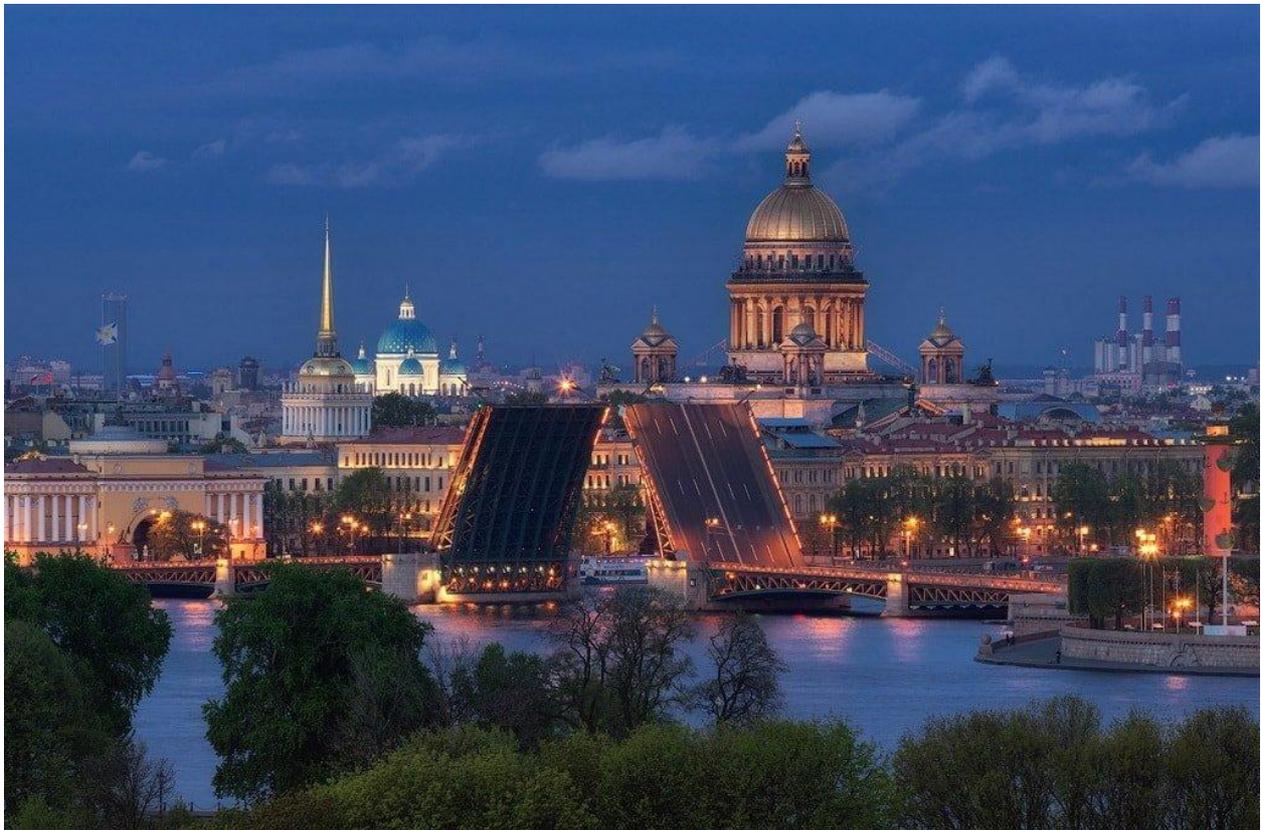


Written by Leonid Fadeev

4 July 2020



The Russian Wine Industry from A to Z (2020)

INTRODUCTION

Winemaking and wine itself have always played and will always play an important role in the life of Russia, a country with a centuries-old history of winemaking, which has, of course, had its ups and downs. It is believed that winemaking already existed during the time of Ancient Greece, in particular on the Crimean Peninsula and the Taman Peninsula. Wine was always an integral part of imperial receptions and balls. The rapid development of the viticulture and wine industries began during the USSR, but Mikhail

Gorbachev's anti-alcohol campaign seriously undermined the industry. It was only in the 2000s, with the influx of new investments, as well as the involvement of foreign specialists and young Russian winemakers, that a new stage of development began. The quality of wines produced in Russia is improving each year, while the country's consumption is also rising.

This analytical paper presents the current state of affairs in the Russian wine industry. The concept of "wine industry" includes viticulture, winemaking, the wine market and the wine business.

VITICULTURE

Total vineyard area in Russia

According to the Federal State Statistics Service of Russia (hereinafter referred to as Rosstat), in 2019 the vineyard area of all categories of estates amounted to 95,900 hectares.

