

COMPETITIVENESS OF THE BULGARIAN WINE INDUSTRY

by Borislav Georgiev

Background

The wine industry is the most competitive sector of the Bulgarian food industry. It consists of more than 50 cellars. The privatization process in the wine plants and production facilities practically finished successfully in 1999. So this industry is a 100 % private one. Wine production sector is more than 80 % export oriented and is a food industry leader with its 30 % share of export revenues from EU market. The Europe has 60 % of world vineyards measured by the area of the vineyards. EU has 45 %, while Bulgaria and Chile jointly share 17-th world position.

Wine is between top ten exported Bulgarian goods during 1990 – 1999 with more than 2 % share of the Bulgarian export in value terms. The biggest markets are countries with developed market economies and some with the economies of transition. There is a special agreement with EU, based on tariff quotas for Bulgarian wines. Top 7 markets last two years are Great Britain with average share of 22 %, Japan – 17 %, Germany – 10 %, Ukraine – 7.5 %, Poland – 5,6 %, Netherlands – 4 %. The export trend in value and in volume terms is negative. We hope it reflects the restructuring of the ownership of major cellars, which finished in the 1999.

| | | 1997 | 1998 | 1999 |
|--------------------|--------------|-------|-------|------|
| BG total export | USD millions | 4940 | 4293 | 3959 |
| Wine export | USD millions | 112,1 | 121,7 | 78 |
| Wine share in Exp. | % | 2,3 % | 2,8 % | 2 % |
| Wine export | LTR millions | 178 | 169 | 92 |

Author's calculations based on Ministry of the Economy data

The Bulgarian legal framework includes the Law on wine and alcohol beverages, adopted in 1999, aligned with EU wine law, published in the Bulgarian State Gazette (SG) 86/1999, entered into force on 1 January 2000. Some of its regulations, by September 2000 are not yet developed and promulgated in SG but the process is going to finish within few months. Wine legal framework is predictable, transparent and harmonized with EU one.

There is an Association of the Producers and Merchants of Wines and Spirits of Bulgaria (APMWSB). It is a non-governmental branch organization, established during transition to the market economy and represents the national interests in this area. It divides our country to 6 regions. They are - Northern viticultural region "Danube Plain" with 13 wine producers; Eastern viticultural region "The Black Sea Plain" with 10 wine producers; Sub-Balkan viticultural region "The Rose Valley" – 3 cellars; South viticultural region "The Thrace Plain" – 14 cellars; South-western viticultural region "Struma Valley" – 5 cellars; and Sofia region with 1 cellar; These 46 well established wine producers in Bulgaria are using between 40 to 80 % of their capacity, due to the shortage of grape.

Major products of the wine industry are bottled and broached wines. There are more than 25 varieties of white and red wines with registered trademarks of origin. More than 24 types of white and red wines are from designated geographic regions. The sector offers also natural sparkling wines; wine distillates; grape must; high-alcohol beverages (brandy, cognac, vodka and sweetened spirits - vermouth, other aperitifs, anise-flavored brandy, mint alcohol, fruit liqueurs); vinegar; tartaric acid; grape concentrate; whisky.

The APMWSB is going to be replaced by the newly established NVWC in accordance with the new wine law. The National Vineyard and Wine Chamber (NVWC) was established on 10-th of February 2000, in the city of Plovdiv, during eight regular wine exhibition “Vinaria 2000”. The founders are biggest Bulgarian 67 wine producing and wine trading companies – legal entities as well as few other structures.

The Diamond of Competitive Advantages of the Wine Industry In 2000

According to Prof. M. Porter’s model, the wine industry could be classified as an investment driven industry. In comparison with the canning industry, marketing is well developed, foreign market shares have been maintained, there is an experienced human factor, etc. If we use the words of the “Plowing the sea” we have to note that Bulgarian wine cluster is very close to the end of the second stage of changing the mind of the companies/ state. It shows capacity to practice new learning in terms of competitiveness.

Some open issues of the Bulgarian wine industry, structured after the diamond to be developed further within the project are:

1. Strategy:

A draft of Strategy for development of the vine growing and wine producing in Bulgaria till 2030 was prepared by governmental and non-governmental experts and published in the specialized magazine “Vine growing and Wine producing” in the end of 1999. It obviously will help not only Bulgarians, but foreign investors as well by telling everybody that they invest in profitable and long-term business. The draft of the Strategy has following sections: An Introduction; National policy in the field of vine growing and wine producing – substance and objectives; Facts and tools for achieving the national policy objectives – (historical, natural, human, market ones, etc.); Objectives and tasks covering the whole cluster – vine growing, wine producing; Resource provision; Organization and stages of its implementation;

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| When and how Bulgarian Strategy will be further developed and adopted? |
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Some companies already made some comments. E.g. the “Menada Bratya Syarovi 1901” Plc. has markets for twice bigger quantities of their high quality wines in the EU, USA, Japan. Their opinion is that the grape quantity is a major limiting export growing factor. They suggest that the Strategy have also to pay bigger attention to:

- the process of restitution of the land have to be significantly accelerated and functioning land market developed in order to open the way of planting new vineyards and provide necessarily quantities of grape for wine;
- the Bulgarian government ahs to reach an agreement of facilitation of Bulgarian wine sales to Russian Federation – well known Bulgarian wine market;
- each and every tools to be used for facilitation of short and long term financing the vine growing and wine producing;

Red gold – this is one of Japanese wine descriptions. We think that Bulgarian products have their share in it. One of the Bulgarian exporters of broached wines to the Japanese market “Stara izba” – Yambol. They produce only broached wines and are exporting 95 % of their production to Nordic countries and Japan. They are investing in new vineyards and improvement of the quality of their wines.

