

# TRYING TO FEEL LIKE A WINE COUNTRY

Long labelled a vodka-drinking country, Russia is rapidly developing as a fine wine market. Despite restrictions on advertising, wine has become a fashionable product and its conspicuous consumption continues to grow, observe Igor Serdyuk and Olga Tchernyak, especially in wine bars.

Several political statements made by Russian authorities over the past year have given the wine trade cause for restrained celebration. In particular, when supreme sanitary official Gennady Onischenko, who is normally a hard line supporter of restrictions on wine advertising and distribution, indicated that Russia should follow the 'southern way', meaning the European model of alcohol consumption favouring wine, the pop of Champagne bottles was heard in board rooms.

Similarly, at the Wine and Health conference held during the Moscow Wine Festival, leading Russian physicians for the first time officially declared that moderate wine consumption can be good for your health and called on the wine industry to finance serious research on the positive effects of wine.

Overall, 2007 was not as dramatic for importers as 2006. Major distributors are now slowly recovering from the crisis caused by the ban on Moldovan and Georgian wines as well as the introduction of new tax banderols. Indeed, some market analysts had presumed that after 2006 wine might lose much of its attractiveness, but these fears have not materialised. On the contrary, wine is becoming ever more popular in the non-specialised mass media and the number of wine bars continue to grow.

## *A piece of the pie*

Wine currently ranks third in volume among the alcoholic beverages consumed in Russia, behind vodka and beer. But while wine is growing, the beer market is saturated and vodka is in decline. According to the Federal Statistics

Service (Goskomstat), spirits now account for 60% of all alcoholic drinks consumed in Russia. That may seem high, but is down sharply from 73% in 2000. "While the spirits' consumption falls, people drink more wine," says Gela Absandze, sales director for Veld 21, a wine and spirits importer that owns a chain of wine boutiques in Moscow.

| 1 Benchmark Data      | www.ru      |
|-----------------------|-------------|
| Population:           | 142m        |
| GDP nominal:          | \$1000b     |
| Per head consumption: | 5 litres    |
| Domestic production:  | 470m litres |
| Imports:              | 200m litres |
| Legal drinking age:   | 18          |



However, the level of consumption depends on the price in each category, explains Pyotr Kanygin, chairman of the Wine and Spirits Committee of the Russian Chamber of Commerce and Industry (CCI). When the Soviet tax system made vodka more expensive in the 1980s, wine competed successfully; before Mikhail Gorbachev's notorious prohibition, wine consumption reached 15 to 20 litres per head. At that time, a bottle of vodka was three times more expensive than a bottle of wine, says

Kanygin. Today, a bottle of wine costs the same as one of legally produced vodka.

As Kanygin's reported at CCI's recent meeting, 52% of Russian consumers can afford to purchase wines or spirits at 65-115 rubles (\$3-\$4/€2-3) per bottle regularly, but only 7% have the money to buy more expensive drinks. "The growth in annual income exceeding \$500-600 per capita has led the Russian market to explosion in many segments, including wine," says Igor Kachalov, president of Kachalov & Associates.

## *Move to quality*

Official statistics show that ever more Russian consumers are interested in quality wines. In 2004, 80% of all wine sold in Russia retailed below RUB100 (\$4.75/€3). In 2007, that category had fallen to 70%, according to Goskomstat. Business Analytica, a leading market research company, estimates the current market share of the wines below RUB100 at only 56%.

Vladimir Drobiz, head of the Research Center for Federal and Regional Alcohol Markets (RCFRAM), said the wine market in Russia grew by 8% in 2007. Dmitry Pinsky, co-owner of DP-Trade, which imports high-quality products, says the premium segment grew even faster than the wine market in general, up 12% last year, making Russia currently one of the most dynamic wine markets in the world. Conservative sources put the total volume of the Russian wine market as 720m litres. However, experts such as Igor Kachalov consider the "grey" market share "significant" and believe the true consumption figure must be much higher.

In 2007, wines and spirits were imported into Russia by 126 importers, 16 of which control two thirds of the volume. A consolidation trend was initially set by the government, which was looking for a means of stricter control. New legal regulations continue to push towards further consolidation, but so far all the major operators are still on the market; however, it is becoming so expensive and bureaucratically complicated that several wine companies have to put business on hold. In contrast, competition continues to grow between national importers and regional distributors. Key wholesalers, such as Omega from Ekaterinburg, Regata from Rostov, Formula from Krasnoyarsk, Wine Gallery from Kazan and others are now expanding into neighbouring regions.

