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Russian Whiskey Market

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Report Highlights:

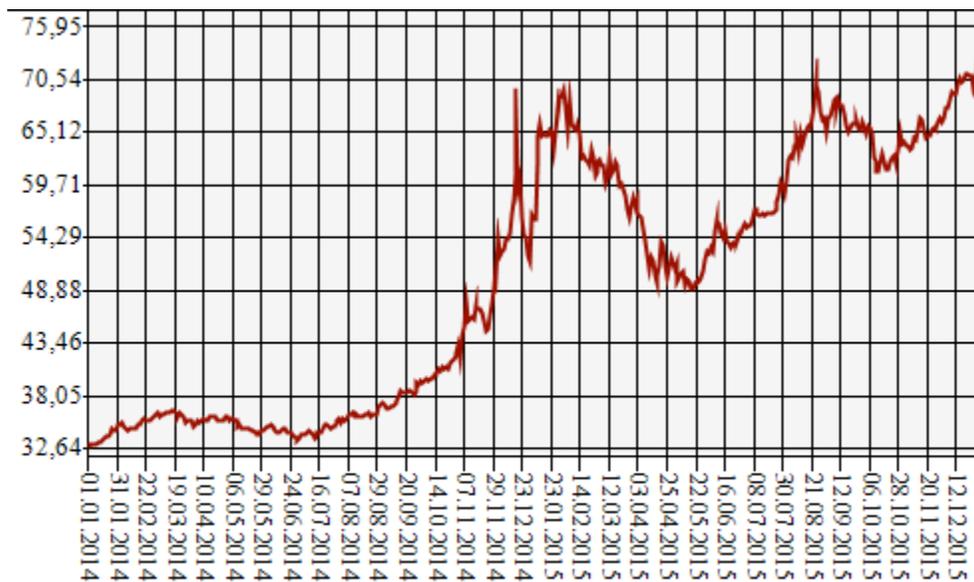
During the first 10 months of 2015, retail whiskey sales in Russia amounted to 41 million liters - 5 percent less than the same period in 2014. The whiskey segment has been negatively affected by the devaluation of the ruble, high excise taxes, falling consumer purchasing power, and a growth in illegal alcohol production. In calendar year 2015, Russia imported 15 million liters of whiskey valued at \$ 274 million – down 23 percent in volume and down 42 percent in value compared to 2014. A record \$85.7 million in bourbon and Tennessee whiskey was imported to Russia in 2013, due to strong marketing efforts in previous years and brand popularity. As soon as the economic slowdown changes to growth, Russian consumers will start to buy more American whiskey.

General Overview

Against the dollar, the ruble has lost over 50 percent of its value in the last two years. Additionally, at the end of 2014, the Russian economy slipped into recession, which was marked by a combination of several factors: significant limitation of capital inflows (investment, credits), import restrictions, falling oil prices, devaluation of the ruble and the decline in consumption, under the influence of a sustained contraction in real wages.

According to Russia's Federal State Statistics Service (Rosstat), Russia's headline consumer price index (CPI) totaled 12.9 percent in 2015, up from 11.4 percent in 2014 and its highest level since the financial crisis of 2008 when consumer prices rose by 13.3 percent. At the same time, the food products component of the headline CPI number decreased to 14 percent in 2015 from 15.4 percent in 2014. Consumer price inflation in Russia was spurred by the weakening of the ruble in the second half of 2015 stemming from the sliding oil price, which continued in January 2016. The official ruble rate hit a record low of 83.6 rubles per 1 USD on January 22, 2016.

