Is Georgia the next ‘new’ wine-exporting Country?

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**Old World/New World wine regions**

- For most of past two millennia, Europe (‘Old World’) dominated global wine production and consumption.
- But winegrape cultivation began *eight* millennia ago, in and near Georgia:
  - Spread west from Caucasus/Middle East from 2500BC.
  - Spread north from Mediterranean by 400AD.
  - Only much later got to ‘New World’: Latin America by 1500s, South Africa in 1655, Australia in 1788, Calif and NZ by 1820.
Historically, wine globalization mostly involved tech transfer

- Until the 19th century, wine globaliz’n involved the movement of technology and rootstocks, rather than long-distant trade in wine itself
  - apart from imports by Britain of fortified wine from its colonies and Iberia, & still wine from nearby France
- Share of global wine prod’n exported was <10% prior to 1970s, and only 14% in 1980s (including intra-WE trade)
‘New World’ export take-off in 1990s

‘New World’ share of wine prod’n exported rose from 4% to 37% between 1990 to 2009

- Their share of world prod’n rose from 17% to 28%, and of world exports from 5% to 32% (or from 14% to 54% excluding intra-EU wine trade)

Meanwhile, in Georgia …

- Georgia has long been a wine exporter
  - Has world’s highest wine ‘revealed’ comparative advantage index after Moldova
- But it exports only to neighboring countries
  - Especially to Russia over the past 200 years
    - mainly low-quality, semi-sweet red wine in Soviet era
- Even after the fall of Soviet Union, 70-85% of Georgian wine exports went to Russia …
- … until ban was imposed from late March 2006
- In 2010, still <10% to non-FSU (Ukraine: 52%)
Two other recent negatives

- Russian-Georgian war of 2008
  - entrenched Russia’s trade embargo on Georgian wine
- Ukraine’s devaluation in late 2008 by 40% against the US$
  - Ukraine was by then the destination of half Georgia’s wine exports
  - Ukraine is also seeking to grow its wine exports, although it’s a net importer
Can Georgia become a ‘new’ wine exporter to non-FSU regions?

- It has many positive attributes ...

- ... but also some non-trivial challenges
  - Is a long history, and ancient traditions and technology, enough to entice purchasing by Western wine consumers?
Georgia’s advantages include:

- a history of 8000+ vintages, longer than any other country
- a wide diversity of terroirs in which winegrapes can thrive
- more than 500 unique *Vitis vinifera* winegrape varieties, of which 300 are in production
  - However, 4 varieties account for all but 1/8th of total wine grape area
## Winegrape varietal concentration

<table>
<thead>
<tr>
<th>Variety</th>
<th>Share of area (%)</th>
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<tbody>
<tr>
<td>Rkatsiteli</td>
<td>53</td>
</tr>
<tr>
<td>Tsolikouri</td>
<td>16</td>
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<tr>
<td>Saperavi</td>
<td>10</td>
</tr>
<tr>
<td>Tsitska</td>
<td>8</td>
</tr>
<tr>
<td>Others</td>
<td>13</td>
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- a unique and ancient organic production method (*qvevri*), possibly to be nominated for UNESCO cultural heritage protection
Qvevri vessels
Georgia’s advantages include:

- low chemical and water applications even in its more-modern styles of production
- low labor and viticultural land costs by Western standards
- a unique and authentic food/wine/hospitality culture
  - ripe for wine tourism development
A Georgian ‘supra’
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- low labor and viticultural land costs by Western standards
- a unique and authentic food/wine/hospitality culture
  - ripe for wine tourism development
- a reputation (especially in Russia/FSU and among diaspora elsewhere) for approachable semi-sweet red wine and for high-quality brandy and *chacha* (grappa); and
- beautiful mountain-backed landscapes and stunning historical architecture at the eastern edge of Europe to add to the attractions for food-and-wine tourists
6th century Alaverdi Monastery
Recovery since 2006 embargo shock

- Georgia continues to have 2\textsuperscript{nd} highest wine comparative advantage index, after Moldova
Index of wine comparative advantage, 2006-09
(wine’s share of national exports/wine’s share of global exports)
Recovery since 2006 embargo shock (cont.)

- Georgian wines winning awards in int’l competitions including 20 last week in Decanter’s Wine Awards in HK
- From July 2011, EU recognizes Georgian GIs
- Georgia has joined the World Wine Trade Group
- Wine now exported to 40 countries
  - But mostly still to CIS: top three markets in 2011 were Ukraine (52%), Kazakhstan and Belarus
Georgian wine export destinations, 2010: still less than 10% in western markets
Key countries’ shares of global wine imports, 2007-09
Indicators of scope for further export development

- Share of Georgian wine prod’n exported is <15%, still <1/3\(^{rd}\) of its 2005 peak
  - Compared with >60% in Moldova, Macedonia
  - Also >60% in Aust, NZ, Chile,
  - and 30% in Austria, up from <5% in late 1980s

- Note, though, that of its *commercially labelled bottled wine*, Georgia may be exporting >80% of total prod’n
Share of Georgia’s wine production (including non-commercial) exported, %

- Data for years 1995-2010 is shown in the chart.
Share of wine production (including non-commercial) exported, 2009 (%)

- Moldova
- Macedonia
- New World
- W Europe
- Bulgaria
- World
- Austria
- Ukraine
- Hungary
- Georgia
Share of wine production exported, 1985-89 to 2007-09 (%)
Shares of wine production exported, New World, %
Georgian vs New World wine exports (US$m)
Indicators of scope for further export development (continued)

Georgia already has a very high share of cropland under vines, so scope for increase in area may be limited (unlike in New World)
Share of crop land under vines, 2008, %
Indicators of scope for further export development (continued)

- Scope for domestic sales volume growth is limited, because already very high per capita, given current income level
  - Although in long run it could still double, to match EU-15, and could switch to higher quality
Wine consumption per adult, 2009
(litres/year, including non-commercial)
Wine markets, incl. non-commercial domestic consumption, 2009 (ML)
Indicators of scope for further export development (continued)

Average price of Georgian wine exports is very high by world standards

3rd only to France and NZ for all wine
  • But many others now export more in bulk: share of New World’s wine exports in bulk rose from 23% in 2001 to 43% in 2010

Equal 4th with Austria for still bottled wine
  • Worth emulating (but hopefully more rapidly) its recovery from its 1980s shock?
Average price of wine exports, 2009 ($/l)
Opportunities for Georgia include ...