“Lower salaries there make business more cost effective and give regional operators a competitive advantage,” says Evgeny Naidenov, head of the Veld 21. He also notes growing interest in fine wine and spirits among former vodka distributors. Veld 21 itself is a good example of this trend. It originally pioneered a chain of wine and spirits boutiques called Vinoteca Paradis with Lavinia, a distributor with retail stores in France and Spain. But last year, Veld decided to build its own wine portfolio to supply the growing chain as well as to expand distribution.

Veld 21 is not the only example of fast forward development. In December 2007, the Moscow Wine Press Club (WPC) published their annual list of movers and shakers. Two distributors were given awards for ‘Expansion of the Year’, Luding and Simple. The former was nominated for having significantly improved the quality of its assortment, the latter for adding more affordable wines to the existing elitist range.

However, not all companies survived 2006 unscathed. The dramatic situation brought the owners of Vinikom to log-gerheads, a state which WPC called “the conflict of the year, which can destroy the leading wine distributors in Russia”. Vinikom is the official distributor of numerous well-known brands such as Baron Philippe de Rothschild,

Champagne Louis Roederer, Ornellaia, Cognac Hine and so on. “We are selling more than ever, but it does not resolve the conflict,” said one of their managers who asked not to be mentioned by name. Uncertainty about company’s management might lead some of the brands to change distributors, but Vinikom’s position on the market remains strong.

In spite of price increases, one of the negative trends noticed by WPC members was the decline of high quality ‘artisan’ wines in the portfolios of Russian importers. According to their analysis, the rising costs of logistics and the onerous bureaucratic requirements is making the import of small lots of the finest wines less interesting.

### *New excise taxes*

New excise taxes, approved by the Russian Federal Customs Service in December and effective from January 2008 are nearly 7% higher than previous ones for spirits and more than 6% higher for wines. Until recently, many importers were understating the ex-cellar prices declared at customs in order to lower their costs. Since 2007, control has become much stricter, but now importers claim that the new requirements are not always justified. “If you declare Alsace Grand Cru wine at a price below €10 per bottle, the customs officers think you are cheating them,” says one of Moscow’s leading importers. “It is pretty difficult to convince them that not all the Grand Crus are expensive.”

After the original ban imposed in 2006 by Gennady Onischenko on both Moldovan and Georgian wines, the first new shipments of Moldovan wine arrived in Russia late last year. Before the ban, Georgian and Moldovan wines represented about 60% of the Russian wine market. “The ban has almost killed Moldovan winemaking,” says Sergey Borets, general director of Acorex, one of the leading Moldovan wineries. “Our company lost about \$12m (€7.5m) and some of our colleagues have lost more.”

Moldovan winemakers realise that it will be very difficult and costly to regain their market share. Distributors do not want to take any risks selling Moldovan

»The premium segment grew faster than the market in general, up 12%.«



*Dmitry Pinsky, owner DP-Trade*

wines in what they call an ‘unstable political situation,’ but Moldovan companies want to prove that their new generation of wines deserves consumers’ interest. Seven leading wineries united into the Guild of Moldovan wines and exhibited their wares at a joint stand at Moscow’s largest food show Prodexpo in February 2008.

Georgian wine is unlikely to join Moldovan any time in the near future. Shalva Khetsuriani, president of the Georgian Sommelier Association and owner of Marani Khetsuriani winery, estimates the losses for the Georgian wine industry at \$100m. “Before the embargo Georgia exported 59m bottles of wine,” he says. “Now it is only 13m.”

Although Russian wines from Krasnodar, Rostov, Stavropol and other southern regions of Russia still occupying the entry level segment of the market, first attempts to fill the local premium niche have been undertaken by Chateau le Grand Vostok, Vedernikov, Fanagoria and others. Elena Denisova, head of Grand Vostok’s marketing department, says they sense increasing demand for their premium brands Karsov and Le Grand Chene, which are selling retail at about \$20 per bottle.

“The 2014 winter Olympic games, which will take place in Sochi, may be an additional incentive for Russian wineries to make a quality breakthrough,” predicts Lev Oganesyants, director of the Russian Research Institute for Wine, Beer and Soft Drink Industries. “It just so happens that the first vineyards were planted in Russia in 1613. One year before the Olympics, we will celebrate four centuries of Russian winemaking.”

