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TRENDS IN THE WINE SECTOR DEVELOPMENT

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The European vine-growers impetuously lose market share on account of the active producers from the New World. The buyers more and more often prefer exotic Chilean, Australian and even American wines, which compete with quality and prices the Bulgarian brands, supplied in the European market. Consumption drops, import quickly increases while export grows with slackened pace. Seeking a way out of the crisis and without limiting the wine production budget, Europe is looking for an intelligent way to return its lost market share.

The overproduction of wine in the EU is expected to reach almost 13 m. hectoliters per year. On the other hand the budget, which the wine producers have at their disposal amounts to EUR 1.3 billion, but it is not spent efficiently – almost half a billion Euro are spent for processing of wine, for which there is no market. Even in countries where consumption is growing, the wines coming from the New World are often preferred to the European. If no reforms are undertaken, till 2010 the production surplus is expected to reach 15% per year. Under these conditions the European Commission called for encouraging the export, and the member countries to limit vineyards'eradication in erosion and hilly regions.

There are around 2,4 million wine producers in the EU in more than half of the member countries. The vineyards take nearly 3,6 million hectares of EU area and 5% of the agricultural production value. EU has a long-term established system for support of the European vine-growing sector. Thanks to the common budget in the sector, producers from the whole EU can make use of the EU support on an equal footing, depending on the separate regions' specific needs. From the better utilization of the available funds gain all wine producers in the EU, as well as the European consumers, the rural areas and the fans of wine worldwide.

The reform in the wine sector in EU will enter into effect on August 1, 2008. Within the reform's framework the wine producers will have the possibility to use the new funds for incentives, environment protection and modernization of the rural economy. The producers that are uncompetitive can give up this activity, for which they will be compensated, and their land can be used for growing other crops, as they will be requested to maintain the land in good condition in view of ecology. Others may improve the quality of their production using the financial support for restructuring the farms. More funds will be used for stimulation of responsible wine consumption. Elaboration of the labeling rules and implementation of new techniques will lead to a bigger variety of products for the consumers and will reveal more information for them when making a choice.

After implementation of the reform all non-efficient measures for market support are to be obliterated. This refers to the financial support for preservation, for export subsidies and subsidies for supplements for dressing the wine. The most problematic among them is the ban for use of sugar or sucrose, as those components are not extracted from the grapes. A number of financial incentives are provided to encourage the wine producers with no competitive power to root out their vineyards and to leave this sector voluntarily. On the other hand, in order to receive EU subsidies, the vine-growers will be asked to apply certain standards for environment protection. The restriction for planting new vines will be valid till 2013, and 200 hectares of old vines have to be rooted out until then. The idea is for gradual falling away of producers, who do not have market for their wine. The survivors will be able to increase the areas under vine after suspending the restrictions. Simplification and improvement of the labeling rules is planed in order to make easier the identification of the brand. The vintage year and the vine brand will be mandatory on all labels. There will be only two wine classes – table wine and vintage wine.

Powerful investments will be poured in advertisement of European wines and also for informational campaigns for encouraging "responsible and moderate wine consumption". National financial packages will be introduced together with the measures related to the common market. Each separate country will decide what to do with them in order to encourage, restructure and modernize the producers and how it will react in crisis situation. The projects for development of agrarian areas related to wine will be consistent with the countries' national peculiarities.

2. Reform of the wine sector in Bulgaria

The Bulgarian wine sector entered the EU without any shocks. It is one of the few sectors in Bulgaria, which comply with all European requirements for quality and good production practices. The producers of wine grapes in Bulgaria affected by the EU measure "Restructuring and Conversion of Vineyards" are expected to receive EUR 6.2 m. free aid. Suspension of the subsidies for preservation and export is useful for the Bulgarian wines because it levels the conditions and their possibilities to search markets and clients with those of the companies from other European countries. Our producers have never yet received a similar financial support. In return they will receive a serious incentive through the European funds and programs for advertising our wines in third countries as in Russia and Asia. Upon 64% growth of the export for the Russian market, the co-financing of participations in expositions or the elaboration of huge advertisement campaigns of quality Bulgarian wines in Russian gives new opportunities for change of the sold there wines' assortment. Now, the quality Bulgarian wines are only 8% of the totally exported to the Russian Federation, but they are expected to reach 15-18%.

