAM Order #409

Growth of minimum prices for alcoholic beverages in 2014 was higher than inflation of 11.4 percent. Deputy Prime Minister Alexander Hloponin, who is responsible for the Russian alcohol market, stated on December 2014 that the Federal budget annually loses from 30 to 50 billion rubles due to illegal alcohol production. The difference between the production and sale of vodka for ten months of 2014 amounted to 32 million decaliters. It means that the Russian government didn't collect excise taxes for every 2 out of 5 bottles of vodka. Market analysts have stated that reducing the minimum prices of vodka is the most effective way of combating illegal vodka production in the Russian market.

Graph 3. Russia: Vodka Sale and Production from 2010-2014, Million Decaliters



Source: Rosstat, FSRAM, Russian Research Centre of Federal and Regional Alcohol Markets