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Russia Announces Minimum Set Prices for Wine

Report Categories:

Agriculture in the News

Agriculture in the Economy

Agricultural Situation

Wine

Approved By:

Erik W. Hansen

Prepared By:

ATO Moscow Staff

Report Highlights:

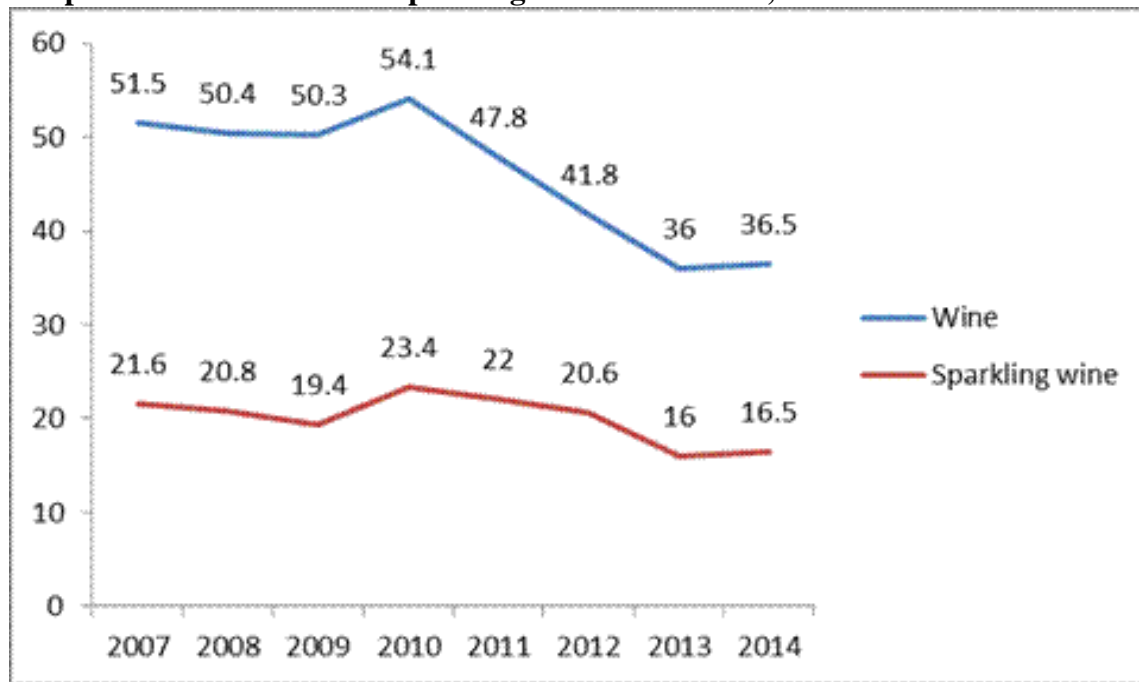
On January 28, 2015, Prime Minister Dmitry Medvedev signed Resolution # 63 "On Amendments to Certain Acts of the Government of the Russian Federation on State Regulation of Prices of Alcoholic Beverages". The resolution introduces minimum set prices for wine and sparkling wine (Champagne) in the Russian Federation. The resolution is expected to help ensure the competitiveness of legally-produced wine and contribute to the development of wine-making in Russia. Vadim Drobiz, Head of the Russian Research Center of Federal and Regional Alcohol Markets, stated that minimum pricing will reduce the amount of illegal wine on the Russian market by 25-30 percent in the short-term.

General Information:

On January 28, 2015, Prime Minister Dmitriy Medvedev signed Resolution # 63 "On Amendments to Certain Acts of the Government of the Russian Federation on State Regulation of Prices of Alcoholic Beverages". The resolution introduces minimum set prices for wine and sparkling wine (Champagne) in the Russian Federation. The resolution is expected to help ensure the competitiveness of legally-produced wine and contribute to the development of wine-making in Russia. Vadim Drobiz, Head of the Russian Research Center of Federal and Regional Alcohol Markets, stated that minimum pricing will reduce the amount of illegal wine on the Russian market by 25-30 percent in the short-term. According to his data, the total value of the Russian wine market in 2014 amounting to 205 billion rubles.

