

MOLDOVAN WINE INDUSTRY UNDER PRESSURE OF EXTERNAL THREATS

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Abstract: *The Moldovan wine industry has been hunted in 2006 by an external shock that was fatal for the sector. The wine production and exports have registered a dramatic fall. Despite declarations of national authorities that the risks were abolished and the situation has normalized, unfortunately the statistical data shows that exports have not succeeded in past 5 years to reach the level recorded before the shock. That speaks about the fact that foreign market share lost in 2006 was not recovered. And the situation is even more dramatic, because it had serious consequences over economic and financial activity of enterprises in the sector. In this context, considering the strategic role of the wine sector for the Moldovan economy, both the winemakers, and national authorities should undertake urgent measures.*

Key-Words: *wine production, wine exports, technical barriers, re-export.*

1. Introduction

Viticulture and winemaking complex in Moldova has always been a hallmark and a subject of national pride. It is one of the main competitive products made in Moldova that practically do not require importing raw materials for its production. The peculiarity of the soil and climatic conditions of central and southern zones of the country has almost similar parameters to the wine regions of France. As it is well known, a main advantage of French table wines is so-called "drinkability" and lightness. This wine is intended to perfectly complement tasty and even delicious food, promoting its digestion, and not dominate everything. Dry Moldovan wines subject to appropriate technology for their production also meet such requirements.

2. Wine exports development and its impact on wine production

Wine exports, which accounted for about a quarter of the total amount of exports at the beginning of the decade, now make up only 9 per cent. Obviously, the technical barriers that the wine exporters face on one of the main markets – Russia – and which have become more pronounced since 2006 played a decisive role in producing this change. This shock has had a strong negative impact on national wine industry. Although the situation seemed to recover gradually in the last 2-3 years and it is stated frequently by national authorities that practically all barriers have been removed, however the sector development prove to be yet volatile.

Russia suspended imports of Moldovan wines on March 27, 2006 arguing that Moldovan wines failed to meet numerous health and safety regulations. The Chief Sanitary Inspector of Russia claimed that [heavy metals](#) and [pesticides](#) had been found in Moldovan wines. However no proof was ever provided by the Russian side and the other countries importing Moldovan wines have never reported any problems.

Since 2000 till 2006, the volume of wine production and exports registered annual average growth rates of 8 % and 15 % respectively. Since 2006 have followed a 17% reduction in production volume and 14% in exports volume. The analysis of wine production and exports in the last 10 years attests a strong positive correlation between the growth rate of exports and production volume.

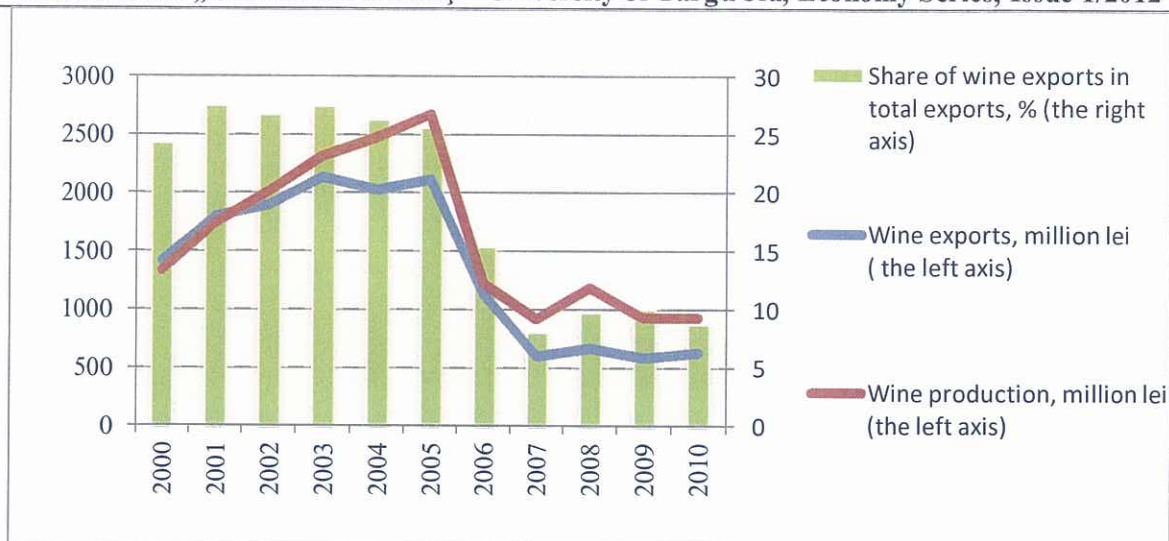


Figure 1. Dynamics of the wine export and production in real terms, 2000-2010

Source: Authors calculation based on data provided by National Bureau of Statistics of Republic of Moldova

After the Russian ban was introduced for Moldovan wines in 2006, the sector was marked by several trends:

- Wine production volume decreased by 65%;
- Wine exports dropped by 70%;
- The share of wine exports in total exports decreased from 26% to 9%.

