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CROATIAN WINE MARKET, SUPPORT POLICY AND SPECIFIC OBSTACLES TO WINE EXPORTS

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Abstract: In this paper, analysis of Croatian wine sector in period 2006-2013 is conducted through the record of wine production, exports and imports together with Government support measures. In the light of Croatian EU membership together with opening of EU wine market and global wine market, recommendations for further discussion of support measures for small and medium winemakers are given.

Keywords: Croatian wine market, Government support, export wine markets.

Introduction

Wine making sector is an important part of Croatian Agriculture with long tradition and market identity especially through autochthonous varieties and significance in tourism, agricultural income and employment. Croatia signed the Stabilization and Association Agreement (SAA) with EU in 2001 that came into force in 2005. SAA includes gradual abolition of customs duties in mutual trade therefore postponing total exposure of Croatian economy to highly competitive products from EU. To support domestic wine production, Ministry of Agriculture (MoA) among other measures initiated Operational Programme (OP 2004) of Rising Perennial Plantations (MoA, 2004a). Program had a goal to encourage farmers (winemakers and fruit growers) to invest into nurseries, vineyards, and orchards rejuvenation and planting. Goals for wine sector in particular, were to raise productivity, quality, and competitiveness in general. OP 2004 was revised in 2008 with aim to additionally encourage grape and wine producers to plant and rejuvenate vineyards. Besides already mentioned OP 2004 with aim to support planting of 13 thousand hectares of new vineyards, Croatian Government has a history of support to winemakers in planting new vineyards (MoA 2002), capital-intensive investments support programmes for processing machinery and equipment (MoA 2004b), IPARD program (Measure 103 –processing and marketing), and in 2014 „Wine Envelope 2014-2018 –National assistance program for wine industry and viticulture with budget of 11.8 mil. Euro/year (MoA, 2015). At Croatian regional level, Istrian County had from year 1994 a separate OP plan of rising long-term plantations of vineyards and orchards (Pribetić et. al., 2006). In the meantime some other Croatian Counties and local municipalities started and maintain similar practice (just

to mention few: Koprivničko-križevačka County, Zagrebačka County, Town of Omiš, Town of Kaštela, etc.). In grape and wine production, climate volatility has a strong impact factor. Additional impacts come from sectorial support programs in the macro environment.

Material and methods

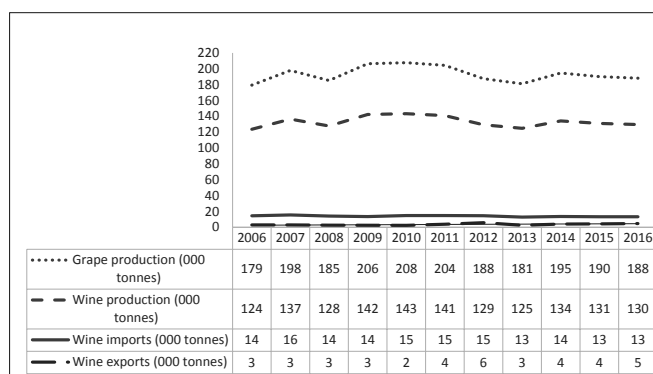
The research is based on analysis of the secondary resources of official statistical data from Croatian Bureau of Statistics, processed statistical data obtained from Croatian Chamber of Economy (CCE), public open data on internet and commercial research available via pay per view (Wine Australia, 2011).

Results and discussion

Production, imports and exports

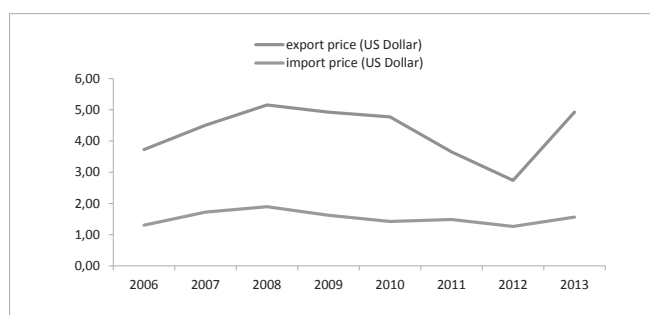
Croatia has total vineyard surface around 27.9 thousand hectares (CCE, 2014). Rough calculations of the official statistics show that in period 2006-2013 total vineyards surfaces in Croatia (despite the planting efforts) decreased by 10.4%, and wine production increased by 0.9%. Total number of registered grape producers in Croatia is 59.998 (official data available for 2009), out of which 58.370 (97.3%) is cultivating less than 2 hectares (CCE, 2014). For comparison, in France average producer vineyard surface is 8 hectares (FWG), Spain 3.34 hectares (VDE), Italy 1.5 hectares (Caffagi and Iamiceli, 2011) and EU total is about 2 hectares per producer (Traynor and Gow, 2007). By observing wine imports, exports, grape and wine production for eight years in a row and linear trend for period 2014-2016 (Figure 1), Croatian wine market looks generally stagnant.