Graph 1 Russia: Ruble Exchange Rate per U.S. Dollar, 2014 – 2015



Source: *Central Bank of the Russian Federation*

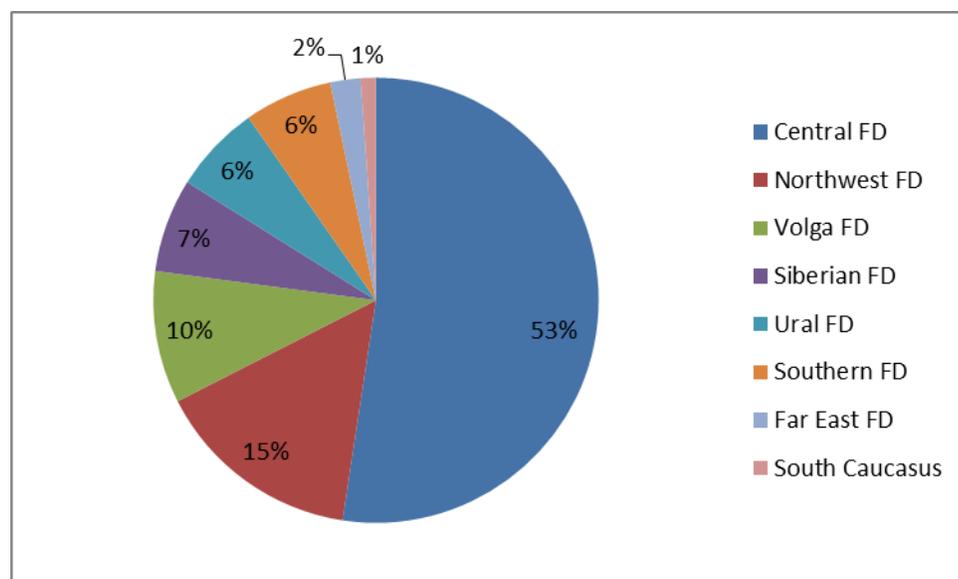
Russia's GDP fell by 3.7 percent in 2015. Recently, Russian President Vladimir Putin announced that Russia had passed the worst of the economic crisis in 2015. Russian Economic Development Minister Alexey Ulyukayev noted that the Russian economy emerged from the recession over six months ago and that the economy will start to grow in 2017.

Sales

According to Rosstat, retail whiskey sales in Russia decreased 5 percent from January–October 2015 while sales of vodka dropped 7 percent and cognac fell 6 percent. The weak ruble, high excise taxes, falling consumer purchasing power and a growth in illegal spirits production are the major factors

affecting the whiskey market. During the first 10 months of 2015, the volume of retail sales of whiskey in Russia amounted to 41 million liters - 5 percent less compared to the same period in 2014.

Graph 2. Russia: Whiskey Sales by Federal District in Liters, %



Source: Federal Service of State Statistics of Russia (Rosstat)

During the first 10 months of 2015, most federal districts in Russia saw a decline in whiskey sales in comparison to the same period in 2014. The falling value of the ruble and extreme currency fluctuations in 2014-2016 forced alcohol importers to increase their prices on numerous occasions over the last two years. Since September 2014, the price of imported alcohol has increased by 35-55 percent.

Table 1 Russia: Top Regions for Whiskey Sales, January-October 2014-2015, in thousand liters

Region	January-October 2014	January-October 2015	Changes, %	Changes, in thousand liters
Moscow	12,396	11,834	-4.5	-562
Moscow region	5,668	6,403	13	735
Saint Petersburg	3,226	3,818	18.4	592
Krasnodar kray	1,315	1,341	2	26
Tumen region	1,089	1,086	-0.3	-3
Sverdlovsk region	1,066	791	-25.8	-275
Rostov region	757	705	-6.9	-52
Chelyabinsk region	1,036	691	-33.3	-345
Krasnoyarsk kray	627	675	7.7	48
Leningrad region	872	638	-26.8	-234
Tatarstan	671	635	-5.4	-36
Samara region	638	601	-5.8	-37
Nizhegorodskaya region	827	573	-30.7	-254
Novosibirsk region	626	524	-16.3	-102

Source: Federal Service of State Statistics of Russia, I-Marketing

The regions with the highest retail whiskey sales during the first 10 months of 2015 were Moscow (11.8 million liters), the Moscow region (6.4 million liters), Saint Petersburg (3.8 million liters), Krasnodar Kray (1.341 million liters) and the Tyumen region (1.1 million liters).

According to <http://www.statista.com>, in 2014, per capita whiskey consumption constituted 0.2 liter per person placing Russia in 31st place in global annual per capita consumption.