Main regions for grape cultivation in Russia

The climate in the southern regions of Russia is favourable for the cultivation of wine grapes.

The Krasnodar region is the largest Russian region by vineyard area. As of 1 January 2020, according to the Department of Viticulture and Wine Industry of the Ministry of Agriculture and Processing Industry of the Krasnodar region, the vineyard area in the region amounted to 27,520 hectares, of



which 20,600 hectares was of fruiting age and 4,500 hectares planted to table varieties. More than 70 specialised companies and about 150 small business enterprises are engaged in viticulture in the Krasnodar region.

The main regions of grape cultivation in Russia also include:

- Crimea (Republic of Crimea and Sevastopol)
- Republic of Dagestan
- Stavropol region
- Rostov region
- Kabardino-Balkarian Republic
- Volgograd region

Main grape varieties cultivated in Russia

Both indigenous and international grape varieties are cultivated in Russia. According to [the Russian Wines Competition 2020](#) statistics, the following are the most popular international grape varieties: white varieties - [Aligoté](#), [Chardonnay](#), [the Muscat family](#), [Pinot Blanc](#), [Riesling](#) and [Sauvignon Blanc](#); black varieties - [Cabernet Sauvignon](#), [Merlot](#) and [Pinot Noir](#).

The most popular indigenous varieties include: white varieties - [Kokur Belyy](#), [Rkatsiteli](#), [Sary Pandas](#) and [Sibirkovyy](#); black varieties - [Bastardo](#), [Magarachskiy](#), [Golubok](#), [Kefesiya](#), [Krasnostop Zolotovskiy](#), [Saperavi](#) and [Tsimlyanskiy Chernyy](#).

Gross grape harvest in Russia



According to Rosstat, the gross grape harvest in 2019 amounted to 678,000 tons.

Viticulture development in Russia

The development of viticulture in Russia is actively supported by the government. Thus, according to the Department of Viticulture and Wine Industry of the Ministry of Agriculture and Processing Industry of the Krasnodar region, just under 1.04 billion RUB (€12,916,926) were allocated for this in 2019, including 325.7 million RUB (€4,056,545) from the regional and 711.4 million RUB (€8,860,381) from the federal budget. The support funds were distributed as follows: 937.1 million RUB (€11,671,441) for laying vineyards, installing trellising and vineyard work, and 100 million RUB (€1,245,485) for developing nurseries and installing drip irrigation.

Training for the viticulture industry in Russia

The two leading educational institutions training personnel for the viticulture industry in Russia are the Kuban State Agrarian University, one of the recognised leaders in higher agricultural education in Russia and the largest centre of science, education and innovation in the Southern Federal District, and the Russian State Agrarian University, the Moscow Timiryazev Agricultural Academy, which has trained over 200,000 specialists over the last 150 years.



WINEMAKING

Main Russian wine regions

The Krasnodar region is the largest producer of still and sparkling wine in Russia. In 2019, it produced 43% of Russian still wine and 36% of sparkling wine (according to the Department of Viticulture and Wine Industry of the Ministry of Agriculture and Processing Industry of the Krasnodar region).

The main Russian wine regions also include:

- Crimea (Republic of Crimea and Sevastopol)
- Republic of Dagestan
- Stavropol region
- Rostov region
- Volgograd region
- St Petersburg (comprising only CJSC Igristye Vina, one of the largest wineries in Russia, which produces wine from imported bulk wine)

Number of wineries in Russia

A study of Russian wines sold in retail outlets was conducted in preparation for [the Russian Wines Competition 2020](#). Based on this, it can be argued that Russia currently has about 70 wineries with commercially available wines that are popular with wine lovers.

Volume of wine production in Russia



According to the Federal Service for Alcohol Market Regulation (hereinafter referred to as Rosalkogolregulirovanie), 328 million litres of still wines and 132 million litres of sparkling wines were produced in Russia in 2019, 8% and 6% more than in 2018, respectively, and the first growth in four years.

Statistics gathered by [the Russian Wines Competition 2020](#) show that Russia produces more still red than white wine, 58% and 42%, respectively.

The largest wine producers in Russia in terms of revenue include the following:

- Ariant Group (LLC Kuban-Vino, Krasnodar region; LLC CPI-ARIANT, Chelyabinsk region)
- CJSC Abrau-Durso (Krasnodar region)
- Igristye Vina Group (CJSC Igristye Vina, St Petersburg; CJSC Rosinka - sparkling and brandy plant, Samara region)
- PJSC Fanagoria (Krasnodar region)
- FSUE PJSC Massandra (Republic of Crimea)

Garage winemaking in Russia

So-called “garage winemaking” is quite common in Russia. *Garagists* (individuals) buy small consignments of grapes from vinegrowers and produce wine at home in small volumes.