The idea of setting minimum prices in retail for wine and sparkling wine has been welcomed by Russia’s leading wine producers. According to Head of the Russian Union of Winegrowers and Winemakers Leonid Popovich, consumption of wine and sparkling wine in Russia amounted to 1 billion liters in 2014. Imports of bottled wine account for roughly 30 percent of this volume. Another 40 percent of wine is produced in Russia from imported wine raw materials with only the remaining 30 percent of wine are produced from grapes cultivated in Russia.

Graph 1. Russia: Wine and Sparkling Wine Production, Million Deciliters



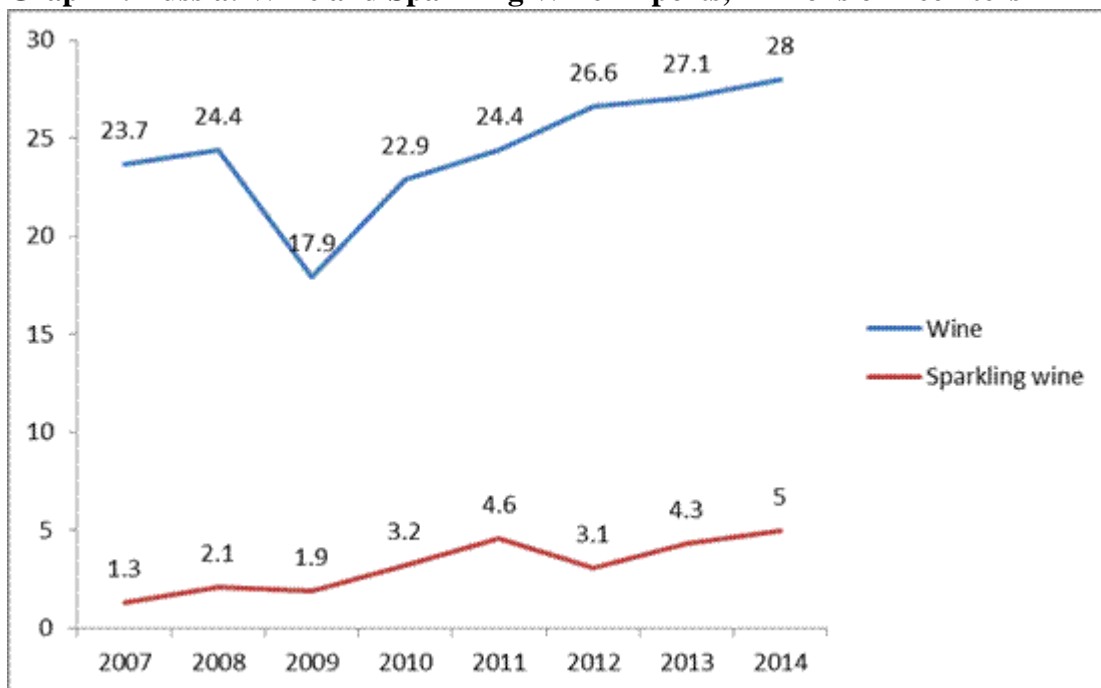
Source: Rosstat

Table 1. Russia: Largest Winemakers, January-November 2014

Company Name	Region	Brands	Volume, Thousand Deciliters
Mineralvodskiy Wine	Stavropolskiy Kray	Monastyrskaya Trapeza, Violetto	3,166
Gatchinskiy Spirits	Leningrad Region	Sangriya	2,630
Trading House Victoria	Adygeva	Vinogradnyy Ray	2,122
RPK Slavyanskiy	Krasnodarskiy Kray	Pshekho-Cy, Aderba	1,619
Detchinskiy Vine	Kaluzhskaya Region	Monastyrskaya Izba	1,200
