Wine Economics Research Centre

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Georgia, cradle of wine: the next 'new' wine-exporting country?

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Georgia, cradle of wine:
the next ‘new’ wine-exporting country?

Georgia, a small country wedged between the Black and Caspian seas at the same latitude as the south of France, is reputably the cradle of wine. It has had at least 8000 vintages, is blessed more than 500 indigenous *Vitis vinifera* winegrape varieties, and has an enviable reputation for hospitality involving lavish and lengthy feasts (*supra*). In 2005 wine accounted to almost one-tenth of the value of all goods exported from Georgia, making wine exports around six times more economically important to Georgia than are wine exports for France, Italy and Spain. Virtually every Georgian farm grows grapes and produces wine for self-consumption with family and friends, and some small and medium farm enterprises also sell grapes to commercial wineries. Domestic wine consumption per adult, including from self-production, is 17 litres per year, or about two-thirds of Australia’s despite its much lower income level.

For the past two centuries, Georgia has been a major supplier of wine to Russia and other members of the Commonwealth of Independent States (CIS). However, because very little Georgian wine has been exported elsewhere, it was a major blow when Russia, for political reasons, introduced a ban on wine imports from Georgia in 2006. That shock (compounded by the short war with Russia in August 2008) has required Georgian wine exporters to develop markets elsewhere, a task made considerably more difficult by the emergence of the global financial crisis from 2008. Nonetheless, the country’s new Minister of Agriculture announced in November 2011 that he wanted to see a near-trebling of wine exports by 2015.

Australia’s experience of the past two decades suggests such a rapid expansion would not be sensible. But what would it take to achieve that goal over the longer term?

One promising sign is that, since the Russian embargo, Georgia’s wine exports, while declining initially in quantity, have risen markedly in quality (Figure 1). Wine’s average export price was only US$1 per litre in the late 1990s and $2 during 2000-05, but by 2008 it averaged $3.50 and, despite the global financial crisis, was as high as $3.20 in 2011 – which is very similar to Australia’s average export price.

CIS countries continue to dominate as destinations for Georgian wine exports. By 2010 half the exports were still going to Ukraine and another one-quarter to other CIS members. Poland and the three Baltic former Soviet states account for another one-eighth, while the United States and China each have only a 2 percent share. The current trade situation thus leaves a great deal of scope for diversifying Georgia's wine export destinations, since the whole of Central and Eastern Europe plus the CIS (excluding Russia) accounted in 2005-09 for less than 7 percent of the volume of global wine imports, compared with more than 90 percent of wine exports from Georgia.

Potential for growth and export diversification

Georgia has many suitable regions for growing various winegrape varieties and styles for its traditional markets, but they have yet to be proven for export markets outside the Soviet sphere. Much of the current smallholder production uses traditional organic technology and *qvevri* (large clay storage vessels, see Photo 1), but there was some importation of exotic technologies and varieties from Western Europe in the 19th century, and more following independence from Russia in 1991.

One quick way of guessing the potential for expanding further is to look at the share of agricultural crop land under vines. As of 2009, Georgia was ranked fourth in the world at 8 percent, after Portugal, Chile and Italy and ahead of Moldova and Spain at 6 percent and Macedonia and France at 4 percent – and far ahead of Australia and other New World exporters at barely 0.3 percent. Thus Georgia's potential for vineyard area expansion may be not very great.

Trade data of the past decade reveal that Georgia's strong comparative advantage in wine is second only to Moldova's. The indicator shown in Table 1 is wine's share of national merchandise exports relative to its share of global exports. However, the high value for Georgia has slipped a lot since the Russian import embargo, while those of several other countries have risen a lot during the past decade (most notably New Zealand and Argentina, in contrast to Australia). That strong comparative advantage is also reflected in the share of Georgia's wine production volume (including non-commercial supplies) that is exported: it grew rapidly over the first half of the past decade to nearly 50 percent – but then fell sharply with the Russian ban and is only now returning to its 1995-99 average of 14 percent (Figure 2).

Being a latecomer to Western markets can have some benefits, in addition to well-known challenges. Recent history shows that it has been possible for several New World countries simultaneously to enjoy rapid growth in wine exports, and from very low bases in most cases (Figure 3). In Argentina's case, the value of their wine exports (in current US dollars) has grown at more than 20 percent per year since 2001, and New Zealand's at 25 percent, following Australia's 19 percent per year growth during the 1990s. Those experiences suggest that it would be technically possible for Georgia to rapidly expand its exports, if enough other supportive conditions are in place.

What's needed to exploit Georgia's potential?

