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Wine

Market Brief

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Report Highlights:
Fueled by the stable economic growth over the last six years, Russia is one of the most rapidly growing wine markets in the world with an average 30 percent wine consumption increase per year. Although Russian consumers still drink a greater quantity of popular wine labels from CIS countries like Moldova, Georgia, and European wines from France, the popularity of New World wine is steadily growing. U.S. wine exporters to Russia have excellent prospects.

Chile and Argentina are the wine leaders among the other 'New World' countries in the Russian imports. In addition, French exporters this year are going to invest about one million euros in wine promotion to Russia, three times more than last year.

Includes PSD Changes: No
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Summary

With annual growth of almost 30 percent, the Russian wine market offers excellent opportunities for U.S. exporters. The rapid growth of wine sales is typical of the overall growth in the Russian food market, which is one of the fastest developing sectors of the Russian economy. The number of regular consumers of wine has increased by an average 10 percent each of the last four years.

According to 'GFK-Rus', a local market research company, the share of wine in the total volume of alcohol products in Russia was 6.2 percent in 2003, a 19 percent increase over 2002. Wine's share of alcohol products over the same period of time was 14.7 percent in value, compared to 12.3 percent in 2002. The share of wine from grapes (over 13 percent of alcohol, but less than 18 percent) reached 66 million deciliters, a 9 percent increase from 2002. The market share of Russian wine decreased from 48.5 to 42.6 percent while there is a slight increase of wine produced in the CIS countries from 44.3 to 45 percent. The share of imported wine increased twofold, from 2002 by 7.3 to 12.4 percent in 2003. Based on 'Academy Service', another local marketing agency, estimates the total imports of wine from grapes (over 13 percent of alcohol, but less than 18 percent) in 2003 reached $189.8 million in value (a 32 percent increase than in 2002) and $17.6 million deciliters in volume (a 41 percent increase).

Wine Imports by Categories

Type of Wine	Imports Volume in 2003	2003/2002	Leading Countries
15%-18%	500,700 decaliters	+80%	Moldova Chile
13%-15%	16.6 million decaliters	+40%	Moldova Georgia
Less than 13%	513,000 decaliters	+34%	France Germany

Source: 'Business Analytica'

Although the number of U.S. wine labels is steadily growing in the market, most Russian consumers are not aware of the variety, quality and value of wine produced in the United States. The following table shows various factors influencing the growth of wine consumption, in general, and the level of wine imports from the United States, in particular.

Advantages	Challenges
Six years of a growing economy	Still low average per capita income; price heavily influences on consumers' wine preferences
Increase of per capita income of the Russian population	Traditionally, Russians prefer strong alcoholic drinks to wine
Russians have become more health-conscious. As a result, they consume more high quality products, including more expensive and elite types of wine	Most Russians are not aware of wine quality & taste difference
Russian consumers are switching from vodka to more expensive and elite strong alcoholic drinks. At the same time, wine consumption is increasing by almost 30 percent per year.	Absence of the national distribution network

Advertising of wine consumption by the major wine players in Russia, including wine consultations for consumers in the large retail outlets and wine boutiques and special sessions for wine professionals	Strong presence of wine from the CIS and European countries in the Russian market.
Growth of special wine stores, primarily in the large Russian cities	Aggressive promotion of wines from Europe, France and Italy and the New World, Chile
Russia's vineyards in the Southern regions are insufficient to meet the growing demand for quality wine. Therefore, Russia depends heavily on imports of bottled wine and wine materials.	High profit margin in the retail outlets put inexpensive U.S. table wine into the higher premium category.
Russian importers want reforms to raise interest in wines (lift a ban on grape wine in press).	Love-hate relation to U.S. products on the part of the Russian consumers: recognition of U.S. high quality products versus GMO products
The Russian government taxes with a VAT domestically produced wines at rates equal to imported wines.	High import tariffs and lengthy inspection procedures

Production

Before 1985 the Russian wine market was dominated by domestic wines produced from locally grown grapes. However, during an "anti-alcohol campaign" in the mid-1980s, most local wineries were destroyed. As a result, domestic wine production fell by 80 percent and has still not recovered. In 2003, 327 wine companies were operating in Russia. They produced 36.5 million deciliters, a 9.7 percent increase than in 2002. Production of sparkling wine and champagne reached 8.8 million decaliters in 2003 versus 8.1 million decaliters in 2002. However, according to market experts, there is no high quality domestic wine.