Given the tightening of control over the illegal production and sale of alcohol and wine in Russia, many *garagists* have established their own small vineyards, received the status of farmers and the corresponding licences,



and now work absolutely legally.

Training for the wine industry in Russia

The leading educational institutions that train personnel for the winemaking industry in Russia are the Kuban State Technological University, founded in 1918 and rightfully considered the leading university in Russia in this discipline, and the Moscow State University of Food Production, which has been a leading educational and scientific institution in Russia for the last 90 years and a recognised forge of highly qualified personnel in the field of food production technologies.

WINE MARKET

Legal age for purchasing and consuming alcohol in Russia

Russia permits the sale of alcoholic beverages in retail outlets and through catering services to persons aged 18 years and above.

Wine consumption in Russia

According to the World Health Organisation (WHO) report for 2018, the amount of alcohol consumed per capita in the world has not decreased since 2010. Worldwide, wine is the 3rd most popular beverage (11.7%) following strong alcoholic drinks (44.8%) and beer (34.3%).

According to the International Organisation of Vine and Wine (OIV), wine



consumption in Russia increased by 7.7% from 2014 to 2018. Consumption of wine in Russia stood at 1.19 billion litres in 2018.

According to the Deloitte Research Centre report “Consumption in Russia - 2019”, (hereinafter referred to as the “Consumption in Russia - 2019” report), the most popular alcoholic drinks among Russians are beer (63%), still wine (59 %), cognac (45%), sparkling wine (41%) and vodka (36%).

Hence, we can conclude that there is clearly significant demand for wine in Russia and this is also growing.

Wine consumers in Russia

The Deloitte Research Centre found that, on average, 82% of Russians of legal drinking age purchase alcohol. Typical buyers of alcoholic beverages are male, 26–45 years old, employed, with at least average financial standing. Respondents under the age of 35 are more likely to prefer still wine, while those over 60 are more interested in strong alcoholic drinks.

Moreover, as income rises, the likelihood of Russians purchasing alcoholic beverages increases, from 74% (among low-income Russians) to 90% (among high-income Russians). High-income respondents indicate both a much higher frequency of purchase (6.5 times a month) and higher average single purchase price (about 1,200 RUB (€14.95), which is 1.5 times more than the national average). When purchasing alcoholic beverages, residents of Moscow and St Petersburg spend more than 1,000 RUB (€12.45) per alcoholic beverage purchase on average.



About 18% of Russians do not purchase alcoholic beverages at all, while 82% purchase them in traditional stores. The average purchase price is 800 RUB (€9.96). Residents of cities with more than one million inhabitants (for example, Moscow and St Petersburg) spend more on purchases than residents of smaller cities, due to different standards of living. As a rule, Russians are keen to save money on alcoholic products (74%). Men buy alcohol more frequently than women (6 times a month versus 4) and spend almost 20% more per purchase.

Most Russians (93%), especially women, people aged 18 to 35 and those with higher education, are positive about discounts, including on alcohol products.

Consumer preferences for wine in Russia

According to the “Consumption in Russia - 2019” report, men prefer beer and strong alcoholic drinks, while women prefer still and sparkling wines. However, wine generally ranks 2nd in popularity (“buyability”) after beer, especially in Moscow and St Petersburg.

When choosing sparkling wine, 53% of Russians prefer domestic products, while 34% prefer foreign wines. In the case of still wine, 32% of Russians prefer Russian wines, while 52% prefer foreign.

When buying still and sparkling wine, residents of Russian winemaking regions, as well as the South and North Caucasus Federal Districts, are much more likely than the national average to prefer Russian-made products.



However, those aged between 18 and 25 prefer foreign sparkling wines. Moscow and St Petersburg residents show a greater preference than the national average for foreign still and sparkling wines. Differences in financial standing have little influence on the choice of Russian or foreign products. Those Russians who choose foreign still and sparkling wines prefer European producers.

Alcoholic beverages are popular purchases during sales promotions - 3rd most popular after food, household chemicals and household appliances.

Cost is generally the decisive factor for consumers when choosing wine. According to [the Russian Wines Competition 2020](#) statistics, the retail shelf price of Russian wines per 750 ml bottle varies from 180 RUB (€2.24) for APK Gelendzhik, Riesling to 6,500 RUB (€80.95) for LLC Lefkadia, The bachelor collection Shiraz 2011. However, the high cost of wine does not always guarantee high quality, and vice versa.

Wine supply in Russia

The volume of wine on sale in the country is the sum of the stock balances of wines at the beginning of the year, wines that were produced domestically and those imported into Russia during the year.