Taking into account that grapes production in real terms have decreased by only 8% during this period, from 717 million MDL to 660 million MDL, it seems that the main factor that determined the exports and production drop is the ban introduced in 2006 as well as the volatility of other exports market in CIS region. Because of the ban, most winemakers have accumulated huge debts that consequently affected their whole economic and financial activity and which are felt even in present. Developments in the sector in the first half of this year confirm the above statement.

Wine exports registered a negative trend in the first six months of 2011. Exports value dropped by 14.5 % compared to the similar period of the previous year, their value accounting for 54 million USD. The decline was driven both by a 5 per cent fall in export volumes and a 10 per cent fall in unit value. The average price of a dekalitre of exported wine was 10 USD during the first semester, less than in 2009 and 2010 – 13 USD and 11 USD accordingly. The wine exports decreased, accounting for 5372 thousand dekalitres. Wine exports of Republic of Moldova decreased towards all geographical destinations: CIS, EU, as well as to other countries. However the largest fall in the wine exports volume, of 62 per cent, occurred for exports to Russia. They decreased in the first semester 2011 to 909 thousand dekalitres from 2377 thousand dekalitres in the same period last year.

The CIS continues to remain the main market for Moldovan wines with a share of over 80% in 2010. In 2005, 98% (31.4 million dekalitres) of wine exports were directed to this market, of which 75% (25 million dekalitres) to Russia. Even though the volume of wine exports to Russia fell by almost 6 times in the last 5 years, it still remained a major export market in 2010 with a market share of 33.5%. Following the reduction of wine exports to Russia in the first six months of this year, its share fell to 17% in volume and 22% in the total value of exported wine.

At the beginning of 2011, "Rospotrebnadzor"¹ qualified as incompatible with the sanitary regulations 16 lots of alcoholic products from Republic of Moldova, among them eight lots of wine and eight lots of brandy, that amounts to 5941 dekalitres, the argument being that Moldova re-exports² wines³. Although this may seem to be an insignificant amount, given the total volume of the wine exported to the Russian market during the first half of the year - 909.4 thousand dekalitres, these actions, which come along with other actions carried on the Russian domestic market, such as licenses revocation from the wine distributors, including those with whom the exporters from the Republic of Moldova cooperate, suggest a hostile position of the Russian authorities concerning the Moldovan goods. At the same time, according to Comtrade data, over the last 10 years the re-exports of Republic of Moldova of alcoholic beverages, including wines have reached the maximum level of 1% in some years (e.g. 2006, 2007). On

¹ Russia's consumer protection agency

² Re-exports refer to goods exported by a country in the same state as previously imported. The term "goods in the same state" includes goods which did not undergo significant processing that changed their origin. (International Merchandise Trade Statistics. Compilers Manual. United Nations, New York, 2004)

³ <http://www.vinmoldova.md/index.php?mod=news&id=26330>

the other side, the other countries importing Moldovan wines, including EU countries that are considered a very demanding market where the highest quality standards must be met, have never complained on the quality of Moldovan wines.

When looking at the modifications that occurred in the geographical structure of wine exports for the period 2005-2010, it would seem that the situation has indeed recovered: exporters have diversified their markets. Russia's share in wine exports decreased significantly, while the share of Belarus increased more than twice (from 11.5% to 29.2%) and that of Ukraine more than three times (from 5% to 16%). The share of EU countries also increased significantly, from 1.6% to 8.9%. But here there are two important issues that should be taken into account.

- Firstly, the loss of Russia's market share was accompanied by a decline in total exports of more than two times, which were not recovered;
- Secondly, winemakers have succeeded to maintain or increase their exports in such countries as Ukraine and Belarus competing with low prices. In the first semester of this year the value of an exported dekalitre in Belarus was of 8 USD and in Russia of 7 USD, while the average unit value of wines exports was 10 USD. Moldovan wines are exported to EU countries at a unit value of 16 USD.

