

COMPETITIVENESS OF WINE EXPORT FROM THE REPUBLIC OF SERBIA

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Abstract

The authors of this paper analyze export and competitiveness of wine export from the Republic of Serbia. Main goal of the research reflects in perceiving basic features of export and competitiveness of wine export from the Republic of Serbia on international market. The analysis encloses time period 2004-2007.

The amount of wine export is very modest and, in observed period, was realized average export of 8,6 million litres, which value amounts 9,6 million USD. Only 5% of total domestic production is exported. In export structure dominate CEFTA agreement signatory countries.

Export price of wine from Serbia is doubly less in regard to average world price, and thrice in regard to the biggest world exporter – Italy. Average export price of wine produced in Serbia is on the level of 1,11 USD per litre. The export structure is very unfavourable, i.e. dominates wine in bulk (90%), while only 10% of total export makes wine in bottles, which, for sure, reflects to attained export price.

The authors quote that main limitation factors of Serbian wine export are small surfaces under grapevine, inappropriate structure of production, i.e. lack of qualitative and top-class (famous) wines. The wines which produce in Serbia, on international market, are competitive by price. However, low quality represents limitation factor of competitiveness increase. Unfavourable production structure and wine export represents one more limitation factor of competitiveness increase. In total wine production in Serbia, top-class wines participate with less than 15%, participation of qualitative wines is 20%, while the higher participation, more than 65%, have table wines, and more produces white (64%) than rose wines (36%). Previously mentioned is in opposition with demand trends on international market. Along with quality increase and change of production and export structure, there can be expected also increase of Serbian wine prices on international market.

Analyzing the world turnover of wine, the authors resolve that leading exporters of wine have developed production and long tradition in wine export. Besides, there are series of governmental stimulations, aiming at export increase, which is significant from aspect of competitiveness increase.

The European Union has increased wine export quota from 55 to 63 thousand hectolitres to the Republic of Serbia for duty free export, and mentioned decision on export quotas increase represents an incentive for faster development of viticulture and wine production in Serbia.

As an imperative, the authors quote increase of high-quality wines participation in export, which have higher price in regard to table wines. They find that own chance for export must not be looked-for in quantity, because Serbia is relatively small wine producer, concerning high quality according to selected market segments, but also that Serbia must leave the path of industrial wines and produces only high-quality wines. In this paper has been pointed out to necessary measures, aiming at more dynamic export and competitiveness increase of wine export from Serbia.

The Authors find that main focus should be on intellectual capital, which means permanent education of producers, in order to get wines of the highest quality which will find their consumers in a competitive world market.

Key words: wine, export, competitiveness

1. Introduction

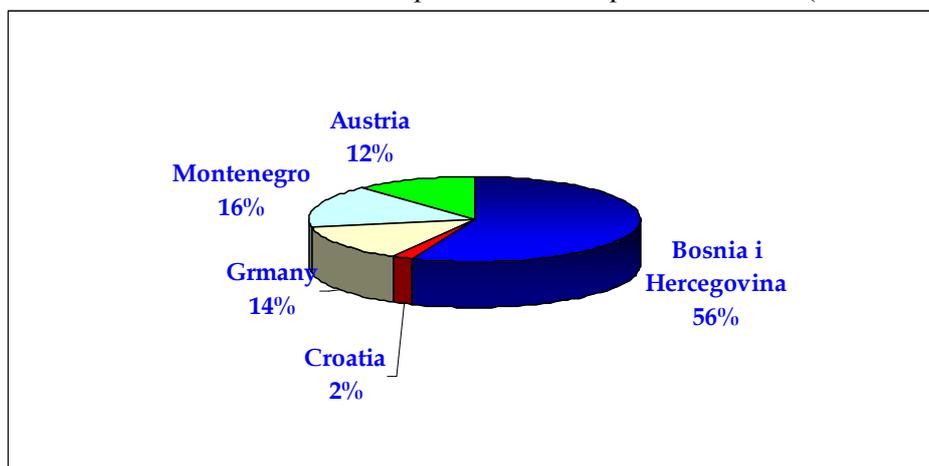
Each country tends to increase its own export and insure high competitiveness level on international market. The competitiveness depends on economic entities' capability to export own products, along with parallel efficient use of all resources, in order to satisfy consumers' needs. Main goal of the research is to perceive basic characteristics of export and wine export competitiveness from the Republic of Serbia on international market. Basic resources and data were taken over from statistical base of the Republic Institution for Statistics, for time period 2004-2007. There has been used FAO and USDA data. The research bases on, so called, „desk research“and represents processing of available data, along with appliance of standard statistical-mathematical methods.