According to the analytical agency BusinessStat report “Analysis of the wine market in Russia in 2015–2019, assessment of the effect of coronavirus and forecast for 2020–2024”, the volume of wine supply on the Russian market decreased by 3.2% from 2015 to 2019, i.e. from around 1.2 billion to just over



1.16 billion litres. This indicator decreased annually from 2015 to 2018 in comparison with previous years. This reduction in the country's wine supply was mostly due to the decline in Russian production. In the above years, output fell by 23.2%, from 800.4 million litres in 2015 to 614.4 million litres in 2018. By volume, Russian wine production in 2015–2018 decreased by 186 million litres, while the supply volume fell by 108.1 million litres.

In 2019, the supply increased by 6.4%, or 69.5 million litres, thanks to a growth in imports (by 46.7 million litres) and domestic production (by 38.4 million litres). However, stocks decreased by 15.5 million litres.

As expected, in 2020, the wine supply in Russia will decline by 8.4% compared to the previous year. A reduction in supply will follow a drop in demand, prompted by the country's economic crisis and exacerbated by the coronavirus pandemic. In 2020, the wine supply in Russia will drop due to decreases in both domestic production and import.

A recovery in the country's wine supply is forecast in 2021–2024, with increases in both domestic production and import contributing to this. By 2024, wine supply may amount to about 1.15 litres.

Wine sales in Russia

According to BusinessStat, the largest provider of off-the-shelf reviews of industrial and consumer markets in Russia and the CIS countries, the volume of wine sales in Russia shrank in 2015–2018, with the rate of decline ranging from -0.9% to -5.4%. The fall in sales during this period is related directly to



the regular price increases. Prices had been rising following constant increases in excise duties, more expensive imported raw materials, components, etc. In addition, amid falling real incomes, consumers sought to save money, therefore, they reduced their wine purchases. Thus, in 2015–2018, wine sales in Russia decreased by 9.1%, or 92.3 million litres. However, this information contradicts the OIV data on the growth of wine consumption in Russia.

In 2019, for the first time in a five-year period, wine sales by volume increased by 4.4%, or 40.9 million litres, compared to 2018. The main reason is the Russians' adaptation to the economic situation and the first recorded growth in real incomes in Russia since 2013.

Still wines boast the highest sales by volume in the Russian wine market. In 2019, their share of total sales amounted to 76.3%, or 734.1 million litres, followed by sparkling and carbonated wines with a share of 21.9%, or 210.5 million litres. Accordingly, the share of sales of special (fortified) wines in Russia in the same year amounted to 1.8%, or 17.7 million litres.

In 2020, wine sales in Russia are expected to fall by 10.1% compared to 2019. The main reason is the decline in real incomes due to the economic crisis. During the COVID-19 coronavirus pandemic, the drop in demand for wines from the on-trade will contribute significantly to reduced sales, as this was almost zero during the quarantine period.

BusinesStat predicts a recovery in wine sales in Russia in 2021–2024, at a rate of 4.6–4.9% per year. However, 2015 sales volumes will not be



achieved. The forecast for the five-year period indicate that not only will the country's population fall, but also its real income, thus slowing down sales growth. Sales will reach 970 million litres by 2024, thus 4.3% below the 2015 level.

Wine distribution channels to consumers in Russia

The Russian wine market is divided into two sectors by its sales channels to the consumer – the on-trade and the off-trade. The off-trade, or retail sector, sells the finished product to the final consumer, without processing it into other products or dishes, while the on-trade (hotels, restaurants, bars, etc) sells both finished products and processed products - in the form of cocktails and drinks based on sparkling and still wines.

Concerning sales structure, both in terms of volume and value, the off-trade prevails in Russia, due to the characteristics of its consumption culture and Russians' income level. Wine is often drunk at home in Russia, rather than in public places such as restaurants, bars and cafes.

The “Consumption in Russia - 2019” report shows that, when purchasing alcohol, Russians place the highest trust in Duty Free shops followed by specialist alcohol stores. Moreover, Russians are extremely concerned about counterfeit alcohol products when making purchases in traditional stores.

Russians generally buy alcohol in the same stores (55% of respondents), especially in cities with populations of less than one million.



Moscow, Moscow region and St Petersburg are the most important regions for retail sales by volume.

