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Wine

Imported wine and spirits restamping deadline to be extended

2006

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Report Highlights:

The wine and spirits market in Russia looked brighter at the end of 2006, as the Russian Government took steps to avoid a crisis. A deadline to restamp imported product passed Dec. 29, but should be extended by the Federal Customs Service to March 30 quickly after Russia's New Year holiday ends. As well, Russia's Ministry of Finance has taken steps to ensure that despite the deadline's lapse no alcohol set for restamping will be confiscated by the Tax Service. Conflicts in instructions for the restamping process must still be resolved. The market is functioning normally for newly imported products, at present, after last year's crisis and the Agricultural Trade Office (ATO) forecasts a pickup in most exported wine and spirits to Russia from the United States in 2007.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
Moscow ATO [RS4]
[RS]

2006 was a regulatory disaster for imported wine and spirits in Russia. The year started with a new Spirits Law that suspended imports for months and has increased bureaucracy and prices, adding instability to the market. 2007 looks more promising, as it appears the Russian Government is solving several problems with the new Spirits Law and its main implementing authority regarding restamping, issued by the Federal Customs Service, Resolution #398. See prior GAIN reports 5322, 6305, 6309, 6311, and 6319 for more. As reported in GAIN 6319, the market is at near normal operation today and the crisis at year's end is with the restamping of bottles imported under the old customs regime prior to March 31, 2006.

Thirty million imported bottles from all origins remain unstamped, as the deadline for restamping in Resolution #398 expires Dec. 29. Of those, 27 million stamps were issued by the Federal Customs Service, but were unable to be used by importers due to regulatory conflicts between the Spirits Law and Resolution #398. The problem with restamping is complicated, byzantine, and technical in nature, but a basic description of the conflict is as follows.

The Spirits Law allows only importers to restamp alcohol and they are not permitted to restamp product held by wholesalers and distributors. Most of the alcohol is located with wholesalers and distributors. Resolution #398 froze the movement of those bottles on July 1, 2006, (though its effective date was July 4, four days later). Importers had poor or conflicting information about what to do prior to Resolution #398. Importers were forced to move bottles across enormous geographic distances for restamping, though Russia is the world's largest nation. Domestic product had more time for moving bottles and faced no restamping deadline. Domestically produced products were successfully restamped under the new regime, a point confirmed by all sources -- government and private. The new Spirits Law is filled with many other legislative conflicts and problems.

The Russian Government, recognizing the problems with the restamping process, plans to extend the deadline for restamping from Dec. 29, 2006, to March 30, 2007. The decree extending the deadline is not expected until mid-January 2007. The fact that the deadline will be extended is well known and many officials have commented publicly that the extension should be out soon after Russia's New Year official holidays conclude Jan. 9. Russia closes annually for business the first week of January; newspapers will shut down. As well, the Embassy has confirmed that the Ministry of Finance issued instructions to the Federal Tax Service that it should not act to confiscate any imported, unstamped alcohol after Dec. 29. The main conflict in the restamping process must be quickly addressed, as described above, to give importers access to bottles for restamping or allow bottles to be moved. Simply extending the deadline will not resolve the crisis.

Other problems remain. The electronic information management system for stamping introduced with the new Spirits Law, UFAIS, continues to create problems. Its use as a tool for regulating the market was recently delayed to June 30, 2007, although it still must be used to print the new excise and customs stamp. The system was delayed in its introduction for imported products far after it was operational for domestic product and this delay contributed to July's market shutdown. As well, new legislation is out this month that will require a new health label on alcohol to be in place by February 1, 2007. Instructions on what should be contained on that label are not yet available from the Ministry of Health, with no hope for instructions until mid-January or even after the deadline. In 2007, the State Duma will likely take up the issue of reestablishing a monopoly on the production of alcohol. Importers and retailers alike are nervous further market disruptions may be in store for them from this effort.

American products trapped in legislative limbo include many name brand spirits and wines. Many U.S.-based multinationals have unstamped product in Russia from other, primarily European origins. Despite the regulatory setbacks, as reported earlier, the market is operating at normal levels and some companies even report sales for 2006 were up. Trade statistics indicate that U.S. exports of wines and spirits to Russia were down from \$12.7 million in 2005 to \$10.8 million in 2006 (Oct-Sept). U.S. exports are higher than indicated by official U.S. export statistics due to the practice of transshipment of product through Europe. The market for U.S. wine, whisky and bourbon in Russia, may double in 2007, provided no more serious delays or losses occur in the regulation of the market.

ATO extends its compliments to the Association for European Business in Russia. Its Alcoholic Beverages Committee is an effective information resource and lobbying group on the new Spirits Law. Most American companies offering wine and spirits in Russia can qualify for membership. Contact the AEB for more information on alcohol regulation in Russia. www.aebus.ru. As well, U.S. exporters may contact ATO by writing atomoscow@usda.gov.

On Dec. 28 Gazeta.ru reported the following. Unofficial translation follows.

Gazeta.ru
Dec. 28, 1241 hours

The Ministry of Finance Forbids Touching Unstamped Alcohol

The Russian Ministry of Finance sent to the Federal Tax Service clarifications concerning the exercise of sanctions against companies with imported alcohol with old excise stamps at warehouses after Dec. 29. 'The basic clarification is that tax inspectors may not take action against a company that has alcohol in warehouses for the purpose of restamping', said a source at the Ministry. In his words, the Ministry has ordered the extension of this term until March 30, 2007. 'We explained that if product is found with old stamps and if it is stored for the purpose of restamping, then no action is authorized', explained the source.

The issue is that imported alcohol prior to the 31 of March 2006, with old stamps, might be sold until July 1, 2006. For products left unsold up to that time the government allowed for the application of new stamps. Connected with this, such stamping had to occur before Dec. 29. Earlier it was announced that the Federal Customs Service had prepared a resolution of the government about extending the restamping deadline to March 30 next year.

New stamps have been authorized since January 1, 2006, and importers from the first of April were required to import product only with the new stamps."