Imports

The Russian whiskey market has seen growth in recent years until 2012, and was one of the most dynamic categories among alcoholic beverages. Whiskey imports fluctuated between 20-22 million liters per year from 2012-2014. On August 6, 2014, Russian President Vladimir Putin signed a decree banning a list of agricultural products from the United States, Canada, European Union, Australia, and Norway to retaliate for the implementation of economic sanctions against Russia due to actions in Ukraine. In September-December of 2014, large western companies increased imports of alcohol to Russia amid fears that the government could add imported alcohol to the sanctions list. As a result, importers held large stocks of whiskey going into 2015. In 2015, imports of whiskey fell by 5 million liters due to high inventories as well as the devaluation of the ruble and decreasing consumer purchasing power.

In 2015, Russia imported 15 million liters of whiskey valued \$274 million - down 23 percent in volume and down 42 percent in value in comparison to 2014. Almost three-fourths of whiskey imports (74.93 percent) and 64.19 percent in value was imported from the United Kingdom.

Table 2 Russia: Whiskey Imports in 2013-2015, in Volume and Value

Country	2013		2014		2015	
	USD	Quantity	USD	Quantity	USD	Quantity
World	537,786,658	19,458,011	471,376,199	19,549,711	274,009,706	15,076,034
United Kingdom	379,376,322	15,450,323	323,956,222	15,455,915	175,891,789	11,296,046
United States	85,699,771	1,859,027	77,615,002	1,833,394	57,551,557	1,658,081
Ireland	58,748,335	1,497,968	58,126,635	1,661,411	29,474,768	1,234,515
Canada	7,562,520	317,816	4,888,411	226,170	2,807,107	138,895

Source: *Federal Customs Service of Russia*

In 2013, Russian imports of American whiskey reached a record \$85.7 million. In 2015, the United States and Ireland maintained roughly a 20 percent market share of all whiskey imports with 11 percent and 8.2 percent in volume terms. The United States saw its whiskey exports fall to Russia by 9.56 percent in volume in 2015. American whiskey imports declined less between 2013 and 2015 than imports from the UK and Ireland.

Table 3 Russia: Whiskey Imports in 2013-2015, in Liters

Country	Quantity			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	19,458,011	19,549,711	15,076,034	100.00	100.00	100.00	- 22.88
United Kingdom	15,450,323	15,455,915	11,296,046	79.40	79.06	74.93	- 26.91
United States	1,859,027	1,833,394	1,658,081	9.55	9.38	11.00	- 9.56
Ireland	1,497,968	1,661,411	1,234,515	7.70	8.50	8.19	- 25.69

Source: *Federal Customs Service of Russia*

From 2013-2015, the vast majority of whiskey imports came from the United Kingdom or, to be more precise, from Scotland, as well as from the United States and Ireland. These 3 countries supplied roughly 94 percent in volume and 96 percent in value of all whiskey imports in 2015. The United States increased its market share in Russia to 21 percent in value, worth \$58 million.

Table 4 Russia: Whiskey Imports in 2013-2015, in US Dollars

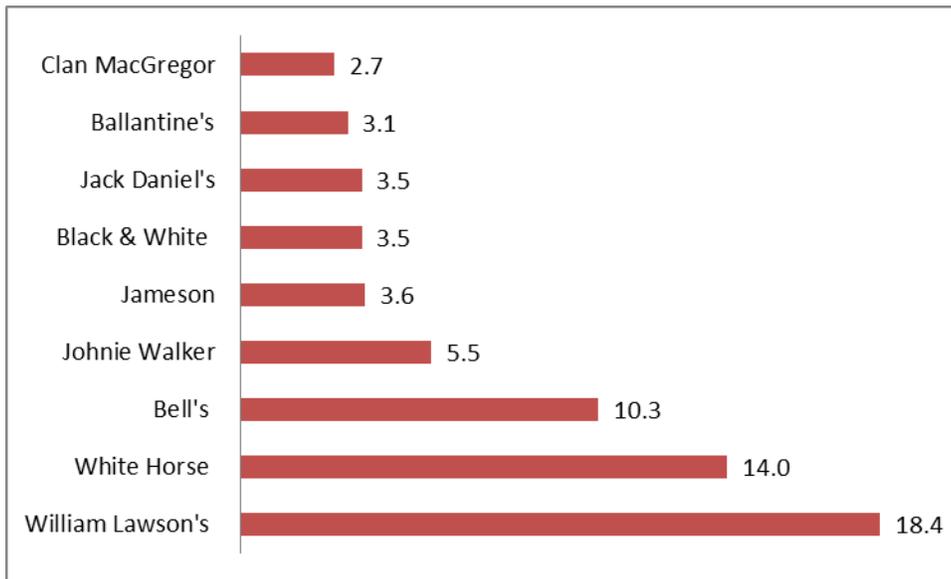
Country	United States Dollars			% Share			% Change
	2013	2014	2015	2013	2014	2015	2015/2014
World	537,786,658	471,376,199	274,009,706	100.00	100.00	100.00	- 41.87
United Kingdom	379,376,322	323,956,222	175,891,789	70.54	68.73	64.19	- 45.71
United States	85,699,771	77,615,002	57,551,557	15.94	16.47	21.00	- 25.85
Ireland	58,748,335	58,126,635	29,474,768	10.92	12.33	10.76	- 49.29
Canada	7,562,520	4,888,411	2,807,107	1.41	1.04	1.02	- 42.58