The top ten Russian regions with the largest retail sales of wines by value and volume include:

- Moscow
- Moscow region
- St Petersburg
- Krasnodar region
- Sverdlovsk region
- Nizhny Novgorod region
- Tyumen region
- Rostov region
- Samara region
- Chelyabinsk region

Shelf price segments for wine in Russian stores

Wines sold in Russian stores can be categorised into the following price segments (in-store shelf price):

- inexpensive wines (mass market) - up to 500 RUB (up to €6)
- medium - from 500 to 1,000 RUB (€7-12)
- premium - from 1,000 to 2,000 RUB (€13-25)
- super-premium - over 2,000 RUB (over €25)



Based on the range of wines sold in retail outlets, **the Russian Wines Competition 2020** statistics show that Russian wines are best represented in the medium segment, which accounts for 31.1% of the market, followed by mass market wines, at around 28.6%, and then premium wines, at about 26.6%. Hence, super-premium wines account for 13.7%. It should be noted that consumers distrust Russian wines in the premium and super-premium segments and typically prefer foreign alternatives.

In general, competition between Russian and foreign wines is particularly great for retail sales of inexpensive wine (mass-market) and medium segments.

The premium and super-premium segments are dominated by foreign producers, since the domestic production of such wines is negligible. The price and demand for this category remain stable due to the target audience's purchasing power (especially in Moscow, Moscow region, St Petersburg and Krasnodar region) and their reluctance to change their habits and priorities.

The following characteristic tendency of the Russian wine market should also be noted: the more prices rise, the more differentiated the demand becomes, namely, Russians buy either inexpensive or super-premium wines.

WINE BUSINESS

Regulation of the wine industry in Russia



The wine industry in Russia is regulated by the following main legislative acts:

- Federal Law No. 171 of 22 November 1995 “On the state regulation of production and turnover of ethyl alcohol, alcoholic and alcohol-containing products and on the restriction of consumption (drinking) of alcoholic products”. This law regulates the production and circulation of ethyl alcohol, alcoholic and alcohol-containing products, and the consumption (drinking) of alcoholic products, determines the types of activities subject to licensing in this area and also establishes the procedure for issuing licences.
- Federal Law No. 468 of 27 December 2019 “On viticulture and winemaking in the Russian Federation” entered into force on 26 June 2020. This law regulates the relationships arising between organisations, agricultural consumer cooperatives, peasant farms, individuals, state authorities of the Russian Federation, state authorities of the constituent entities of the Russian Federation and local authorities in the field of viticulture and winemaking. The federal law establishes the legal, organisational, technological and economic foundations for the production, turnover and consumption of viticulture and winemaking products; creates the forms, conditions and procedure for the implementation of state support for viticulture and winemaking; lays down the powers of state authorities and local authorities relating to viticulture and winemaking; and regulates the legal status of subjects of viticulture and winemaking in the implementation of activities relating to viticulture and winemaking. The federal law defines special support measures for producers making wine from grapes grown in Russia



while also limiting the use of imported bulk wine and mixing it with wine produced in Russia. In accordance with the new law, “wine of Russia” only refers to wine produced 100% from grapes grown in Russia.

EGAIS / RAR

All players in the alcohol market in Russia must be connected to the Unified State Automated Information System of accounting of production volume and turnover of ethyl alcohol, alcoholic and alcohol-containing products (EGAIS). In fact, EGAIS enables the state to control the production and movement of all alcohol within the country. Information about each bottle of wine sold in Russia goes to EGAIS. Rosalkogolregulirovanie (RAR) is authorised to operate EGAIS. RAR is a federal executive body that exercises control over the production and circulation of ethyl alcohol, alcoholic and alcohol-containing products, oversees and provides services in this area, and also issues the appropriate licences.

Licensing

In accordance with Art. 18 of Federal Law No. 171 “On the state regulation of production and turnover of ethyl alcohol, alcoholic and alcohol-containing products and on the restriction of consumption (drinking) of alcoholic products”, licences are issued for the following activities in Russia:

- production, storage and supply of produced alcoholic and alcohol-containing food products
- storage of ethyl alcohol, alcoholic and alcohol-containing food products



- purchase, storage and supply of alcoholic and alcohol-containing products
- retail sales of alcoholic beverages
- production, storage, supply and retail sales of winemaking products made by agricultural producers

Pursuant to Art. 333.33 of the Tax Code of the Russian Federation, the following duties must be paid when obtaining the appropriate licence:

- licence for the production, storage and supply of wine, sparkling wine (with the exception of wine and/or sparkling wine produced by peasant (farm) enterprises and individual entrepreneurs recognised as agricultural producers in accordance with Federal Law No. 264 of 29 December 2006, “On the development of agriculture”, and wine with protected designation of origin, wine with protected geographical indication, sparkling wine with protected designation of origin, sparkling wine with protected geographic indication), fortified wine, including fortified wine with protected designation of origin, fortified wine with protected geographical indication, fortified wine with protected designation of origin (special wine), fortified wine with protected geographical indication (special wine), fruit wine and wine drinks made without the addition of ethyl alcohol - **800,000 RUB (€9,963)**
- licence for the production, storage and supply of wine and/or sparkling wine produced by peasant (farmer) farms and individual entrepreneurs recognised as agricultural producers in accordance with Federal Law No. 264 of 29 December 2006 “On the development of agriculture” – **65,000 RUB (€810)**