- **CIS**, since other CIS countries removed far more of their vineyards in 1980s than Georgia

- Consumption/adult in wine-importing countries of **Europe** continues to grow, despite recession and more-stringent consumer regulations

- Consumption/adult in **Asia** (esp. China) is growing rapidly, albeit from a low base
  - and China’s own production is not keeping pace with its consumption
    - Its self-sufficiency has fallen from 93% to 85% since 2000
  - Asia’s wine imports are higher-priced than West’s
Wine production in transition countries (Ml)
Prospects for wine exports to emerging Asian economies

- Developing Asian markets promise to continue to grow because:
  - Incomes are rising rapidly
    - Developing Asia’s share of world GDP will double by 2030, to 1/3rd, when its per capita income will be 2/5ths of global average (up from 1/4th in 2007)
  - Despite recent rapid consumption growth, wine from grapes accounts for <4% of volume of Asia’s alcohol consumption, compared with 16% globally
What implications for Georgian wine exports (and inward FDI)?
What potential for Georgian wine exports?

Reminder of Georgia’s many strengths:
- longest history
- genuine wine/food/hospitality culture
- many unique varietals
- diverse terriors
- unique production method (*Qvevri*)
- few chemicals used in production
- low labor and land costs

*But*, many of these are also features of established wine-exporting countries
- and labor-saving technologies cancel low-wage advantage
“Something’s just not right—our air is clean, our water is pure, we all get plenty of exercise, everything we eat is organic and free-range, and yet nobody lives past thirty.”

By Alex Gregory in the New Yorker
Some challenges

- wide range of wine qualities
  - with a new minimum price for grapes generating a surplus of low-quality wine, exported by an SOE winery in bulk
- currently well-known and appreciated only in FSU
- preferred style domestically (Qvevri ‘amber’) and in CIS (semi-sweet red) is not familiar/popular in West
- wine tourism in its infancy: poor infrastructure
- some Western markets moving away from heavy wine styles, to finer food wines
Potential for Georgian wine exports (cont.)

Still, great opportunities (in addition to possibility of renewal of exports to Russia, following recent election in Georgia)

- Scope to borrow latest grape, wine and marketing technologies from abroad
  - including leap-frogging via ‘flying vigneron’s’

- Potentially strong interest in inward FDI (which would speed technology transfer)
  - production and exports will be too small to depress international wine prices or displace key players in int’l markets
What’s needed to keep Georgia’s wine exports growing?

- Target a small range of markets, with a small range of most-promising varietals
  - **New Zealand** succeeded with 70% Sav. Blanc
  - **Austria** succeeded with mostly Grüner Veltliner
  - **Argentina** focused on raising quality of Malbec initially, and now a couple of other varieties
- Promote generically, not just 1-2 varieties or regions
- Use Qvevri technique to attract experts’ attention abroad, even if most export growth requires standard Western technologies
What’s needed to keep Georgia’s wine exports growing?

Avoid low-priced end of int’l market?

... even though it could allow rapid expansion of wine export volume

because it’s a very overcrowded market, with low/zero profits, and increasingly dominated by bulk wine destined for supermarket retailing (incl. ‘home’ brands)
Argentina’s vine varietal diversification/internationalization

Since 2001, Argentina has expanded its wine exports (in US$) at >20%/year
Yet its vine area expanded by just $1/6^{th}$
However,
  - Area of high-quality int’l varieties grew 28%
  - Area of lower-quality/local varieties shrunk 15%
    (and share fell from $1/3^{rd}$ to $1/4^{th}$)
  - So, a big move away by exporters from traditional domestic style (as also in Austria and New Zealand)
What’s needed to keep Georgia’s wine exports growing (continued)?

Will require major new investments in:

- articulating industry’s long-term strategy
  - to attract investors’ attention
- generic ‘Wine Georgia’ promotion campaign
  - in conjunction with domestic & int’l tourism push
- generic R&D + targeted extension of findings
- Skill upgrading in viticulture, in oenology, and in wine marketing and financing

Which in turn requires strong, united leadership within industry
What’s needed to keep Georgia’s wine exports growing (continued)?

Requires more-helpful support from govt, e.g. switching from minimum guaranteed grape price (burden on private wineries, led to re-creation of an SOE) to investment expenditure that will:

- expand tertiary education & other training in viticulture, oenology, wine business, tourism
- boost research and extension, to lower grape and wine producer costs or raise quality
- boost generic promotion to raise export demand
- improve grape & wine industry statistics
- help develop tourism infrastructure in Kakheti
- attract investor interest, via Invest in Georgia
How much should be spent on generic promotion and R&D?

- Australia spends close to 1 US cent/litre on promotion (Bordeaux, >3 cents) and about 2 cents/litre on generic R&D.

- So if Georgia, with prod’n near 100ML/yr, matched Australia’s commitments,

=> $1million/yr on generic promotion, & $2million/yr on R&D & extension

[or half those amounts if based just on exports and they are trebled by 2015]
Thanks!

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www.adelaide.edu.au/wine-econ