Source: *Federal Customs Service of Russia*

Key Whiskey Market Players and Brands

Currently the major whiskey players in Russia are multinational distilled spirits companies. In 2015, Diageo (Johnnie Walker, White Horse, Black & White) came in first place having shipped 10.5 million liters. Bacardi came in second place (William Lawson's, Dewar's) with 6.1 million liters while Pernod Ricard came in third place (Jameson, Ballantines, Chivas Regal) shipping 5 million liters. Brown-Forman Rus and Maxxium Russia are the major suppliers of American whiskey brands.

Graph 3. Russia: Share of Whiskey Brands in Volume Terms in %, 2015



Source: *Nielsen Russia*

Scotch whiskey is the leader in terms of import volume and diversity of brands. One of the largest and most famous whiskey brands in Russia is Jack Daniel's Tennessee whiskey. Other well-known U.S. whiskey brands sold today in Russia are Jim Beam and Maker's Mark from Kentucky.

Table 5 Russia: American Whiskey Brands, 2016

Importer	Brands	Internet
Brown-Forman Rus	Jack Daniel's Gentleman Jack Woodford Reserve Jack Daniel's Sinatra Select Jack Daniel's Single Barrel	www.brown-forman.com
Maxxium Russia	Jim Beam Bourbon Jim Beam Apple Maker's Mark Knob Creek Jim Beam Signature Craft (12 years)	www.maxxium.com
Black Watch Spirits	1776 Rye (5 years) Smooth Ambler Bourbon (7 years) Slow Hand organic whiskey	Facebook Black Watch Spirits
Campari Rus	Wild Turkey	www.camparigroup.com
Simple Co.	Bourbon Blanton's	www.simplewine.ru
Fort	Corner Creek Bourbon	www.fortwine.ru
Rusimport	Heaven Hill	www.rusimport.ru

Source: *Market Data*

The popularity of craft whiskey in Russia has grown in recent years. In 2015, Black Watch Spirits began importing craft whiskey from Kentucky, West Virginia and California – one of the first to introduce craft whiskey to the Russian market. Currently Black Watch Spirits is the leader in this segment, and is getting offers from other American craft whiskey distilleries. Major Russian wine importers (that also purchase California wines) have also started to include U.S. craft whiskeys in their portfolios.

Production

Production of all grain spirits in Russia, including whiskey, became legal recently due to a change in Russian regulations that came into force in July 2015. As a result, Russian company Soyuzplodoimport, manufacturer of Stolichnaya vodka, announced shortly thereafter plans to produce whiskey made entirely of Russian ingredients under the Stoli brand. Priced at between 600 - 650 rubles (\$9.5–10.2) per 0.75 liter bottle, the Stoli whiskey will likely reduce overall whiskey imports to Russia due to more affordable prices compared to foreign brands. Eastern European Distribution Company has organized the production and sale of Stoli which will appear on store shelves not earlier than in 2019. The delay is the result of Russian standards requirements that whiskey be aged in oak barrels for at least three years.