- licence for the production, storage and supply of wine with protected designation of origin, wine with protected geographical indication, sparkling wine with protected designation of origin and sparkling wine with protected geographical indication – **65,000 RUB (€810)**
- licence for the production, storage and supply of alcohol-based food products - **800,000 RUB (€9,963)**
- licence for the purchase, storage and supply of alcoholic beverages - **800,000 RUB (€9.963)**
- licence for the storage of ethyl alcohol, alcoholic and alcohol-containing food products - **800,000 RUB (€9,963)**
- licence for the purchase, storage and supply of alcohol-containing food products - **800,000 RUB (€9.963)**
- licence for the transportation of bulk alcohol-containing food products with an ethyl alcohol content of more than 25% of the finished product - **800,000 RUB (€9,963)**
- licence for the production, storage, supply and retail sales of wine and/or sparkling wine produced by peasant (farmer) farms and individual entrepreneurs recognised as agricultural producers in accordance with Federal Law No. 264 of 29 December 2006 "On the development of agriculture" – **65,000 RUB (€810)**
- licence or extension of a licence for the retail sales of alcoholic beverages – **65,000 RUB (€810)** for each year of the licence

Unions and associations in Russia

In Russia, self-regulating organisations of winegrowers and winemakers (associations) can be created in the form of non-profit organisations based



on membership and unite organisations involved in the production and turnover of wine products and/or agricultural producers.

Self-regulating organisations of vinegrowers and winemakers, along with the functions established by the Federal Law No. 315 of 1 December 2007 “On self-regulating organisations”, carry out the following:

- establishment of and monitoring compliance with quality standards for wine products produced by members of such a self-regulating organisation that do not contradict the requirements of technical regulations
- calculation of the need for federal special stamps for members of such a self-regulating organisation
- establishment of special requirements for the collection of wine products

The main goal of the Russian Sommelier Association is to coordinate activities and consolidate efforts which aim to establish the sommelier profession and create optimal conditions for the activity of sommeliers in Russia. It also serves to cultivate the development of a sophisticated culture of wine and alcohol consumption in the country. Its head office is in Moscow, and it has branches in several Russian regions.

Wine advertising in Russia

Advertising of alcohol, and wine in particular, has been banned in Russia since 2013. Certain exceptions have been made for Russian wines.



According to Art. 21 of Federal Law No. 38 of 13 March 2006 "On advertising", it is permitted to advertise wine produced in the Russian Federation from grapes grown in the Russian Federation:

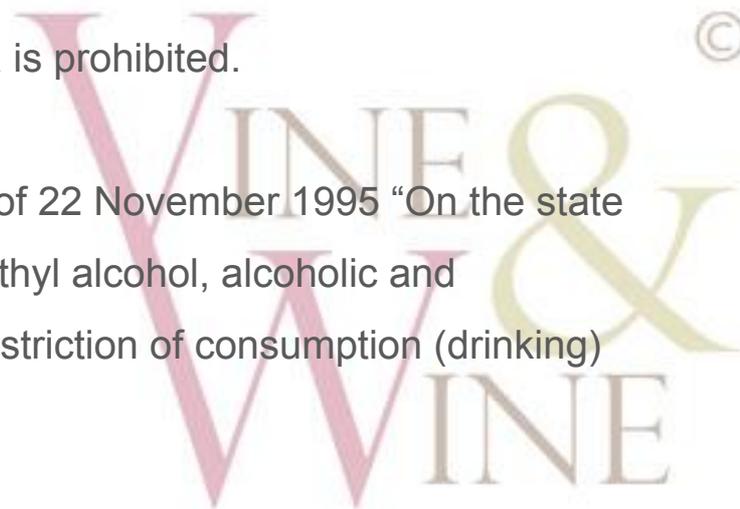
- in periodicals, with the exception of the first and last pages of newspapers, and on the first and last pages and covers of magazines.
- at exhibitions of food products (except for baby food) and exhibitions of public catering organisations.
- on television and radio programmes (except during live broadcasts or recordings of youth sports) from 11 pm to 7 am local time.

According to the "Consumption in Russia - 2019" report, Russians generally consider the possibility to advertise alcohol freely again on various platforms (television, the press, the Internet) as something negative. Only one in five consumers thinks it is something positive. Advertising alcohol on television is viewed extremely negatively. Russians are noticeably more tolerant of alcohol advertising on the Internet and in the press. Men are significantly more tolerant of the return of alcohol advertising in various formats, as are those aged 18 to 30.

