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Illegal Vodka Production Booms as Legal Distillers Cut Back

By The Moscow Times

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Licensed vodka makers are distilling much less of the country's most famous spirit because, market watchers say, it is increasingly being made illegally.

Legal vodka production plummeted 28.3 percent in the first six months of this year compared with the same period last year, according to data released by the State Statistics Service on Wednesday.

This year, the government-imposed minimum price for a half-liter bottle of vodka was raised to 170 rubles ($5) from 98 rubles. That price is reinforced by higher excise duties for alcohol.

The Union of Alcohol Producers had protested that such a hike would likely translate into more counterfeit products flooding the market.

The state has failed to prevent illegally produced vodka from being sold in stores, said Vadim

Drobiz, head of the independent Center for the Study of Federal and Regional Alcohol Markets. "That translates into growth of the illegal market," he added.

He said he expected sales of licensed vodka to fall by 10 percent this year, and production by 20 to 25 percent.

Licensed vodka production will drop 25 percent this year, said Sergei Kleshchukov, CEO of Organic Vodka Group. Demand for vodka has remained relatively unchanged, and the output contraction is due to legitimate products being replaced with illegal ones, he said.

"The main fall is observed in the 'popular product' segment, where vodka costs from 170 rubles to 200 rubles," he said. "The other segments are not falling, whereas the premium segment is even rising."

Production for the lower-price segment would continue to contract next year, he added.

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