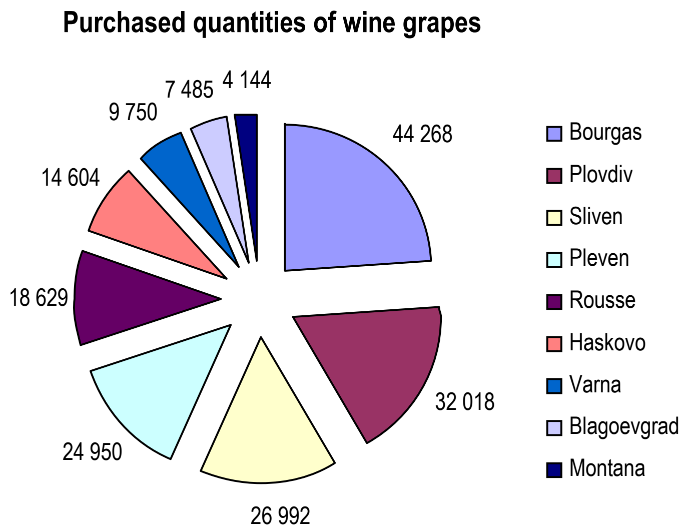
The hottest disputes were provoked by the ban for use of sugar. This is an issue, on which the northern and the southern countries have different positions. The Law on Wine adopted in Bulgaria in 1999 and the following supplements to it dated June 2006 allow reinforcing the wines from the respective vintage up to 2%, but by the explicit order of the minister of agriculture. Sugar, which has no grape origin, is used mainly for table wines destined for particular markets, where the price levels and the traditional national tastes permit that. This does not lower the wines' qualities and does not harm the consumers' health. Wines in Germany and Austria cannot be produced with sugar. In Burgundy too the grapes cannot ripen well. Therefore, the local producers vote against the ban. Most Bulgarian wine producers cannot yet compete with their European colleagues. That's why the wine producers' efforts are directed to improving and replanting the vineyards.

The EU departed from its initial intentions and did not impose restrictive measures in the sector. Instead of imposing a total ban on the use of sugar, the European MPs decided to adopt a marginal concentration of 1.5% for reinforcing wines. In rainy ears the sugar contents is allowed to reach 2%. The reform introduces the possibility for notation of sort and year of production on labels of wines without origin and geographical indication, which is important for wine producers in Bulgaria.

Bulgarian wine-producers and vine-growers will receive financial aid of nearly EUR 166 m. for the period 2008 - 2015. It will enter into effect on July 1, 2008. The sector can be supported in eight directions, the most important of which is vineyards' restructuring. The proprietors will also be assisted upon insuring the vintage, vintage of unripe grapes and etc. Incentives shall be introduced for establishing mutual aid funds and market measures for support of wine producers upon modernization of the enterprises.

3. Vine-growing potential and wine production

There are over 73 000 vine-growers registered in Bulgaria and the country has defended before the European Commission a vine-growing potential to the amount of 153 500 hectares. According to data of the National Vine and Wine Chamber there are 255 vine enterprises registered with it, of which 174 are actively performing. 171 209 518 liters of wine are produced in 2006. The produced quality wines with certificate of origin are 11 292 595 liters. The expected wine production for 2007 exceeds 170 m. liters. According to Executive Agency of Vine and Wine statistics the vine enterprises have purchased 182841,815 tons of wine grapes in 2007.



The larger part of wine producers availed of the huge supply with raw material in autumn 2007 and purchased it at lower prices – up to 40 stotinki per kg. The year the prices are expected to move within the range of 45-60 stotinki per kg. In Bulgaria there is shortage of white wines and raw material for their production. Large part of the home-made wines is red and that is why there is larger demand of white wines in shops.

4. Demand on international markets

Our accession to the EU does not mean that the market has been already open for Bulgaria. In the big EU countries we sell small quantities of wine. Mainly typical Bulgarian sorts are demanded - Mavrud, Melnishko and even Dimyat and Rkaciteli. Foreigners find exotics in these wines. The truth is that to a large extent the country has lost the markets in Western Europe, despite of the fact that we are in EU. Our sales have decreased by 62-65% versus 2005 and our placement in these countries decreases year by year. For the time being our only significant export niche is Russia.

The competition in EU is strong. Wines imported from Argentina, Chile, Australia and New Zeland have lower prime cost. The raw material for their production is of higher quality, because there are more sunny days there. Bulgarian producers will hardly bear the competition. The Bulgarian chance stands in the new vineyards, which will ensure better grape. We can not expect that in Bulgaria there will be more sun and that vineyards won't get damaged by frost. EU programs offer great possibility for supporting the competitive power of Bulgarian wines. Cheap wines from EU countries are already in sale on our market, as well as from South America and Australia.

Bulgarian wines have almost no chances to penetrate on the markets of rich countries from Western Europe and the reasons for this are mainly in the lack of quality. Mainly cheap Bulgarian wines are demanded in the other countries from the European Union. Currently we are far behind all well-known wine producers in EU and the New World – Australia, New Zeland, Chile and Argentina. Presently our wines are demanded in Western Europe, but in the low price range – from EUR 1,5 to 2 per bottle. Brands, which in Bulgaria are sold for BGN 15, in Germany for example, are placed for EUR 2, which simply means that the wine is not one and the same. The penetration of wines from the EU (Spain, Italy, France), South America (Chile and Arhgentina) and Australia on our market, shall make Bulgarian producers either improve quality or drop out from the market. The hope that we would be able to sell everything on the Russian market is groundless, because there are very strict criteria there for the quality of imported wines.

