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## Russian Federation

**Post:** Moscow ATO

### Russian Spirits Up After Saving USD 21.6 m in Bourbon Sales

**Report Categories:**

Export Accomplishments - Other

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**Report Highlights:**

In 2011, all importers of U.S. spirits and wine must renew their wholesale license to import and distribute alcohol in Russia. Many of these companies will also apply for warehouse licenses for new and existing warehouses. As of October 2011, all of these companies have faced technical barriers to obtaining the license from the Federal Service for Regulation of the Alcohol Market (FSR). In August, a company based in Kentucky reported that efforts to license a key warehouse in Moscow had been ongoing since October 2010 and were facing a "do or die" scenario. ATO Moscow inquired as to the nature of the problem with FSR in order to clarify the legal foundation of the problem. After a key meeting with FSR, both sides were able to provide the necessary documentation to push through the license in time. The company estimates exports of U.S. brands to Russia in FY12 at over \$20 million.

**General Information:**

The United States (including Puerto Rico) is the sixth largest supplier of spirits to Russia and the market is growing, up 34% by volume in 2010. In 2010 U.S. exports of spirits to Russia were worth \$48 million.

Having one of the highest alcohol consumption rates in the world and one of the most effective illegal alcohol markets, the Russian government has been taking steps to clamp down on illegal activity while at the same time establishing new mechanisms to capture alcohol tax revenue and moderate excessive consumption of alcohol. As part of that, the government has taken several steps in the past three years that impact how the GOR regulates alcohol, such as establishing a new agency responsible for regulating alcohol, the Federal Service for the Regulation of Alcohol Market (FSR) which was established on December 31, 2008. Its key functions are to regulate alcohol production and trade, reduce illegal production, and maximize tax collection. The new agency has taken on its enormous task at breakneck speed (please see Gain 2010 report "Russian Alcohol Market Regulation 2008-2010 Update"). In the process, they have put new regulations into effect and amended previous legislation. At times, FSR's interpretation of the regulations and their transparency in enforcing the regulations have caused trade interruptions and have not been supported by standard norms such as for health and safety reasons.

In particular, FSR's enforcement of its wholesale and warehouse licensing regimes has generated questions about its interpretation of the regulations. In August 2011, a company based in Kentucky reported that efforts to license a key warehouse in Moscow had been ongoing since October 2010 and were facing a dire scenario. Applications to license a Moscow regional warehouse were rejected five times. The technical reasons for one denial were not based on science, health or safety reasons nor were they related to a product that the company produced, stored or sold. Nevertheless, they had to prove compliance to the satisfaction of the inspector. At the next inspection no findings were noted. More delays and silence followed even though at the time of application there was a 30 day window for FSR to respond. Finally, the ATO and a representative from the Alcohol Tobacco Tax and Trade Bureau were able to meet with the regulator in charge of licensing. A discussion ensued that did little to clarify past actions and rationale for FSR's decisions but did clarify exactly what FSR was asking from the company. FSR did not spell out where this requirement was bound by law; however, the company was able to meet the requirement and ultimately received its warehouse license. ATO Moscow continues its dialogue with FSR in order to clarify regulations and ensure consistency and transparency in accordance with established norms.

As a result of our intervention, the company hopes to meet its goal of nearly doubling its retail sales this fiscal year. U.S. spirits sales have been a growth leader with \$48 million in exports in 2010 up 37% from 2009 in value terms. For Jan-Jul 2011 imports have grown to reach \$40.1 million and are forecast to reach a new record this year. This forecast would be crushed if the licensing issue were not resolved for this company and several others who have been assisted by ATO Moscow.