Selling wine over the Internet in Russia

Selling alcohol over the Internet in Russia is prohibited.

In accordance with Federal Law No. 171 of 22 November 1995 "On the state regulation of production and turnover of ethyl alcohol, alcoholic and alcohol-containing products and on the restriction of consumption (drinking)



of alcoholic products”, the remote retail sale of alcoholic products is not permitted.

However, not all Russians are in favour of such a ban. The “Consumption in Russia - 2019” report indicates that 44% of respondents are positive about allowing the sale of alcoholic beverages via the Internet, while 43% are negative and 13% are indifferent. If the sale of alcohol products via the Internet is allowed, 39% of Russians would use this opportunity. The main reasons for this are convenience, lower prices and the ability to compare offers from different sellers. Those who oppose legalising the sale of alcoholic beverages via the Internet are more concerned about the increased risk of minors acquiring alcohol.

Currently, 50% of Russians believe buying alcohol via the Internet is not relevant to them and prefer traditional shops. Residents of Moscow, St Petersburg and cities with over a million inhabitants, as well as men, people of 18 to 30 years old and those with high incomes would be happy to buy alcohol via the Internet.

Residents of Moscow and St Petersburg, men and those with high incomes are much more likely to advocate legalising the sale of alcoholic beverages on the Internet. The main reason is convenience. About 87% of Russians occasionally purchase various categories of goods in online shops. The most active age group is 26–35 year olds. Moreover, women and people with higher education are more likely to shop online. However, Russians prefer to buy food in ordinary stores.



Wine distributors in Russia

The largest wine retailers in Russia are chains such as Perekrestok, Pyaterochka, Karusel, Lenta and Magnit.

The largest specialised chains include brands such as Krasnoe & Beloe (Red and White), Bristol, Aromatnyy Mir (Aromatic World), VinLab and Market.

Wine import to Russia

According to the OIV, wine imports to Russia amounted to 410 million litres in 2018. In addition, from 2014 to 2018, there was a decrease in wine imports to Russia of 13% by volume.

Russia's decline in wine imports amid growing consumption indicates an increasing demand for Russian wines on the domestic market.

In 2019, the largest wine exporters to Russia were Spain, Italy, Georgia, France and Moldova (according to the Federal Customs Service of Russia).

The largest importers of wine to Russia are the companies Simple, Luding, Mistral Alco, Alianta, Aroma and Polini Import.

Russian law does not permit individual entrepreneurs to import and export alcohol products, as they cannot obtain a licence from the Rosalkogolregulirovanie for wholesale trade.



There are no restrictions on the volume of alcohol products legal entities may import from abroad, but there are certain requirements for entering this market.

Legal entities engaged in commercial activities related to the import of alcohol, its storage and turnover in the Russian territory must:

- obtain a license from the Rosalkogolregulirovanie.
- register with EGAIS.
- import samples of goods for laboratory testing and certification to Russia (EAEU countries) in order to obtain a certificate of conformity of the products with the requirements of the technical regulations of the Customs Union (technical regulations of the EAEU).
- purchase excise stamps at Excise Customs and apply them to consumer packaging.
- carry out customs clearance of alcoholic beverages and pay customs duties, taxes and excise duties in the prescribed amount.

Wine export from Russia

According to the Federal Customs Service of Russia, wine exports from Russia amounted to just under 4.34 million litres in 2019. Compared to 2018, this represents a growth by volume of 31.1%. The Ukraine, China, Kazakhstan, Moldova and Belarus were the largest importers of Russian wine in 2019. In terms of value, export of Russian wines increased by 32.5% compared to 2018 and amounted to €8.8 million.



According to BusinessStat, the average export price of Russian wines was €2.09 per litre in 2019, 11.4% up on 2015. The average export price is the value of exports divided by volume. In terms of rubles, the price over the same period increased by 17.4%, from 130.1 to 152.8 RUB per litre.

BusinessStat forecasts that Russian wines will reach an average export price of €2.23 per litre by 2024, equating to around 201.2 RUB per litre.

Excise duties / customs duty / VAT

The Russian Federation's Ministry of Finance has increased excise duty on wines since 2020, levying 31 RUB (€0.38) per litre on still wines and 40 RUB (€0.49) per litre on sparkling wines. Moreover, the grapes used for wine production have also become an excisable commodity since 2020, with 30 RUB (€0.37) levied per ton. The VAT rate in Russia is 20%, while customs duty is 12.5%.

Individuals may import three litres of alcohol, including wine, before being subject to customs duty. A passenger customs declaration must be completed for anything in excess of the permitted three litres, with €10 being levied on each additional litre up to a total of five litres. There is no limit on the individual export of alcohol outside the territory of Russia.