In addition, with consumers continuing to switch from vodka to "softer" alcoholic beverages, wine consumption and imports are on the rise. This trend is expected to continue, particularly among younger, more affluent Russians.

Consumption

The total volume of the Russian wine market is estimated at 300 million liters a year, while the total volume of the alcohol market in Russia is $18 billion by value. Annual per capita alcohol consumption in Russia is 9 liters, with 4 liters of wine consumption. For comparison, the average per capita wine consumption in Europe is 26 liters.

Dynamic of Per Capita Alcohol Consumption in Russia: 2001-2003

2001	9.09 liters
2002	9.24 liters
2003	9.29 liters

Source: Business Analytica

For comparison, the average alcohol consumption in the Czech Republic, Slovenia and Slovakia is 13.3, 11.5 and 9.0 liters, respectively.

Dynamic of the Growth in Alcohol Consumption, by major categories

Cognac, tequila	+129 percent
Low alcoholic drinks	+93 percent
Beer	+88 percent
Wine	+28 percent
Vodka	+11 percent

Source: Business Analytica

Traditionally, Russia is a vodka drinking country with consumption of 220-250 million deciliters per year. However, over the last few years one can see the change of consumer preferences to low alcohol categories. At the same time, vodka production decreased by 3.3 percent in 2003. According to market experts, wine has the brightest prospects in the alcohol category. At the end of the 1990s, the demand for beer reached its maximum growth rate of 40 percent a year. At this point, beer consumption growth is slowing down and may even decrease to a 4-5 percent growth rate a year.

Market experts estimate a per capita wine consumption in Russia might reach 14-15 liters a year in the near future. It is important to note that Russian consumers in the large cities are potentially ready to purchase all wines presented in the stores, regardless of price. Even very expensive wines can find a buyer for a special occasion.

Share of Consumers' Spending by Category

Strong Alcohol	56 percent
Beer	31 percent
Wine	13 percent

Source: Business Analytica

Traditions of wine consumption in Russia are very specific and can be broken down into the following three categories:

- 40 percent of wine is purchased for a national or family holiday;
- 25 percent when meeting with friends; and
- 15 percent when eating out.

Red wine accounts for the largest share of wine consumption for all price categories in Russia.

Russians prefer table red wine (60 percent) to white wine (40 percent). According to 'GFK-Rus', consumption of wine in Russia by color in 2003 was as follows: 53.5 percent in volume for red wine, 33 percent for white wine, and 13.5 percent for rose wine.

Many low and medium quality wines from the CIS countries, particularly from Moldova, are the leaders in the local retail sales. These wines cost $2.0-$2.75/0.75 liter. The $4 price is critical for high volume lines in the Russian retail market. At the same time, there is a growing demand for medium segment wine ($5-10 per bottle). Russian consumers are ready to purchase expensive wine, but they are reluctant to spend considerable amounts of money for high quality wine. The best choice for consumers is wine of good quality for a reasonable price. Semi-dry wine remains the most popular type in the low- and medium segments of the market while dry wine is the most common purchase in the expensive or elite wine segments. However, consumer demand is steadily switching from semi-sweet and sweet types of wine to high quality dry and semi-dry wines. According to 'GFK-Rus', wine consumption by categories in 2003 was as follows: 6.4 percent for dry wine, about 54 percent for semi-sweet wine, and 28.4 percent for dessert wine.

There is no fluctuation in wine consumption by season. However, the sales volume of wine in Tetra packs and bag-in-boxes rises at the end of spring and in summer as this type of wine package is convenient for using outside the city.

Market Dynamics

Wines from Moldova, Georgia and Ukraine make up jointly over 60 percent of the imported wine consumption. Moldova is the market leader in Russia (almost 60 percent by volume) followed by France (15 percent) and Georgia and Bulgaria (five percent each). The share of wine from Moldova is going up by 20 percent per year.

However, the share of wines from the CIS countries is shrinking, the result of a market flooded with better-quality, lower-priced wine from other countries. For instance, the import of Chilean wines to Russia has increased tenfold over the last four years. At this point, Chile is a wine leader among the other 'New World' countries in the Russian imports. In addition, French exporters this year are going to invest about one million euros in their wine promotion to Russia, three times more than last year.