The largest Russian producer of cognac “Alliance-1892” located in Kaliningrad will soon build Russia's first whiskey distillery. The distillery, with planned capacity of 5 million liters per year, is expected to be operational in 2018. Once the project is completed, Russian whiskey may appear in the market by 2021. According to the information of distillery’s General Director, the new product will fulfill up to 35 percent of Russia's demand for the beverage and whiskey also will be exported to India, China, Africa, and Latin America. Investments in the new distillery will total \$14.6 million.

Russian alcohol importers have tried to adjust their business models to local economic conditions. Recently, Bacardi Distilled Spirits Company signed a contract to bottle Scotch whiskey William Lawson's with Russian company “Synergy”, one of the largest Russian vodka producers. The bottling of this whiskey began in April 2016 in the Moscow region which is expected to reduce the risk caused by ruble currency fluctuations. William Lawson's brand was the leader in the whiskey category in Russia in 2015. Over the past two years, Bacardi raised the price of William Lawson's whiskey by 25-30 percent – resulting from the weak ruble. In 2015, the average cost of a half-liter bottle of this whiskey in retail amounted to 700 rubles. According to the contract Synergy will produce 10 million liters whiskey for Bacardi within one and half years. This is the first example of a global alcohol brand moving production to Russia.

Excise Taxes

Excise tax rates for alcoholic beverages in Russia had increased steadily and significantly from 2011-2014. Overall excise taxes for spirits more than doubled in this period. As a result, the prevalence of illegal vodka in the Russian market grew, according to industry experts. According to their calculations, illegal alcohol accounted for more than 60 percent of all hard alcohol sold in Russia in 2014. In 2014, domestic vodka production declined by 22.3 percent reaching only 66.6 million deciliters – the lowest level in modern Russian history, and alcohol excise taxes brought in only 299 billion rubles to the Russian government coffers. In an effort to increase legal alcohol production, the Russian government decided to freeze excise taxes in 2015, but, according to market players, such action did not really help because of high profitability of illegal alcohol business. The share of legally produced, imported and

sold alcohol in Russia was estimated at only 40 percent in 2015, same as in 2014. As a result the federal budget lost roughly 270 billion rubles in 2015.

Table 6 Russia: Excise Tax Rates, 2011-2016, in Russian Rubles*

	2011	2012 Jan - June	2012 July-Dec	2013	2014	2015	2016
Spirits of more than 9 percent ethyl alcohol	231	254	300	400	500	500	500
Growth Year on Year, %		10	18	33	25	0	0
Average exchange rate per \$1	29.35	31.07		31.82	37.97	60.66	
Inflation, %	6.1	6.6		6.5	11.4	12.9	

Source: *Tax Code of Russian Federation*

*Excise tax rates in rubles per 1 liter of anhydrous ethyl alcohol contained in the alcohol product, excluding wine, beer, sparkling wine, wine beverages, and beer beverages

According to Rosstat, the number of detected offenses related to the illegal turnover of products containing alcohol, including fake excise stamps, increased from 1,091 cases in 2012, 2,149 cases in 2014 and 1,663 cases during the first half year of 2015. The main reason for the increase of these offences is high profitability. In case of using fake stamps, the budget loses and the dishonest supplier receives at least 100 rubles only on unpaid taxes from one half-liter bottle of hard liquor of 40 percent alcohol by volume. (Typical vodka contains about 40 percent abv.) Sales of illegal vodka and counterfeit alcohol is not only tax issue, it is also health issue. In 2014, a wave of deaths from alcohol poisoning was reported by mass media and official statistics totaling 18,500 (9 percent more than in 2013).

Due to growth of illegal vodka production and counterfeit alcohol in the market, the Russian government froze excise taxes on spirits at 500 rubles per liter of anhydrous alcohol for 2016 – the same level as in 2014-2015. In addition, the Russian government gave the Ministry of Finance responsibility for alcohol tax collection as of January 2016. Revenues from alcohol excise taxes will increase by 10 percent in 2016, according to Minister of Finance Anton Siluanov. Recently, the Presidential Commissioner for the Protection of the Rights of Entrepreneurs Boris Titov proposed a reduction in the rate of excise duties for spirits producers of at least 30 percent.