Figure 1: Grape and Wine in Croatia 2006-2013, and linear trend 2014-2016 (CCE, 2014)



With aim to cope with the stagnant situation on the wine market, Croatian winemakers formed National Winemakers Association (Udruženje vinarstva Hrvatske) in 2011, with main goals to promote Croatian wines and create a brand of Croatian wines in Europe and worldwide.

Figure 2: Exports and Imports of Wine, Croatia, 2006-2013



Total wine market size in Croatia in 2013 was around 140.319 tones (CCE, 2014). Most important grape varieties for domestic wine consumption and exports by vineyards surface (official data available for 2009) are considered: 22.3% - Graševina, 8.1% - Plavac Mali, and 7.4% - Malvazija Istarska. (CCE, 2014).

By rough calculation of export and import prices (Figure 2), Croatian wines achieve 2.8 times higher average export price calculated per 1 kilogram (4.30 US Dollar (USD)) than wines imported to Croatia (1.54 USD) for period 2006-2013. For example, in year 2013, French wine is imported to Croatia at average price 11.45 USD/kg, Spanish wine at 4.99 USD/kg, Italian wine at 3.57 USD/kg (CCE 2014). Bottom line is that in 2013 most important “clusters” of countries importing Croatian wines above average price of 4.30 USD were: CEFTA and EU 15 countries. Same cluster of markets also exceed 80% of total exported wine quantities in 2013. Regarding imports to Croatia (2013) over 84% of wine is imported from CEFTA cluster of countries for average of 1.06 USD/kg of wine (CCE 2014).

Obstacles to wine exports

Categories of barriers to exports of wines and imports of wines may be divided into following types (1-3 according to Papalexiou, 2009):

1. Export markets policy barriers,
2. Logistics and financial barriers,
3. Marketing and promotion barriers,
4. (Lack of wine) drinking culture,
5. Type of production (market-driven or production-driven) (Barclay, 2001)

Market policy barriers (1) often include additional costs (import tariffs) and bureaucracy procedures. Tariffs vary from country to country (e.g. India's federal MFN (most favored nation) rate at 150% (EC, 2015) and e.g. State of Andhra Pradesh additional rate of 170% (Decanter, 2013)). Tariffs and procedures may be generally specific in unions of countries, making common standards across the internal market e.g. European Union or exist despite common market or free trade agreement targeting specific problem e.g. Systembolaget Sweden (SB, 2015) and bioterrorism e.g. USA (TTB, 2015). Policy barriers also include market specific wine standards (additives, allowed processing aids, labeling requirements, alcohol content standard, compulsory specific label statements/markings) (AGWA, 2011). For example Brazil allows maximum of 0.2g/L of chlorides (Guy, 2013) what may (in best case) be connected with terroir (OIV, 2010) or with oenological practice of curing wine from hydrogen sulphide (H_{2S}). „Chlorides criterion“ may be in favor of wines of uniform technological production approach. Switzerland emphasizes maximum concentration of histamines in wine <10 mg/L what may be directly connected with red wine technology and potential of enhanced allergic effect when paired with (sea)food meal. Primary sources of histamine in wine are microbes (MASAS, 2015, ICUS, 2015), foremost of them yeasts and bacteria (Szymanski, 2010) and in particular indigenous microbes like *Lactobacillus* (OBP, 2015) and *Pediococcus* species (AIM, 2008). Producers who prefer use of indigenous yeasts in search of unique and regional character of their wine, over consistence in quality (Fleet, 2008) characterized by using selected strains of yeasts may be affected by Swiss wine standard. Russian Federation emphasizes maximum content of volatile acidity in imported wine of 1.1 g/L. Low content of volatile acidity in this sense should be maintained during the whole production process, starting from prescribed procedures for grapes (in harvest) to establishment and maintenance of prescribed conditions in wine cellars (especially at areas with high seasonal temperatures) (Paleka, 2015). European Union limit on total sulphur dioxide (Guy, 2013) in wine is “ringing bell” for exporters to less demanding export markets (e.g. Canada) to acquire other means of oxidation protection practices in near future. South Korea does not allow technologically fastest antioxidant agent -ascorbic acid what is equally replaceable with other antioxidant agents like „gall tannins“ or „glutathione“ (Charest, 2013) but at higher costs. Japan wine standards do not allow presence of „cupric sulphate“ ($CuSO_4$) what may be obstacle for exporters from Europe,