Kuban Vino	Krasnodarskiy Kray	Shato Taman	1,087
Vinzavod Nadezhda	Stavropolskiy Kray	Izabella	1,024
Vikont	Moscow Region	Vikont	793
Vino Grande	Tverskaya Region	Vinogrande	783
Dolina	Krasnodarskiy Kray	Russkaya Dolina	780
Milstrim	Krasnodarskiy Kray	Kubanskaya Marka	771
Igristye Vina	Saint Petersburg	Salveto	697

Source: Rosstat

Graph 2. Russia: Wine and Sparkling Wine Imports, Millions of Deciliters

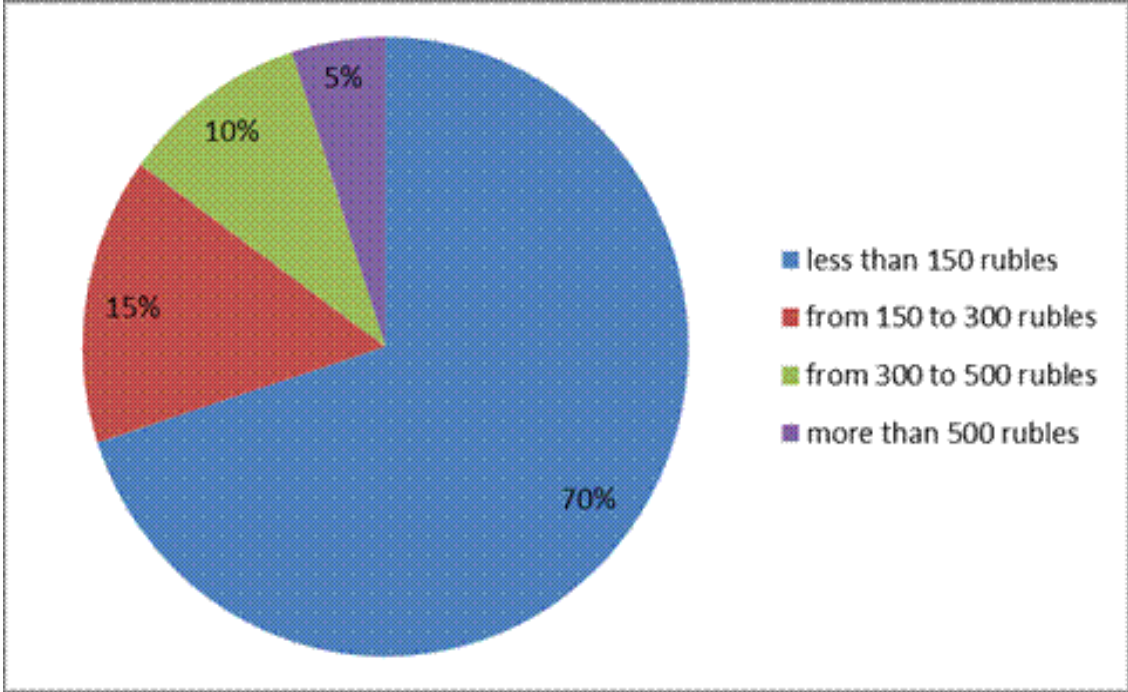


Source: Rosstat, 2014 is forecast

The introduction of minimum pricing is an attempt to tackle the growing number of counterfeit products in the Russian wine market. A similar measure was taken with domestically-produced vodka since 2010. The Federal Service on Regulation of Alcohol Market (FSRAM) has jurisdiction of setting minimum retail prices for alcoholic beverages (at 56 proof and higher) in Russia. Currently, the Association of Sparkling Wine Producers is working on some figures for FSRAM to consider using the minimum price calculation. It has been reported that the Association will push for a minimum set price of 150 rubles per the sparkling wine bottle of 0.75 liters.