“Domain Boyar” JS Co officially opened the product of their biggest investment - its wine producing plant “Domain Boyar Sinite Skali” in Sliven in September 1999. It is a most sophisticated wine producing facilities in Central and Eastern Europe. For them tradition is not enough. For success you need also high tech.

“Vinprom – Svishtov” Plc, commencing 1999 has a one sentence strategy “For us, the vineyard is the golden mine”. It exports 90 % of its production to Great Britain, Norway, Netherlands, and Japan. Within few years they would like to triple the vineyards area, their own property, manage the quality of the grape, improving the quality of the wine and increase the profit. Its ambitious program is covered thanks to the established relations with Japanese Sumitomo Co. One example - they produce wine “Posolskoe” - the representative wine of the Russian diplomacy and it’s usually stands next to vodka “Posolskya”.

Which priorities of the company’s strategies will be more adequate to the global market– broached quality wine, high tech production facilities, good own vineyards?

Bulgarian wine presence in Internet world started in early 2000 thanks to the site **Error! Bookmark not defined..** Its development was initiated by APMWSB and includes information about major producers, wine of the month choice, etc.

The Bulgarian wine producers, jointly with Bulgarian National Plovdiv fair established in 1992 an international specialized wine exhibition Vinaria for promotion of Bulgarian wine potential. Ever since, the number of Bulgarian and foreign participants in February show is growing to reach in the year 2000 – 238 participants, including 126 Bulgarian firms, 112 foreign companies from 22 countries from the region and worldwide. Its successful development adds to the competitive options for Bulgarian wines.

2. Demand:

There are two main types of markets – bottled wine with the bigger profit for Bulgarian exporter and broached market, exposed to climate changes and smaller profit;

Agribusiness forum took place in April 2000 in Sofia. There are foreign investors ready to consider investments in Bulgarian wine clusters. It can be a good solution of the financing problem;

One of the former biggest markets - The Russian Federation and other CIS countries has to be recovered. The world biggest potential wine markets like Asia and North America could be more actively developed.

Should the companies try to recover some of the old markets like Russian Federation and/or develop new ones like China, Vietnam?

There is a very interesting French recent development for Recreational Center based on wine and vine products. For example, grape seeds contain anti aging components. The combination of this idea with Bulgarian nature could enlarge the wine cluster by including Bulgarian tourism bases.

Should the companies try to use French experience of Recreational Center based on wine and vine products and develops “wine and grape” service in support of other Bulgarian sectors?

3. Related and supporting industries

There is a shortage of the vine planting materials. They used to be grown on the areas of about 4500 ha before transition and are about 70 ha today. It is definitely going to be an obstacle of the Bulgarian vineyard development as well as for export. The establishment of special state fund “Vine growing” could be one of solutions.

APMWSB estimates that public sectors produces 500 millions kilograms grape, of which 300 millions kilograms is bought by wine producing companies and 200 millions kilograms is for household consumption. There are 600 millions kilograms grape, on top of the industrial production thanks to the household vineyards. The average yield for converting the kilograms of grape into liters of wine is 60 %. So the Bulgarian figures for quantity of industrial production of wine for export is $300 \times 0.6 = 180$ millions liters – 34 millions sold internally = 146 millions liters. Home consumption is 34 millions liters + $800 \times 0.6 = 480$ millions home made wine or 514 millions liters wine. These data could show be of a great support for wine producers and their exporting potential;

Should the cooperation with companies- growers of vine planting materials be increased significantly in a short term?

The specifics of the wine production are needs for significant cash flow for purchasing of the grape and long term financing for renovation of vineyards. Bulgarian financial services offer interest rate, which are several time higher than the EU ones and Bulgarian commercial banks usually are short money for investment few years credits.

Should the wine producers look more aggressively for foreign cash flow and investment financing?

4. Factor conditions

The grape purchasing campaigns for wine production in the 1997, 1998 and 1999 were not done in the efficient and effective manner. It went through “commissioners” which are subtracting value in the wine producing chain.

The major wine export is based on the well-known French grape sorts. The Bulgarian national vine sorts like Mavrud, Merlot, Dimyat, Pamid, Gamza, Melnik, etc. have very big potential, which recently is used to the very limited extent.;

The vineyard renovation with unique and quality Bulgarian vine sorts should become a first national priority.

State policy

There are Bulgarian trade wine marks like “Kadarka”, “Manastirska Izba”, “Sofia” well known for ages is some EU and CEFTA countries. Their status is not quite clear in case of their use by different Bulgarian exporters.

There are some complicated and inefficient administrative procedures like issuing of export forms VII for EU. There is also excise on the wine, which is not the case in most of world wine producing countries. Etc.;

The process of restitution of the land have to be significantly accelerated and functioning land market developed in order to open the way of planting new vineyards and provide necessarily quantities of grape for wine

State has to accelerate land restitution and creation of land market. Practical facilitation of export procedures and trademarks issues is of great importance for wine producers.