According to the experts of the company “I-Marketing”, the difference between retail sales and imports is attributed to carry-over stock, of illegal sales of whiskey in official statistics (for example, grey imports from Poland) and counterfeit products. Most experts believe that the volume of real whiskey consumption (counterfeit being taken into account) is higher than official data with the share of illegal whiskey estimated at around 30-40 percent.

Market Regulations

Federal Law No. 171-FZ of November 22, 1995 “On State Regulation of The Production and Handling of Ethyl Alcohol, Spirits, and Products Containing Alcohol” established legislative groundwork for the production and handling of ethyl alcohol, alcohol products, including production and handling of beer.

The Russian alcohol sector is regulated and controlled by the Federal Service for Regulation of the Alcohol Market (known as Rosalcoholregulirovaniye or FSRAM). In January 2016 Russian President

Vladimir Putin transferred supervision of the Federal Customs Service (FCS) and the Federal Service on Regulation of Alcohol Market to the Ministry of Finance. Previously, FCS and FSRAM reported directly to the Russian Government. According to Presidential order <http://kremlin.ru/acts/news/51175>, the Ministry of Finance was given responsibility of formulating and implementing State policy and legal regulations in the sphere of production and circulation of ethyl alcohol, alcohol and alcohol-containing products. The goal of such transformational change is to increase the effectiveness of administration and tax collection.

Mandatory Notification

According to Russian government resolution # 474 of June 5, 2013, “On Submission of Notifications About the Beginning of Turnover (sale) of Alcoholic Products on the Territory of the Russian Federation,” the Federal Service for Regulation of the Alcohol Market has maintained additional procedures establishing a notification requirement for both existing and new-to-market alcoholic beverages to be sold in the Russian market. Mandatory notification requirements took effect on October 1, 2013. For more details, please see GAIN report

[RSATO 1308 Russia Announces New Resolution on Alcoholic Beverages](#)

Product Registration

Russia continues policy integration with Armenia, Belarus, Kyrgyzstan and Kazakhstan via the Eurasian Economic Union (EAEU), which replaced the Customs Union (CU) on January 1, 2015. Prior to shipping to Russia, importers must register their products that are subject to sanitary-epidemiological control that will ship to the Eurasian Economic Union (EAEU) for the first time. CU Commission Decision # 299, dated May 28, 2010 established a list of products subject to State registration, which includes alcoholic beverages and beer. The Federal Service for Protection of Consumer Rights and Human Well-Being (Rosпотребнадзор) handles such registration for Russia.

The list of products, the procedure, and the standard form of state registration can be found at:

<http://www.eurasiancommission.org/ru/act/txnreg/depsanmer/regulation/Pages/Санитарные-меры.aspx>

Declaration of Conformity

Pursuant to Russian government Resolution # 982, dated December 1, 2009, Russia replaced the system of mandatory certification of conformity of major consumer goods, including imported alcohol with a system of declaration of conformity. For details, please see GAIN report [RS1015 Declaration of Conformity Replaced Certification for Many Products](#)

Mandatory Information on Alcohol Turnover to UFAIS

According to amendments to Federal Law # 171 on “State Regulation of Production and Turnover of Alcoholic Beverages”, distributors/wholesalers must provide information on alcohol turnover to Unified Federal Automated Information System (UFAIS) as of January 1, 2016. Retailers in urban Russia will be connected to UFAIS from July 1, 2016 and then retailers in rural areas from July 1, 2017. UFAIS is used for State control over production and distribution of alcohol drinks in order to fight with sales of unaccounted and fraudulent products. The requirement to record information in UFAIS applies to companies dealing with procurement, storage, supplies and retail trade in wines and spirits and alcohol-containing products.

Russia’s national standards (GOST)

Russia had set standards and regulations for the production of vodka, brandy and cognac many years ago, but only from July 2015 Russian standard GOST R 55799-2013 “Grain Distillate. Specification” had legalized production of alcoholic beverages distilled from grains, including whiskey. Text of the standard can be found at: <http://protect.gost.ru/document.aspx?control=7&id=185267>

Russian national standard GOST 33281-2015 “Whiskey. Specification.” will take effect from January 1, 2017. The text of this standard can be found at:
<http://protect.gost.ru/document.aspx?control=7&id=201265>