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Russia Wine Market Industry Overview

Size and Growth

Russia's wine market is recognized as "one of the most dynamic and attractive wine markets in the world."¹ Fueled by the stable economic growth over the last six years, Russia is now one of the most rapidly growing wine markets in the world with "an average 30 percent wine consumption increase per year."²

A comparison to China is strikingly effective: "in the past years Chinese wine consumption has increased by 22 percent, making it the tenth largest still wine market in the world, while consumption in the Russian federation grew by 37 per cent over the same period, making it the eighth largest wine market worldwide."³ Russian wine import companies have seen "sales volumes increase by 30-35 percent annually"⁴ across all regions where they have a presence. Some firms have experienced "sales growth of nearly 80 percent."⁵

According to some sources, the total volume of the alcohol market in Russia is \$18 billion by value⁶ while the national statistical agency in Russia puts this figure closer to \$35 billion.⁷ Today wine accounts for at least 30% of total alcoholic beverage sales compared to 3-4% in 1989.⁸ According to other sources, in 2006 wine sales in Russia reached \$7.5 billion, whilst "the sales of vodka are decreasing steadily: around 4% for the same period."⁹

Market operators consider Russia's wine industry as one of the best opportunities for both short-term and long-term expansion. According to a USDA report, the level of market spending is expected to "increase by at least 12 percent annually, resulting in the market doubling in size by 2009."¹⁰ Experts recently affirmed that Russia is "one of the more exciting developing [wine] markets: we consider it a priority emerging market."¹¹

1 "OPPORTUNITY IN RUSSIA FOR AUSTRALIA WINE," 2004. Available on-line at: www.austrade.gov.au.

2 "Russian Federation Wine Market Brief." USDA Foreign Agricultural Service, 2004. Available on-line at:

http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

3 "Economics and market trends guide buyers," Ahmed ElAmin. June 18, 2007. Available on-line at:

<http://www.beveragedaily.com/news/ng.asp?n=77432-castel-e-j-gallo-wine>

4 "OPPORTUNITY IN RUSSIA FOR AUSTRALIA WINE," 2004. Available on-line at: www.austrade.gov.au.

5 "Russia sees surge in foreign wine demand." November, 2005. Available on-line at: <http://www.cee-foodindustry.com/news/ng.asp?id=61203-wine-spanish-sanserite>

6 "Russian Federation Wine Market Brief." USDA Foreign Agricultural Service, 2004. Available on-line at:

http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

7 The Russian market place. Volume 1, Issue 3 December 2006.

8 "Revisiting the Russian export market," Tina Caputo. In Wines & Vines, July 2004. Available on-line at:

http://findarticles.com/p/articles/mi_m3488/is_7_85/ai_n6142365

9 "Russia, land of promises." March, 19, 2007. Available on-line at:

<http://www.winedine.co.uk/page.php?cid=1138&PHPSESSID=ab36202350b5>

10 "Russia's Alcohol Spirits Market," USDA Foreign Agricultural Service. 2005. Available on-line at:

http://www.calwinexport.com/content/Market_Info/FAS%20Reports%202004-2005/Russia%20Product%20Brief%202005.pdf

11 Think Pink for Exports," Larry Walker . October 2006. Available on-line at:

http://www.winesandvines.com/template.cfm?section=columns_article&content=48735&columns_id=25

Retail

Retail is one of the fastest developing sectors of the Russian economy and the rapid growth of wine sales is typical of the overall growth in the Russian food and beverage market.¹² “Russia is estimated to be the 12th largest retail market in the world and is expected to pass Spain, Brazil, and Mexico in the short term to move inside the top 10.”¹³

Russia’s retail environment is sophisticated, with a high standard of presentation, display, and marketing. The retail sector now extends beyond Moscow and St Petersburg, Russia’s two largest cities, and into the regions,¹⁴ with advertising becoming increasingly expensive.¹⁵

Demand

In the past decades, Russian consumer demand for wine was heavily concentrated on imports from the Former Soviet Union states’ of Moldova and Georgia. Currently, less than 50 percent of the wines consumed are imported from such states. Their products are generally considered “low-end,” priced at about \$2.55 per bottle.¹⁶

Russia’s current economic boom has facilitated the emergence of an urban middle class attracted to prestigious Western-style products in several segments. The number of “those who are willing to spend more money on a more prestigious product”¹⁷ is skyrocketing. “Russia,” said Giovanni Mantovani, director general of the largest Italian wine fair, “has doubled per capita consumption over the last three years.”¹⁸ This is also due to the steady trend of consumers switching from vodka to “softer” alcoholic beverages which is expected to continue, particularly among younger, more affluent Russians.¹⁹