A new generation of consumers is currently discovering the pleasures of wine tasting in newly opened wine bars, with

dozens of fashionable drinking holes now found in Moscow. However, the definition of a 'wine bar' remains vague, starting from an inexpensive 'rumochnaya' up to the elegant high-tech bars for elite consumers.

### Ever more wine bars

The first attempt at a wine bar in Moscow dates back to the mid 1990s, when French restaurateur, chef and sommelier Patrick Pages, in cooperation with Fedor Eshtokin, owner of OKV wine imports, opened a small bistro called Ou Yara for which Pages prepared tapas to accompany a selection of OKV wines. The idea was cheered by the press, but customers did not show any enthusiasm. "While wine turned out to be too expensive for middle class consumers, the wealthier audience was expecting something more than just light meals and a glass of wine," remembers Alexander Mazlumian, who was Ou Yara's manager at that time. "So the first wine bar soon became a normal restaurant."

The other famous wine bar, In Vino, which was opened by Yury Krupitsky, targeted the high-end clients from the very beginning. It was the first outlet equipped with a system to fill uncorked bottles with neutral gas to prevent oxidization. The bar offered its guests several dozen wines by glass, including French grands crus. The design was elegant and modern, the atmosphere cool, but, again, the public was not enthralled.

The idea of a wine bar was not only tested by restaurant owners. Wine retailers also tried their hand, but from a different angle. In fact, many fine wine stores such as Vinum, Magnum, Kauffman Private Collection, Kollektysya Vin and others morphed into wine clubs.

Another wine retail chain, which transformed some outlets into wine bars, was Grand Cru, owned by Simple. Both its boutiques and bars contrast with the traditional atmosphere of wine outlets through their high-tech architectural design. However, most shops are still owned by importers and distributors, who considered them mainly as a showcase for their products rather than independent businesses.

The new wave of wine lovers has come mostly from the young, artistic strata of Moscow and Saint Petersburg, who started their drinking experience in the mid 1990s. Club restaurants like Ogi, Pirogi or Apsu have become famous not only for their special bohemian atmosphere, but also for a thorough list of affordable wines served by glass.

While Jean-Jacques attracts its clientele through its democratic approach, two fashionable wine bars, La Casa del Vino and Tinto Fino, treat wine with more refined style. La Casa del Vino started as a pioneer project by two famous Moscow sommeliers, Vladimir Basov and Anton Panasenko, both having won the sommelier champion title. They found an abandoned cellar in the Taganka district of downtown Moscow for \$1,000 a month. In the beginning it was to be a closed tasting room for a limited number of private clients, with just four tables. However, when word of mouth spread through the wine community, La Casa del Vino became a must-visit place, forcing Anton and Vladimir to expand their business.

"I never thought of it as of a planned career," says Anton Panasenko. "I think we are just happy to serve wine and have the rare possibility to open a really good bottle any time we want to drink it." That said, Anton and Vladimir are

### Russian imports in 2007

According to the Research Center for Federal and Regional Alcohol Markets (RCFRAM), wine imports to Russia in 2007 exceeded 2006 by 6.5%. That said, it remained about 30% lower than in 2005. RCFRAM estimates the total volume of the still wine market in Russia today at 679m litres, of which 32% is imported bottled wine, down from 50% in 2005. The leading exporter is Bulgaria with 72.4m litres (+27%), followed by France with 38.9m (+51%), Spain with 24.7m (+46%), Italy with 15.9m (+62%) and Germany with 14.1m litres (+6%).

the informal leaders of Moscow's sommelier community.

The Dissident wine bar located on the upper floor of Nautilus shopping mall in the heart of Moscow also boasts a stylish approach to wine. With its mix-and-match tasting menu, it is probably the most elegant among today's wine bars.

Thus far Moscow's new wine bars have been able to successfully compete with the restaurants and lounge bars. All market analysts predict further growth in the category, which has proven to be a good investment despite high prices for rent and a shortage of skilled personnel. "Our initial investment in the wine bar was about half a million dollars," says one of Moscow's restaurateurs, "but we believe that if it is well-managed, it will begin to pay back in about a year." ■

### 2 Production of still wine in Russia in millions of litres