where CuSO₄ may come as residue from “Bordeaux mixture” (traditional fungicide) treatment in vineyard (Wikipedia, 2015) or in case where CuSO₄ is used for wine curation from H₂S. By wine standards of Peoples Republic of China it is forbidden to use tartaric stabilisers: „metatartaric acid“ and CMC (carboxymethyl cellulose) in wine production. Contrary, use of more expensive „ion exchange resin“ (Mira et al., 2006) or traditional but insecure procedure of „cold stabilization“ is allowed. In addition, China forbids beverage preservative -DMDC (dimethyl dicarbonate) in wine, at same time DMDC is confirmed to be safe in EU and USA.

Logistics and financial barriers (2) cause extra costs and are also country specific. Significance of transport costs might cancel effects of e.g. preferential rates e.g. EU to e.g.: Mexico at 0%, Chile at 0%, Hong Kong at 0%, South Korea at 0% (EC, 2015) or may aggravate whole process of export venture, e.g. Brazil rate for EU originated wines at 27% and possible delays (2-3 weeks) for freight customs clearings at local temperatures around 40°C (AGWA, 2011).

Marketing and promotion barriers (3) concern external and internal factors like: -competition, -lack of marketing plan or/and budget and -lack of interest for exports (Papalexiou, 2009).

Drinking culture (4) may be a key factor considering export decision. India is world's second largest population but with estimated total wine market size of just 10 million liters (AGWA, 2011). China has an annual tea consumption of 400 cups per capita (USC, 2010) and due to the cultural symbolism around 74% of wine consumed is red wine (AGWA, 2011). Purchase age for wine in e.g.: Austria, Luxembourg, Moldova, Portugal, Switzerland, Georgia, Morocco (forbidden for Muslims) is 16, in some states of India 25, completely illegal in Saudi Arabia. Kuwait, or permitted to consume privately over age of 21 having personal liquor license in Oman (ICAP, 2015).

Type of production (5) may influence dynamics or cause delay in export activity. Production-driven Croatian wineries still may count on high 85% of domestic customers who prefer buying domestic wines over imported (Puls, 2005). On the other hand, market-driven wineries think from a customer's point of view - identify customer needs, search for fulfillment of these needs at a profit (Barclay, 2001), without losing sight of the competition.

Figure 3: SWOT analysis of the Croatian wine market

Strengths	Weaknesses
<ul style="list-style-type: none"> • Autochthonous varieties • Internationally competitive wine quality • High export wine price • National winemakers association with marketing program “Vina Croatia -Vina Mosaica” 	<ul style="list-style-type: none"> • Limited quantities • 27.9% of vines with age over 30 years* • Production costs • Lack of distinction on foreign wine markets due to the inconsistency in strategic marketing • Lack of business association covering specific/priority needs of the sector

Opportunities	Threats
<ul style="list-style-type: none"> • Common European market access • market penetrations within the EU trade agreements with third countries • EU origin image perception with third countries • Upgrade of existing institutional support to overcome export market barriers for wine exporters • Market development in expanding domestic tourism 	<ul style="list-style-type: none"> • Continuous loss of domestic market from cheap wine imports and competition in general • Exposure to the outcomes of the EU policy/es with third economic and political partnerships • Climate changes

* Basic surveys on vineyard structure 2009 (CBS 2011)

Conclusions

To preserve, promote and sustain wine production in Croatia, Croatian government will have to develop advanced solutions of support to Croatian wine producers or to support wine producer associations to cope with stagnant wine market, negligible export activity, and mostly old vineyard plantations.

Croatian wine in general, has technological potential to be exported to markets with common wine standards (EU wine market standard) also valid in Croatia. Difficulty at same time is that these markets are ruled by “Old World Producers” like France, Italy and Spain and „New World Producers“ like Australia, Chile and Argentina, offering wine at all price ranges. In this sense, market penetration and market development for Croatian wine producers will depend on product pricing, results of past and further joint promotional strategy(-ies).

Strategic orientation of Croatian wine exports to third countries wine markets at wishful prices may sound attractive. In such case Croatian winemakers may count to be perceived to have quality product from Europe, nevertheless, penetration to these markets is highly dependable on specific wine standards for each market separately. Planning of such business model offers more chances but at same time is highly dependable on targeted oenological expertise or support, market research, pricing, and institutional support. Targeted joint export actions towards “easier” third markets may show as penny-wise campaigns and lucrative ongoing, therefore directly affecting sustainability for all wine business sizes in Croatia.

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