Vadin Drobiz, Head of the Russian Research Center of Federal and Regional Alcohol Markets, stated that minimum pricing will reduce the amount of illegal wine on the Russian market by 25-30 percent in the short term. According to his data, the total value of the Russian wine market in 2014 amounting to 205 billion rubles. 70 percent of all wines sell for up to 150 rubles per bottle in retail. Wine costing up to 300 rubles take 15 percent of the market, the wine up to 500 rubles - 10 percent and more than 500 rubles per bottle is only 5 percent.

Graph 3. Russia: Price of Wine in Retail in 2014



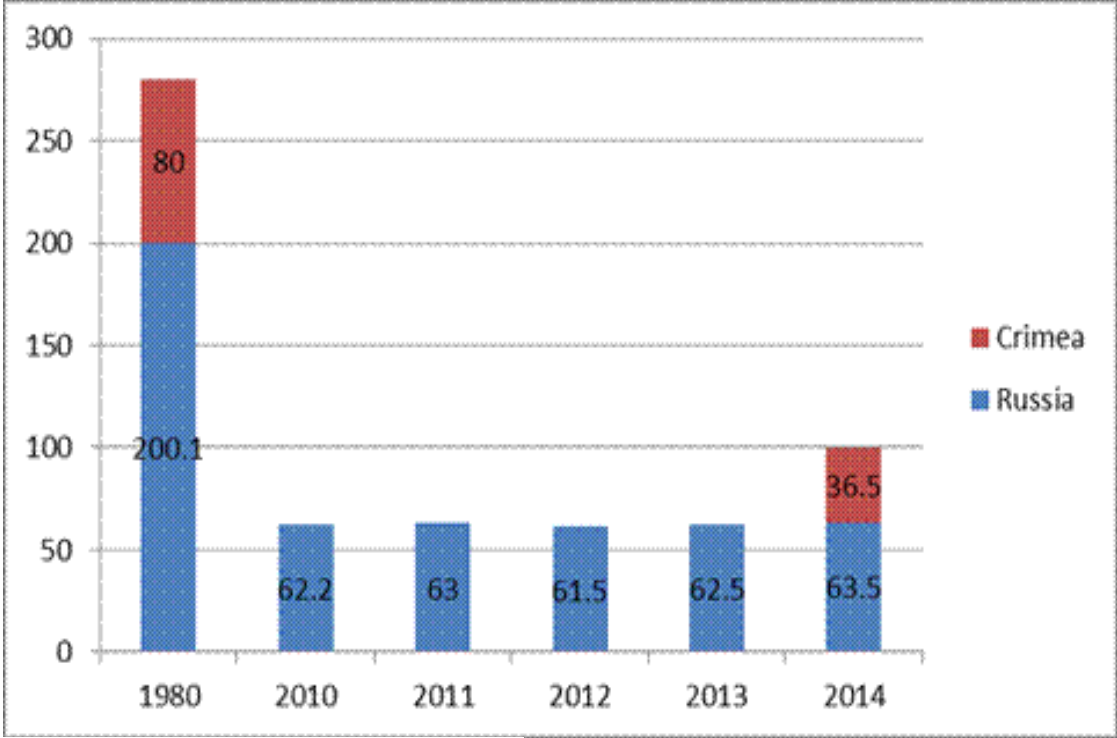
Source: *Russian Research Centre of Federal and Regional Alcohol Markets*

In the meantime, the introduction of minimum wine prices may face opposition from Russia’s retail sector, a significant part of which relies on low-cost wine priced at no more than 100 rubles. A representative of Lenta, one of Russia’s leading retail chains, stated that minimum prices could result in a significant decline in demand for wine in Russia and an increase in the popularity of vodka and spirits. The Lenta representative highlighted that at a time of recession in the country, domestic consumers may not be willing to pay more for a product which has always been considered a premium drink.