Russia’s middle class is ready to purchase mid-price and expensive wines, and even “very expensive wines can find a buyer.”²⁰ The bulk of the market is dominated by “good wines that are sold for reasonable prices.”²¹ In terms of products variety, red wine accounts for the largest share of wine consumption with product segmentation structured as follows: 53.5 percent in volume for red wine, 33 percent for white wine, and 13.5 percent for rose wine.²² 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

12 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

13 “Russia Wine Project,” Government of Australia. November 2006. Available on-line at: http://www.pir.sa.gov.au/byteserve/wine/russia_wine_project.pdf

14 Ibid.

15 “OPPORTUNITY IN RUSSIA FOR AUSTRALIA WINE,” 2004. Available on-line at: www.austrade.gov.au.

16 “Agricultural Export Program,” February, 2003. Tradewinds.

17 “Russia’s Alcohol Spirits Market,” USDA Foreign Agricultural Service. 2005. Available on-line at: http://www.calwinexport.com/content/Market_Info/FAS%20Reports%202004-2005/Russia%20Product%20Brief%202005.pdf

18 VINITALY: ITALIAN WINE IN RUSSIA - +81% TURNOVER IN 2007. June, 2007. Available on-line at: <http://194.177.100.52/comunicati/doc/2150-gbjuneCsRussia2.doc>

19 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

20 Ibid.

21 Ibid.

22 Ibid.

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.²³

Export to Russia

Among wine exporters to Russia, Moldova is the market leader. Among Western producers, Spain, France, and Italy dominate the market, while Argentina, Australia, and Chile are the leading exporters from the “New World.”²⁴

According to the Spanish Wine Federation, exports to Russia of Spanish wine rose in 2006 by a dramatic 103% in volume from 61.8 million liters in 2005 to 156 million liters last year.²⁵ According to information provided by the Russian Customs Service, this places Spain ahead of France (106 million liters) as the leading Western supplier of wine to Russia.

France is heavily present in the Russian wine market. In addition to being the second largest exporter, in the past years French producers invested several million euros in wine promotion and production endeavors in Russia.

Exports of Italian agro-foods are improving “on average by 30%/year and in 2006 were worth 360 million Euro.”²⁶ Wine is the flagship product, with record growth in the first two months of 2007 (+81% in value equal to 8.671 million Euro, against 4.785 in the first two months of 2006 and almost +500% in quantity, for a total of about 6.252 million litres in January-February 2007, compared to 1.262 in the first 2 months of 2006).²⁷

Among “New World” producers, Australian wine exports to Russia increased by almost 100% between 2004 and 2005.²⁸ Argentina is now an established market leader together with Chile, whose exports to Russia have increased tenfold over the last four years.²⁹

Distribution in Russia

In order to succeed in selling wine in Russia, establishing an effective distribution channel is crucial.³⁰ Most importers and distributors have a preference for suppliers that can provide a broad range of wines, from premium products for boutiques, restaurants, and high-end hotels, to cheaper wines for supermarkets and catering companies.³¹

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 nonetheless expanding rapidly and are to be considered a primary target for Western

23 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

24 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

25 Spanish wine exports make temporary splash in Russia. June, 2007. Available on-line at: <http://www.manfatta.com/wineblog/2007/06/spanish-wine-exports-make-temporary.html>

26 VINITALY: ITALIAN WINE IN RUSSIA - +81% TURNOVER IN 2007. June, 2007. Available on-line at: <http://194.177.100.52/comunicati/doc/2150-gbjuneCsRussia2.doc>

27 Ibid.

28 “Russia Wine Project,” Government of Australia. November 2006. Available on-line at: http://www.pir.sa.gov.au/byteserve/wine/russia_wine_project.pdf

29 Ibid.

30 “Agricultural Export Program,” February, 2003. Tradewinds.

31 “OPPORTUNITY IN RUSSIA FOR AUSTRALIA WINE,” 2004. Available on-line at: www.austrade.gov.au.

wineries willing to expand in the Russian market.³² 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.”³³

The most successful business model is to sell through wine boutiques, where bottles can be displayed and receive a focused marketing support. In the last four years, wine boutiques have developed rapidly in Russia, with about 50 currently present in Moscow and around 25 in St Petersburg.³⁴ These stores sell mainly premium-class products, but most also sell quality wine for everyday consumption (priced at less than US\$10 a bottle). “Unfortunately, there are no network-based specialty wine shops in Russia.”³⁵

The restaurant segment is also expanding quickly and wine consumption is growing in this market sector.