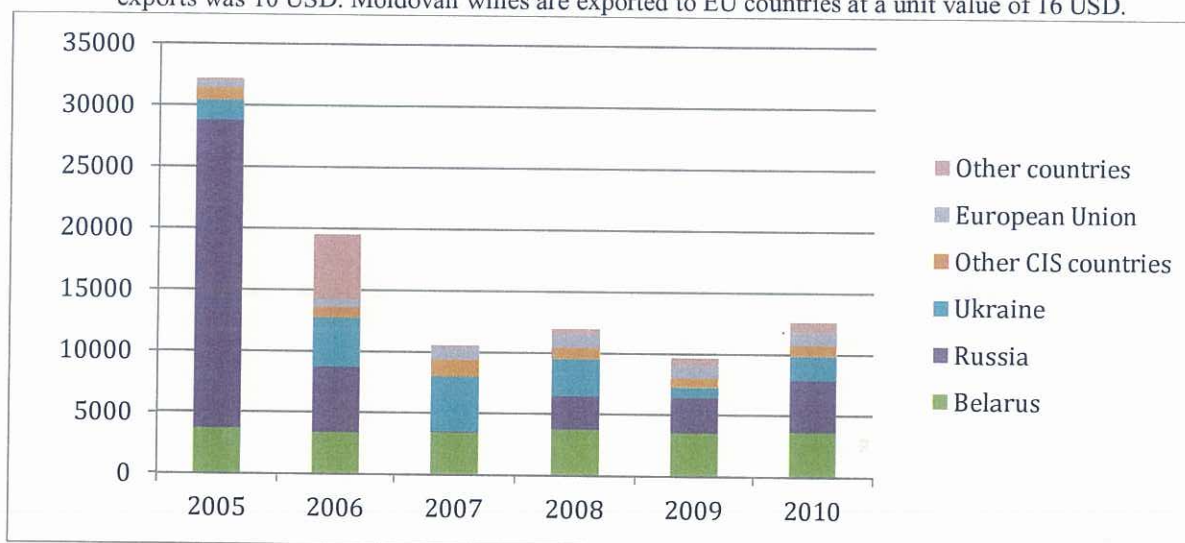


Figure 2. Geographical structure of wine exports volume, thousand decaliters

Source: National Bureau of Statistics of Republic of Moldova

In the context of these evolutions, gaining bigger market share with high quality products became an imperative for moldovan winemakers. An important attribute in this respect is the expansion of tariff quotas for imports of wine granted by the EU in the framework of the Autonomous Trade Preferences asymmetric bilateral regime with Republic of Moldova. Last year's exports quotas for wine was fulfilled at 100% and even exceeded. Given these circumstances, quotas for EU wine exports were increased with 30,000 hectoliters in June of this year. However, a slight decline in exports to the EU countries was registered in the first semester, in particular, as a result of the export price reduction. Thus, only 38.6 per cent of the quota available has been used during this period, while in 2009 and 2010, 69.5 per cent and 72.5 per cent respectively was used of the quota, which represented almost half of the total exports in those years. However, winning a stable share in European wine market would serve as an important quality indicator.

3. Financial situation of wine companies

These evolutions on wine market have had an extremely negative impact on the financial activity of winemakers. In 2010, despite the fact that 151 wine companies have obtained a net profit of 322 million MDL (they recorded losses of 100 million MDL in 2009), their total debts accounted for 4.6 billion MDL. This huge amount is equivalent to the volume of production for 2.6 years. Such a financial failure is hard to imagine. No other industry has dropped so deeply. This means that, all revenues that will be obtained from production in the three subsequent years will be directed to repay these debts! But firms still need to buy grapes; to pay salaries and much more, including interest payments for loans taken earlier ... Also the fixed assets' depreciation has reached a critical 69%.

4. Conclusion and recommendations:

The changes that have taken place on the Moldovan wine market for the last five years by diversifying the exports markets occurred mainly "because of the needs, rather than voluntarily", and once the share of wine exports

to Russia has been reduced during this period, the total amount of the wine exported fell as well by nearly two thirds. Now the many wine companies are threatened with bankruptcy.

This situation should alarm both private sector and public authorities and requires urgent action from both sides:

- Private sector should learn from this lesson and try to reinforce their efforts to improve production quality and diversify export markets, which would help to diversify risk and would make them more immune to external shocks;
- *National authorities should work in common with winemakers* on developing the national wine drinking culture. Also they should promote the image of Moldovan wines on the external markets under a common mark;
- The national authorities should intervene in promoting Moldovan Wines under a single trade mark.

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