The minimum pricing measures will feature alongside the current government target to increase the total

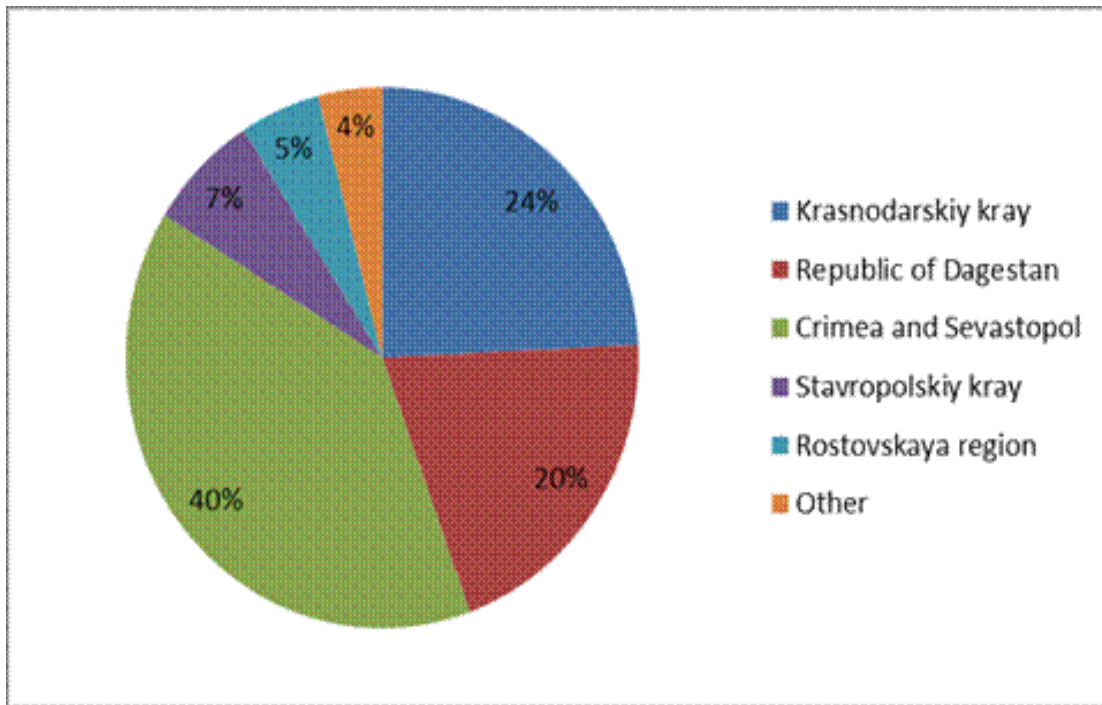
area of vineyards in Russia up to 140,000 hectares (ha) by 2020 (40 percent increase). In the 2009-2013, the average annual area of vineyards (excluding Crimea Federal District) amounted to 62,400 ha. Currently Russia is ranked 11th globally by vineyard area under cultivation.