Opportunities

According to a recent document prepared by the Australian Government, “Russia presents unquantified potential to bring popular premium and commercial brands into higher price points.”³⁶

In Russia, a country of nearly 150 million people, wealth is becoming more and more abundant. Many regions are rapidly developing and the number of affluent consumers is growing. Presently, there are approximately 50 wine traders who import wine into Russia. Almost all of them are headquartered in either Moscow or St. Petersburg and there are virtually no direct imports to other regions within the country. Wine boutiques and effective distribution and branding are the keys to capitalizing on this potential.

Even though some producers are looking at China, experts say that “the margins in China are not there. It is not ready to buy at the price point where wine producers will make money.”³⁷ In Russia “the food is European in style. Shashlik and rice is the Russian steak and chips and there is no spice. Chinese food is not made to go with wine, and nor is Indian at the moment.”³⁸ And whereas in China wine sales are driven by a culture of giving or serving a high status gift, Russians like wine for itself. “Russia is the market of the future.”³⁹ “[Russians] are the Italians of eastern Europe. And right now, since the problems with Moldovan and Georgian wines, which were 55 percent of the market, the place is wide open.”⁴⁰

32 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf

33 Ibid.

34 “OPPORTUNITY IN RUSSIA FOR AUSTRALIA WINE,” 2004. Available on-line at: www.austrade.gov.au.

35 Ibid.

36 “Russia Wine Project,” Government of Australia. November 2006. Available on-line at:

http://www.pir.sa.gov.au/byteserve/wine/russia_wine_project.pdf

37 Go for Russia, not China, wine experts say. June 21, 2007. Available on-line at:

http://www.breitbart.com/article.php?id=070621045143.mp9e76kt&show_article=1&cat=0

38 Ibid.

39 Ibid.

40 Ibid.

Opportunities for U.S. wines

With a developing taste for imported elite alcoholic drinks, “the Russian market holds great potential for U.S. spirits exporters.”⁴¹ Although Russian consumers still drink a greater quantity of popular wine labels from CIS countries like Moldova, Georgia, and European wines, “the popularity of New World wine is steadily growing.”⁴²

Last year, U.S. wine sales to Russia totaled USD 2.1 million and there is wide room for growth.⁴³ According to Business-Analytica, Moscow accounts for 70 percent of Russia’s California wine consumption, St. Petersburg for 8 percent and all other regional cities account for 22 percent.⁴⁴ Moscow represents the largest and most attractive market for U.S. wines. “The city’s 4,000 restaurants and 15 world-class hotels present considerable on-trade possibilities for U.S. wine labels.”⁴⁵ Experts believe that the entrance of new quality-for-value bottled wines will pave the way for dramatic growth and improved U.S. wine sales in cities like St. Petersburg and major regional capitals.⁴⁶

Non-EU Europe and Eurasia, which includes most of the Balkans, Russia, the Ukraine, and Turkey, should be a major area of access for U.S. wine producers as they are not subject to the E.U.’s protectionist policies.⁴⁷ Currently U.S. wine accounts for less than 1 percent of the wine market share throughout non-EU Europe countries (excluding Switzerland).⁴⁸ “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.”⁴⁹

Russia offers an incredible potential to U.S. wine sales. The booming middle class, the opportunities offered by regional markets, and the value of foreign - specifically U.S. - products represent the best guarantee for successful expansion.

41 “Russia’s Alcohol Spirits Market,” USDA Foreign Agricultural Service, 2005. Available on-line at: http://www.calwinexport.com/content/Market_Info/FAS%20Reports%202004-2005/Russia%20Product%20Brief%202005.pdf

42 Ibid.

43 “International Trade Barriers to U.S. Wine 2006.” Wine institute, 2006. Available on-line at: http://www.calwinexport.com/content/Market_Info/Trade%20Barriers%20Report%202006.pdf

44 “St. Petersburg Wine Market.” USDA Foreign Agricultural Service, 2005. Available on-line at: http://www.calwinexport.com/content/Market_Info/FAS%20Reports%202004-2005/Russia%20St.%20Petersburg%20Wine%20Market%202005pdf.pdf

45 Ibid.

46 Ibid.

47 “International Trade Barriers to U.S. Wine 2006.” Wine institute, 2006. Available on-line at: http://www.calwinexport.com/content/Market_Info/Trade%20Barriers%20Report%202006.pdf

48 Ibid.

49 “Russian Federation Wine Market Brief.” USDA Foreign Agricultural Service, 2004. Available on-line at: http://www.calwinexport.com/content/Market_Info/russiawinemarketbrief.pdf