Wine Marketing in Russia

It is difficult to grow high-quality grapes that have reached optimal physiological maturity and then produce high-quality wine from them. It is



equally difficult to sell the resulting wine. Therefore, only active, creative producers working with competent specialists will be successful and gain customer loyalty.

The most popular marketing tools for a Russian producer to promote their wines include:

- participating in wine competitions, both in Russia and abroad. To date, eight sites in Russia have conducted competitive assessment of wines.
- participating in wine exhibitions, both in Russia and abroad. There are now about nine annual wine exhibitions in Russia.
- working with wine experts, sommeliers, wine critics, journalists and bloggers (both foreign and Russian).
- developing wine tourism.
- running marketing events focussing on their products (PR tastings, masterclasses, wine dinners, wine festivals, etc).
- opening branded stores and wine bars.
- utilising social networking.
- hiring foreign “flying” winemakers.
- working with the media.
- advertising in specialised magazines, on websites, on television (at the permitted time).
- establishing wine schools and clubs.
- working with pop stars and public figures.

Some of these marketing tools are really effective and can directly increase wine sales, while others are less effective.



Wine education in Russia

Wine education is becoming increasingly popular in Russia. Feedback from a number of Russian wine school managers suggests that the demand for professional and amateur courses was growing rapidly before the start of the COVID-19 pandemic, as were the requirements for teaching staff qualifications.

Around 38 schools currently provide wine education in Russia. Half are located in Moscow, 27.8% in St Petersburg and 22.2% in other cities.

WSET (Wine & Spirit Education Trust) level 1, 2 and 3 courses are increasingly popular and the number of WSET accredited providers in Russia is growing; there are currently nine.

Russians who have sufficient English-language skills and income prefer to pursue their wine education abroad.

Wine literacy among Russians is also growing. The “Consumption in Russia - 2019” report indicates that 46% of Russians believe that they are well-versed in alcoholic beverages and are confident in their choice. Residents of Moscow, St Petersburg and other cities with over a million inhabitants are better versed than others in alcoholic beverages. Men are generally more confident in choosing alcohol than women (59% versus 33%). As income levels increase, so does the proportion of those who are fairly well-versed in alcoholic beverages: from 38% among low-income respondents to 57% for high-income respondents.



Wine bloggers in Russia

Wine blogging is very popular in modern Russia, and the popularity of individual wine bloggers is not connected to the level of their wine education or industry experience. Each case is individual. There is no censorship of this type of activity in Russia - everyone is entitled to express their opinion. The most popular social networks for Russian wine bloggers are Instagram, Facebook, Telegram and YouTube video hosting.

CONCLUSION

Problems of the Russian wine industry

The main current problems of the wine industry in Russia include the following:

- The unstable ruble exchange rate affects the cost of imported grape seedlings, agricultural and technological equipment, components and auxiliary materials as well as imported wine.
- The ban on alcohol advertising makes marketing more complicated.
- Prohibiting online alcohol trading limits the use of Direct-To-Consumer (DTC) channels.
- Restrictive measures introduced due to the coronavirus COVID-19 pandemic have almost completely paralysed the on-trade sector, wine tourism and various marketing activities.
- Contradictions in the legislation governing the wine industry limit its development.



- The consequences of the economic crisis may lead to a decrease in purchasing activity.

Prospects for the Russian wine industry

According to the ProWein 2019 business report, Russia is one of those countries with the greatest expected increase in market attractiveness, yet it is also considered a high-risk country.

Due to the extensive anti-bulk wine propaganda and the adoption of the law on viticulture and winemaking in the Russian Federation, the vineyard area in Russia is likely to gradually increase, while domestic production and demand for domestic wines will also grow.

The most attractive segments for wineries' long-term development are premium and super-premium wines. This is due to the lack of high-quality wines from Russian producers and the predicted rise in the cost of imported wines.

Producing wines for the mass market segment is most attractive from the short-term perspective of a quick return on invested funds.

The demand for wine education will continue to grow, online courses will appear, and there will be more qualified wine specialists in Russia.

There are prerequisites for allowing the sale of alcoholic beverages, including wine, via the Internet. The minimum drinking age in Russia will probably be



increased to 21 years.

Wine consumption in Russia will undoubtedly continue to grow due to wine's increasing popularity and the improvement in Russians' wine literacy, however not among the younger generation.

**LEONID FADEEV, Stage 2 MW Student, WSET / IWSC “The Future 50”
winner, Weinakademiker, DipWSET, WorldSom Magister Sommelier,
Executive Director of JSC Cote Rocheuse**

VINE &
WINE ©