Graph 4. Russia: Area of Vineyards in Thousand Hectares



Source: Rosstat, Ministry of Agriculture

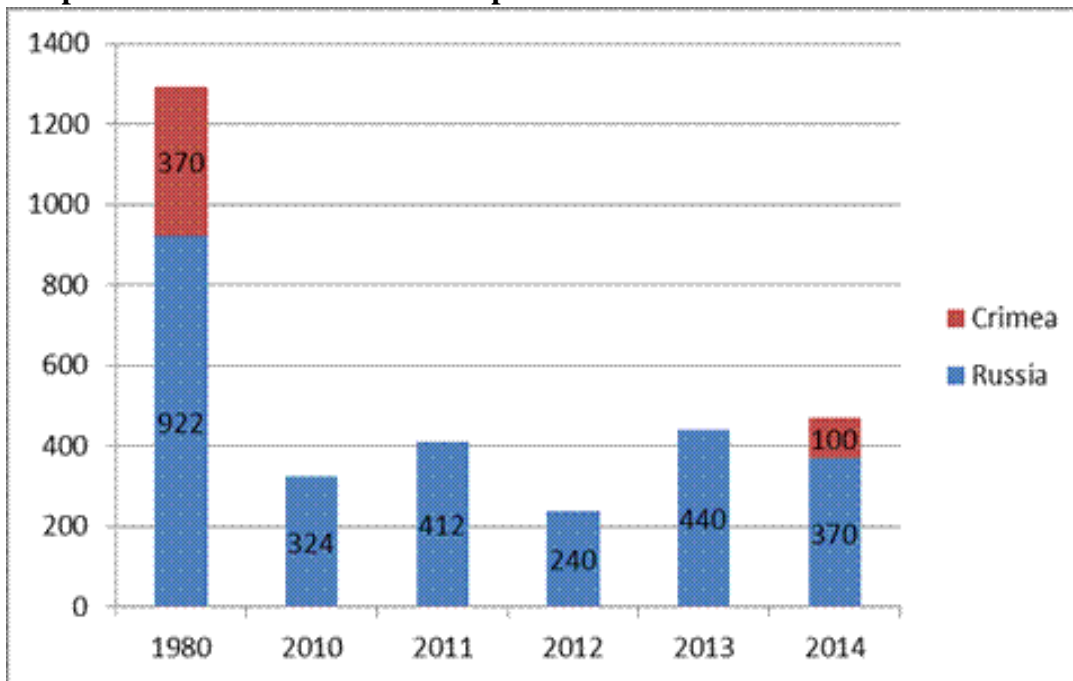
Graph 5. Russia: Area of Vineyards by Regions in Percentage



Source: Rosstat, Ministry of Agriculture

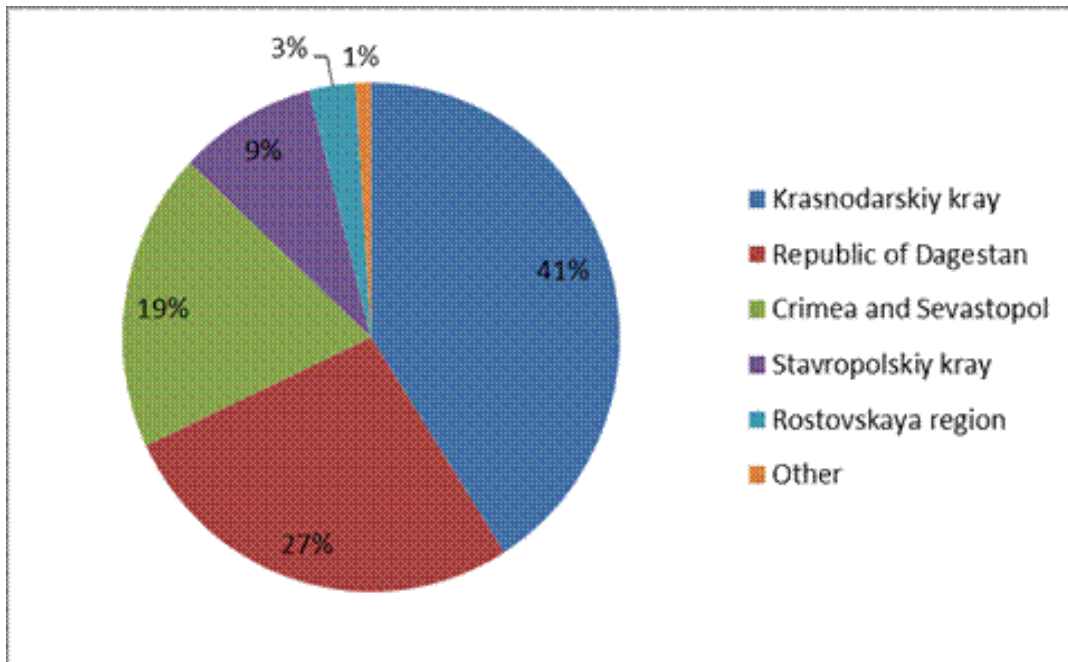
In 2014, 470,000 metric tons of grapes were harvested in Russia (14th place in the world).