Distribution

Over 100 alcohol importers/distributors are operating in the Russian market today. Most wine importers are located in Moscow and St. Petersburg.

Moscow-based importers and wholesalers are the major wine suppliers to the local retail outlets. While supermarket/hypermarket chains currently account for only about 20 percent of total retail sales in Moscow and less than 10 percent for the country as a whole, these chains are expanding rapidly and must be considered prime targets for increasing sales of U.S. wine. Despite the rapid growth of supermarket chains, traditional outdoor markets still account for about 43 percent of total retail sales and also remain an important target for wine.

At this point, there are also more than 10 specialized wine boutique chains in Moscow, typically offering up to 500 different wines and spirits from all over the world. Some of these chains belong to the Russian importers.

The restaurant segment is also expanding quickly. Russian consumers are beginning to recognize the nutritional value of wine, and its consumption is growing in this market sector too. Although wine from France, Spain and Italy are now among the most popular in Russia, wine from 'New World', particularly from Chile, is becoming very popular too.

Market Access

Import Documentation

Imported wine with 9% percent alcohol and less is not a subject to an excise in Russia. This factor is valuable for an importer only as it makes a cost of wine less compared to the wine with higher percentage of alcohol. The wine with higher percentage of alcohol falls under the different customs codes. It is very important for the importer to indicate in customs documents the code that corresponds to the specific percentage of alcohol.

The Importer has to provide the customs office with the following documents:

- Product Certificate issued by the Russian relevant certification entity. This document (the notary copy is accepted) has to be submitted to the customs office when wine crosses the border. For getting the certificate, the Importer has to provide to the relevant service the following documents (the fax copies are accepted): Contract signed between the Exporter and Importer, Certificate of Origin, certificate of Quality, and Certificate of Analysis along with the wine samples (3 bottles per each name).
- Import license of the Importer;
- License of the customs warehouse (where wines are to be cleared);
- Excise stamps documents set; and
- Certificate of Origin, Certificate of Quality, and Certificate of Analysis

Labeling Requirements

For selling wine in Russia, each bottle of wine is required to have a back-label in Russian. It can be put on the bottles after customs clearance or before the shipment at the Exporter/Producer warehouse. In any case it is necessary to put labels before wine goes for selling. There is no requirement for design of the label. But there is a list of the strict requirements for the label contents, ie:

- Type of wine (natural, grape, table, dry, etc);
- Name of wine;
- Percentage of alcohol;
- Sugar content for wines that contain more than 2 g/liter;
- Name of wine producer and address;
- Name of importer and address;
- Name of distributor and address in case the importer does not sell wine directly;
- Certification sign that reconfirm that wine has a Russian certificate;
- Bar code (or EAN code);
- Date of bottling;
- Health warnings;
- Expiration date;
- Terms of storage; and
- Terms of consumption (serving temperature).

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Table 1. Wine Imports to Russia, 2204 - Wine of Fresh Grapes, in $ million

					% Share			% Change
Rank	**Country**	**2001**	**2002**	**2003**	**2001**	**2002**	**2003**	**03/02**
0	--The World--	280	286	374	100	100	100	31
1	Moldova	150	140	171	54	49	46	22
2	France	42	44	54	15	15	14	22
3	Georgia	26	27	33	9	9	9	26
4	Italy	10	14	19	4	5	5	40
5	Bulgaria	6	12	19	2	4	5	55
6	Argentina	2	3	16	1	1	4	364
7	Spain	7	11	16	3	4	4	46
8	Ukraine	13	9	14	5	3	4	49
9	Germany	4	6	8	1	2	2	35
10	Chile	3	5	7	1	2	2	48
11	Uzbekistan	4	4	3	1	1	1	-7
12	Hungary	2	3	3	1	1	1	-15
13	Country Unknown	1	1	2	0	0	0	48
14	United States	2	2	2	1	1	0	1
15	Cyprus	0	1	1	0	0	0	19
16	Australia	1	1	1	0	0	0	63
17	Portugal	0	1	1	0	0	0	75
18	Latvia	1	1	1	0	0	0	49
19	South Africa	0	1	1	0	0	0	18
20	Romania	1	0	1	0	0	0	32

Source: Customs Committee of Russia