

## Title:

Russia's Vodka Wars

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## Summary:

Vodka is a crucial component in Russian life. And in Russian death. Alcohol-related accidents and cardiac arrests have already decimated Russian life expectancy by well over a decade during the last decade alone.

## Keywords:

## Article Body:

Vodka is a crucial component in Russian life. And in Russian death. Alcohol-related accidents and cardiac arrests have already decimated Russian life expectancy by well over a decade during the last decade alone.

Vodka is also big business. The brand "Stolichnaya" sells \$2 billion a year worldwide. Hence the interminable and inordinately bitter battle between the Russian ministry of agriculture and SPI Spirits. The latter, still partly owned by the state, is the on and off owner of the haloed brand "Stolichnaya", James Bond's favorite.

SPI's PR firm, Burson-Marsteller, posits this commercial conflict as a classic case of the violation of the property rights of hapless foreign shareholders by the avaricious and ruthless functionaries of an unreformed evil empire. They question Russia's readiness to accede to the WTO and its respect for the law.

SPI's latest press release consists of the detailed history of this harrowing tale. The brand Stolichnaya, as well as 42 others, were privatized in 1992. The firm quotes a document, bearing the official seal of the maligned ministry, which states unambiguously: "VAO Sojuzplodoimport has the right to export Russian vodka to the USA under the following trademarks: Stolichnaya, Stolichnaya Cristall, Pertsovka, Limonnnaya, Privet, Privet Orange (Apelsinovaya), Russian and Okhotnichya."

The privatization was completed in 1997 when the old SPI was sold to the new SPI Spirits. The new SPI claims to have assumed \$40 million in debt and invested another \$20 million to rebuild the company into "one of the world's leading

vodka producers". Yet, the Russian government, as heavy handed as ever, clearly is unhappy with SPI.

It says the privatization deal was dubious and that SPI paid only \$300,000 (or maybe as little as \$61,000 claim other sources) for the multi-billion dollar brands, including "Stolichnaya", "Moskovskaya", and "Russkaya". The government values the brands at a far more reasonable \$400 million. Other appraisers came up with a figure of \$1.4 billion.

The government, in a bout of new-found legal rectitude, also insists that the seller of the brands, the defunct (state-owned) SPI, was not their legal owner. It also questions the mysterious shareholders of the new SPI - including a holding company in tax-lenient Delaware. SPI's trademarks portfolio is represented by an Australian law firm, Mallesons Stephen Jaques.

Putin himself set up a committee for the repatriation of these and other consumer brands to the state. He craves the beneficial effects the alcohol sector's tax revenues could have on the federal budget - and on its powers of patronage. A central state-owned brand-holding and distribution company was set up less than two years ago. Ever since then, the alcohol sector has been subjected to relentless state interference. SPI is not the most egregious case either.

"The Observer" mentions that SPI currently runs most of its business from inscrutable Cyprus, a favorite destination for Russian money launderers, tycoon tax evaders, and mobsters. SPI's German distributor, Plodimex, is increasingly less active - as three new off shore distribution entities (in Cyprus, the Dutch Antilles, and Gibraltar) are increasingly more so.

The FSB ordered Kaliningrad customs to prohibit bulk exports of Stolichnaya. Cases of the drink are routinely confiscated. Criminal charges were brought against directors and managers in the firm. The Deputy Minister of Agriculture is discrediting SPI in meetings with its distributors and business partners abroad. He is also accused by the firm of obstructing the court-mandated registration of its trademarks.

The courts have lately been good to SPI, coming out with a spate of decisions against the government's conduct in this convoluted affair. But on February 1, the firm suffered a setback, when a Moscow court ruled against it and ordered 43 of its brands, the prized Stolichnaya included, returned to the government (i.e., re-nationalized).

SPI is doing its best to placate the authorities. It is rumored to have offered

last month to use its ample funds to supplement the federal budget. It has indicated last September that it is on the prowl for additional acquisitions in Russia - a bizarre statement for a firm claiming to have been victimized. "The Moscow Times" reported that it is planning to sign a \$500,000 sponsorship agreement with the Russian Olympic Committee.

Summit Communications, a country image specialist, placed this on its Web site in November 2001:

"One example of a savvy Russian company that has managed to do well in the West by finding the right partner is the Soyuzplodimport company (see also p. 14). Soyuzplodimport, or SPI, has the exclusive rights to export Stolichnaya, which vodka lovers in the U.S. fondly refer to as 'Stoli'. Some 50% of the company's export turnover comes from the United States, thanks mostly to its strategic alliance with Allied-Domecq for U.S. distribution.

'I'm not sure that all Americans know where Russia is on the map, but most of them know what Stolichnaya is,' muses Andrey Skurikhin, general director of SPI. 'I want the quality of Stolichnaya in America to create an image of Russia that is pure, strong and honest, just like the vodka. At SPI, we feel that we are like ambassadors and we will try to do everything to create a more objective and positive image of Russia in the U.S.'"

SPI's troubles may prove to be contagious. Allied Domecq, its British distributor in America and Mexico, now faces competition from Kryshtal International, a subsidiary of the troubled Kristal distillery, 51% owned by Rosspirtprom, a government agency. Kryshtal signed distribution contracts for "Stolichnaya" with distilleries backed by the Russian ministry of agriculture.

Allied and Miller Brewing have announced a \$50 million investment in product launch and marketing campaigns only five years ago. "Stolichnaya" (nicknamed "Stoli" in the States) sells 1 million 12-bottle cases a year in the USA (compared to Absolut's 3 million cases).

The trouble started almost immediately with the first foreign investments in SPI. As early as 1991, Vneshposyltorg, a government foreign trade agency, tried to export Stolichnaya in Greece. This led to court action by the Greeks. Vodka wars also erupted between the newly-registered Russian firm "Smirnov" and Grand

Metropolitan over the brand "Smirnoff".

The vodka wars are sad reminders of the long way ahead of Russia. Its legal system is rickety - different courts upheld government decisions and SPI's position almost simultaneously. Russia's bureaucrats - even when right - are abusive, venal, and obstructive. Russia's "entrepreneurs" are a penumbral lot, more enamored with off-shore tax havens than with proper management. The rule of law and private property rights are still fantasies. The WTO - and the respectability it lends - are as far as ever.