Graph 6. Russia: Bulk Yield of Grapes in Thousand Metric Tons



Source: Rosstat, Ministry of Agriculture

Graph 7. Russia: Bulk Yield of Grapes by Regions in Percentage



Source: Rosstat, Ministry of Agriculture

The Russian government has frozen excise taxes on table wine and sparkling wine per liter of anhydrous alcohol for 2015-2016 to the same level as in 2014.

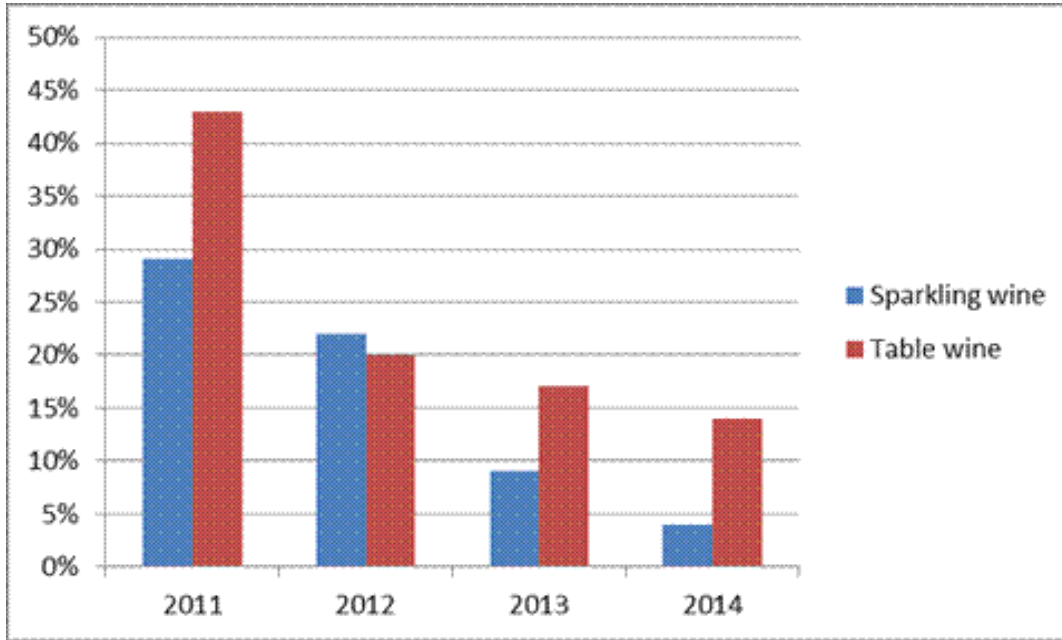
Table 2. Russia: Excise Tax Rates, 2011-2014, in Russian Rubles*

	2011	2012	2013	2014	2015
Sparkling wine	18	22	24	25	25
Table wine	5	6	7	8	8
Average exchange rate per \$1	29.35	31.07	31.82	37.97	
Inflation	6.1	6.6	6.5	11.4	

Source: Tax Code of Russian Federation

*Excise tax rates in Rubles per liter of alcohol product

Graph 8. Russia: Excise Tax Rate Increase for Wine and Sparkling Wine from 2011-2014



Source: *Tax Code of Russian Federation*

Taxation of alcohol beverages brings to the Russian coffers about 300 billion rubles each year, which makes up about 1.3 percent of the budget. Wine makes only 4 percent contributions to the overall alcohol excise revenue. Russia rank among the top 10 alcoholic drinks market by both volume and value. Wine consumption in Russia increases every year but there is still substantial potential for expansion as the average Russian drinks about 9 liters of wine per year (compared to 11 liters per capita in the United States and 44 liters per capita in France).