2. Research results

2.1. Wine export from the Republic of Serbia

The Republic of Serbia has realized average wine export of 8,6 million litres in period 2004-2007, which had amounted 9,6 million USD. Only 5% of total domestic production is exported. The most important foreign-trade partner is Bosnia and Herzegovina, where realizes in average 4,8 million litres, some more than a half (56%) of total wine export. With this country there is an agreement on free trade, which applies since 2002, while complete liberalization has been in effect since 2004, with exception that BH, since than till nowadays, has introduced one-sided, many times, various limits on import from Serbia. Montenegro comes after with 16%. Some less significant buyers are Germany, Austria and Croatia (picture 1). Those countries have absorbed almost entire wine export from Serbia.

Picture 1 - Structure of wine export from the Republic of Serbia (2004-2007)



It is evident that, in export structure, prevail CEFTA Agreement signatory countries. CEFTA 2006 in transitional period, which will last the farthest till 2010, holds trade liberalization level achieved in accordance with individual agreements on free trade. Numerous factors affected to realize wine export from Serbia, such as:

- ✓ Volume and structure of domestic wine production. Average wine production in the Republic of Serbia, in observed period, was amounted 178 million litres,
- ✓ Level of demand, i.e. wine consumption in the country. Total wine consumption per capita is 16 litres (2006), which means that total needs of domestic market amount around 120 million litres,
- ✓ Relation between prices on domestic and international market,
- ✓ Agrarian policy measures, first of all, height of government incentives for export-oriented production and similar.

Main limitation factors for bigger export are small surfaces under grapevine, inappropriate production structure, i.e. lack of qualitative and top-class (famous) wines. In the structure of domestic wines dominate table wines, with 65%, than follow qualitative with 20%, while top-class wines participate with just 15% (*www.poslovni magazin*).

France represents the biggest world wine producer, with 18% of world and almost one third of EU wine production. The wines produce in several wine regions, the most famous are *Bordeaux*, *Burgondy* i *Shampange*. The grape grows on around 800 thousand ha of vineyard and here produces around 7-8 milliard bottles of wine (*www.vinismo.com*).

International wine market is very fed up, so there is not at all easy task to export wine. Value of wine turnover on international market amounts 22 milliard of USD annually (2007). The most important wine exporter is Italy, with 1,8 million tons, which is one

fourth of world export and earns about four milliard USD (FAO, 2007). It represents also a second world wine producer (behind France). Major part of export it places on USA market. Major part of wine export is in class between table wines and wines with controlled geographic origin. The most famous export commercial red wines are: „*Chianti Classico*“, „*Barolo*“, „*Brunello di Montalciano*“. Among white wines dominate „*Fiano di Avallino*“ and „*Greco di Tufo*“, which origin from region *Alto Adige*, i.e. *Campanie* (www.vinismo.com, 2008.). Toscana is famous after production of rose wines, however, significant places in export take also white wines, like „*Gavi*“, „*Arneis*“ and „*Vernaccio di San Gimignano*“. Than follows France, Spain, Australia, Chile. Those countries produce almost three fourth of total world wine export. They have high production and long tradition in wine export. Besides, there are numerous government incentives in order to increase export.

The biggest wine importer in the world is Germany, which imports 1,3 million tons, or 17% of total world import (2007). The import is a result of relatively high demand on the market. Goal is also to supplement assortment with various qualitative kinds of wine. It is characterised by often wine re-export, which buys in bulk, mix with various sorts and export in bottles. The biggest world importers are Great Britain, USA, France and Russia. Together they absorb more than half of total world wine import.

EU is the biggest world producer, consumer, exporter and importer of wines. In last years, it had lost a part of its traditional markets for wine export, because of competitive cheaper wines from Australia, Chile, New Zealand and United States, and also marks drastically increase of import.

2.2. Competitiveness of wine export from the Republic of Serbia

Export price of wine from the Republic of Serbia is on the level of 1, 1, USD per litre (table 1). It depends on kind of wine (table, qualitative with protected geographic origin, top-class wine etc.) and export method (in bottles or goods in bulk). Export structure is very unfavourable, i.e. prevail wine in bulk (90%), while just 10% of total export does wine in bottles. This definitely reflects to attained export price. The highest price achieves wines which export in Croatia and the lowest which export in Austria.

Table 1 - Export price of wine from the Republic of Serbia to countries-the most important buyers(2004-2007)

<i>Country</i>	<i>Export price, \$ per litre</i>
✓ <i>Croatia</i>	1,78
✓ <i>Montenegro</i>	1,44
✓ <i>Bosnia and Herzegovina</i>	1,27
✓ <i>Germany</i>	0,56
✓ <i>Austria</i>	0,49
<i>Average</i>	<i>1,11</i>
Source: account based on Foreign Trade Statistics, Belgrade	

It is indicative that export price of wine from Serbia is significantly lower than realized world average price, which amounts 2,60 USD per liter. EU export price amounts 2,8 USD per liter. Italy, as biggest world exporter, realizes export price of 3,36 USD per liter. As for more famous wines, their price depends also on certain year of production quality. The price is also caused by economic situation, and by quantity of current reserves.