We export small quantities of wine for Belgium and Austria. We manage to sell in the average price segment. From the white wines most demanded sorts are Ottonel, and from the red wines - Cabernet, Merlot and Mavrud. Presently below 10 percent of the vineyards in Bulgaria are with typical Bulgarian sorts - Mavrud, Melnishka and Gamza. The strategy of wine producers is connected to redirecting to the segment of high quality wines.

5. Wine export

The export for Y2007 is expected to reach above 120 million liters of wine, which is by about 9% more than 2006. Two years ago the companies exported 90 million l. of bottled wine and 20 million t. of draught wines, and only for the ten months of last year, the quantities reached 100 million tons.

Two thirds of the Bulgarian wine is exported to other countries, as Russia remains our largest market. According to preliminary data of the National Vine and Wine Chamber, last year Bulgaria exported to Russia 600 000 hectoliters of bottled and 150 000 hectoliters of draught wine. Currently Bulgaria holds one quarter of the wine market in the Russian Federation. In 2006 in total the export from Bulgaria was 1,122 000 hectoliters, as biggest buyer was Russia with 585 000 hectoliters of bottled and 138 000 hectoliters draught wine. Poland ranked second at that time, with 182 000 hectoliters and Germany with 27,6 000 hectoliters of draught wine. Then came Great Britain with very small quantities (23 000 hectoliters) and the Scandinavian countries. For Y2007 it is difficult to follow up the sales in EU countries, because they are now internal market for our producers.

There is stagnation with regard to European market and Bulgaria is affected by this process. The Russian market actually avails of the trend for export of wines from West to East, and Bulgaria has been a traditional exporter with largest share there for several years now.

For 2007 the export of wine from Bulgaria to third countries will be above 750 000 hectoliters /600 000 hectoliters for bottled and above 150 000 hectoliters for draught wines.

According to initial data for Y2007 our country has utilized 27% of the EU export quota for bottled wine, 50% for draught wine and 98% for sparkling wine. Russia, Belarus and Poland continue to be the countries, which buy cheaper Bulgarian wines. According to experts the prices from producers for Russia were between 0.85 eurocents and EUR 1.15 per bottle.

Bulgarian wine-producers seek for markets in the East, outside the European Union. The sales in EU are quite shrunk. That is why efforts are directed to advertising and promotion campaigns of Bulgarian wines to third countries. The policy for transformation of the vine sector is expected to be encouraged and directed towards wines of higher quality for the European market. Presently Bulgaria exports wine for Japan and the Scandinavian countries. Our country is in a lower price category, and the very process for lifting up the wine category is very complicated. This thing happens with a lot of promotion and various market tools – something that Bulgaria shall develop in the future.

6. Investments

In our country there is marked investors' interest both by Bulgarian and foreign companies in vineyard restoration and development of wine produce. Initially this process started in Vinprom-Svishtov. So far 800 decares of own vineyards have been created there. Some of them already give yield. From the young vineyard in Gorchivka area, near the village Balgarsko Slivovo comes the name of the homonymous wine with controlled geographic origin. The wine plant in Liaskovo also invests in new vineyards. The developing wine-cellar Lovico-Suhodol successfully takes care of around 3000 decares of vines. Last year 300 decares have been planted there with new plantations of the demanded sorts Gamza, Syrah, Cabernet Sauvignon, as well as Merlot and Petit Merlot. This year some 500 decares more of young plantation will be planted, which in up to three years shall begin to give yield.

The Sofia company Bulmex, which invested EUR 30 million for restoration of the wine-plant in the town of Strajitsa, shall plant 3000 decares of the sorts Merlot and Cabernet. 1000 decares have already been purchased from the nearby villages. The father and son Mathew and Bisser Belchevi, who bought the wine-cellar in Polski Trambesh, invest BGN 600 000 in planting 160 decares with new French sorts.

A German company has purchased half of above 400 decares of vine plantations in the village of Gorski Goren Trambesh, situated near Gorna Oriahovitsa. Gulbanis Vine OOD has ambition to plant vines of Italian sorts. Over BGN 3 million have been invested in new vines also near the Veliko Tarnovo village of Tserova Koria. The young vines already give yield.

This year Kilifarevo expects harvest from 200 decares of vines. The plantations are property of Lozenska Loza EOOD and the Sofia businessmen Stoyan Zhelev and Ivaylo Zheglov. The funds invested amount to EUR 1 million. Together with land expansion to 400 decares, the investment shall be doubled.

Another traditional vine-growing branch is returning to our country – production of vine planting material. In the regions of Kilifarevo and Suhindol the production of vine planting material was not only for own needs. It was also meant both for the domestic market and for exportation. Now in Lovico-Suhindol this is made with grafts and stocks, branch selection from France. From them are obtained young wines and proper for wine ageing.