It is necessary to utilize physical and financial capital to its maximum, and special attention should be given to intellectual capital. Since physical and financial capitals are significantly limited in the agriculture of Serbia, we find that focus should be at intellectual capital. This means permanent education of producers and exporters, in order to get the wines of highest possible quality.

Knowledge should be a dominant factor of development in this area of production and export. At the same time, this represents the essence of Lisbon agenda. According to this agenda, EU should by 2010 focus at economy based on knowledge, in order to retain the advantage, comparing to the world's most developed countries.

Evidently, the Republic of Serbia is price competitive on international market, but than a question of quality is put. Along with quality increase and change of production structure and export, there can be expected also increase of Serbian wine price on international market. Namely, in total wine production in Serbia, top-class wines participate with less than 15%, participation of qualitative wines is 20%, while the highest participation, more than 65%, have table wines. It is opposite to demand on international market.

Change in the structure of domestic production towards needs and demands of international market, is necessary. This means change in the assortment, as well as constant improvement of production techniques and technology. In order to achieve this, it is necessary to apply modern trends related to production, packaging, distribution and

promotion of wine. Constant and permanent education of wine producers is a necessary condition for improvement of wine quality and export from Serbia.

White wines are ahead (64%) of rose wines (36%) (*www.poljoprivreda.info*). In the world, at the moment, is bigger demand for rose wines, while in our offer dominate white wines. For example, in total structure of wine production in France dominate rose wines with participation of 73%, while white wines participate with 27% (*Ribero-Gajon, www.ambafrance.srb*).

Increase of Serbian wines competitiveness on international market is possible to base on following activities:

- ✓ Improve quality according to standard of signatory countries – to certify system of safety and quality, first of all, EUREGAP and HACCP standards.
- ✓ It is necessary to direct producers to production of qualitative wine sorts of grapevine, in order to get qualitative wine.
- ✓ To respect tradition, along with modern production technology appliance. In order to get as better as possible wine features, there must be taken care on production technology.
- ✓ To obey strict hygienic requirements in production.
- ✓ To reduce production costs in order to get more favorable prices on international market.
- ✓ Highest export incentives by the Ministry for Agriculture. The amount of incentives for 2009 for wine is 5%. Right to use these assets do not have exporters who export goods of domestic origin on territories of Free Trade Agreement signatory countries in Central Europe (CEFTA 2006), as well as export of qualitative sparkling wines and wines of fresh grape on EU market within preferential quotas. There can be concluded that export incentives for wine are very modest and do not represent more significant stimulus of export.

Among mentioned, in order to increase surfaces under vineyards, improve quality and strengthen competitiveness of Serbian wine, it is necessary also next (*Ekonomist, 2007*):

- ✓ Bringing Law on wine, which must be adjusted to EU regulation,
- ✓ Faster and more significant increase of surfaces under vineyards before accessing the EU, because of possibility to use incentives from EU (it is possible to use by financial support for newly planted areas raising, adoption and construction of wine-cellars, equipment purchase etc.),
- ✓ Setting up Viticulture (cadastre) and Wine Register,
- ✓ Intensive support to marketing, wine promotion, design of package, export of Serbian wines to new markets, affirmation of autochthonous grape sorts,
- ✓ Production increase of wines with controlled geographic origin,
- ✓ Setting up the system of laboratories for wine analysis in accordance to EU standards and protocols and O.I.V.,

- ✓ Setting up scheme of grapevine seedlings production certification. EU and Serbia obliged themselves, by Protocol on Wine, to respect mutually geographic origin marks and traditional names of wine and other alcoholic beverages.

Hence certain conclusion arises, that the imperative is export increase, first of all, of high-qualitative wines, with much higher price in regard to table wines. We think that real chance for export is not in quantity, because we are relatively small wine producers, but in high quality according to selected market segments. Serbia should leave the path of industrial wines and produce only high-quality wines. There should try specialization of production on less series of high quality (e.g. wine „*Bermet*“ etc.).

3. Conclusions

- Average wine export from the Republic of Serbia is 8,6 million litres, which amounts 9,6 million USD.
- Major part of wine export from the Republic of Serbia is directed to Bosnia and Herzegovina (56%), than Montenegro, Austria, Germany and Croatia.
- Export price of wine from the Republic of Serbia is doubly less in relation to world price.
- To direct to production of qualitative, first of all, red wines, with protected geographic origin
- It is necessary to raise competitiveness of wines from our country in regard to other most significant world exporters.
- The competitiveness can be raised by constant changes in productive and market orientation toward needs and requirements of concrete market segment. This means change in the assortment, as well as constant improvement of production techniques and technology.
- Chance to export must not be looked in quantity, but in high quality according to defined market segments. There should try specialization of production on less series of high quality (e.g. wine „*Bermet*“, etc.).
- Physical and financial capitals are significantly limited in the agriculture of Serbia, we find that focus should be at intellectual capital.
- Constant and permanent education of wine producers is a necessary condition for improvement of wine quality and export from Serbia. Intellectual capital should grow into activator of development in this area.

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