As already mentioned, Georgia has many natural advantages that could be further exploited in marketing its wine abroad. While those advantages on their own are not enough to guarantee sales in new markets, they can certainly be used to capture the initial attention of foreign wine writers, importers and consumers via a generic 'Wine of Georgia' marketing campaign. The advantage of still having the ancient *qvevri* production style, for example, is a genuine point of difference even if the shares of *qvevri* wine in Georgia's labelled wine exports remain small.

Which market segments? Since Georgia already has a strong reputation in CIS countries for its semi-sweet red wine, it will be able to build on that in non-CIS countries, beginning in cities/areas where the CIS diaspora have congregated. It will also be able to quickly return to the Russian market when that re-opens, should wineries so choose – although that market is slowly changing as it gets exposed to wines from non-CIS (including New World) countries.

Which destinations? The Georgian Wine Association (GWA) has identified four new markets it believes are worth targeting initially: the world's three largest wine importers (the UK, the US and Germany) plus China. Around half of the import volume of Germany and China is non-premium, compared with just one-quarter for the other three. However, the average price of Georgian exports is a little above the average of the commercial premium category. The GWA's Development Action Plan suggests aiming for the low end of super-premium sales in all four countries. It recognizes the large size of the non-premium market for bulk wine sales in China and Germany – but sees that just as a way of disposing of unplanned low-quality wine, since that non-premium market is chronically over-supplied globally. The commercial premium segment also has become extremely competitive with very low margins, thanks to the supermarket revolution on the buyer side and, on the seller side of the market, the economies of large scale that are possible in relatively lightly populated Australia and other New World countries.

Which varieties? Georgia has been blessed with more than 500 indigenous varieties, of which more than half are currently still in production and others are in nurseries. Many of the indigenous varieties have names that western consumers would struggle to remember, and have flavor profiles that may be either insufficiently or too different from those of international varieties to be easily marketable. Even the key indigenous varieties considered most likely to succeed abroad, such as red Saperavi and white Rkatsiteli, are produced in styles that Western consumers may find not immediately approachable. Some wineries are therefore modifying the styles somewhat, while others are blending them with international varieties.

How to expand export supplies? While there appears to be under-utilized capacity in Georgia's wineries and vineyards at present, that may be more apparent than real. Old Soviet winemaking equipment was designed for large-scale production of low-quality semi-sweet red wine for the Russian market, and much of it is unsuitable for producing wines of sufficient quality to compete in Western markets. Even *qvevri* production methods may need to be modified to ensure they meet the demanding health standards of wine-importing countries. And most small vineyards would require substantial upgrading (e.g., denser spacing of vines) before they could produce the grapes needed by a modern export-focused winery. Also, the country has a shortage of skilled viticulturalists, winemakers, and especially wine marketers capable of working together with grapegrowers.

In addition to finance for those investment needs of private firms, funds will be required at an industry level for investing in collective goods and services. These include targeted viticultural, winemaking and wine marketing education plus extension and leadership skills development, grape and wine research and development (R&D), generic promotion of 'Wines of Georgia', and more statistical data collection.

Given how crucial it is to understand market niches and the distribution system in each country of destination, a rapid expansion of wine exports from Georgia to the West is likely to require attracting foreign investors already very familiar with selling into those markets. This is especially so because such experienced firms also are more likely to be at the technological frontier in viticulture, oenology and wine marketing and to be able to access the substantial upfront finance that is required to plant new vineyards, construct or renovate a winery, and invest abroad in brand development.

What role for wine tourism? The potential to build wine tourism in Georgia is enormous. A start has been made, with some wineries offering cellar-door tastings, but many other components need to be added. They include more hotels ranging up to 4- if not 5-star (with internet access, brewed coffee and dependable hot water), similar-quality restaurants with English-language waiters who know how to serve wine with food (with some at least offering a *supra* experience), more sealed roads connecting key sites, better road signage with a wine route symbol, information bays/kiosks, wine route maps and booklets in English and other key languages (with sample itineraries and contact details and opening times of each winery's cellar door and each major restaurant), acceptance of major credit cards, and comprehensive multilingual websites to facilitate pre-tour planning. To minimize travel times between venues, a clustering of cellar doors would help greatly. This is especially so if the cluster included or was nearby accommodation and dining and also near historic sites such as Tsinandali Estate or Alaverdi Monastery (see Photo 2).

Threat or opportunity for Australia?

Clearly Georgia is too small to be a threat to Australian wine exporters, nor will it be looking to compete in our domestic market. But flying vignerons may well find new opportunities there, as may investors seeking the excitement of engaging in an exotic setting on the edge of Europe.

References

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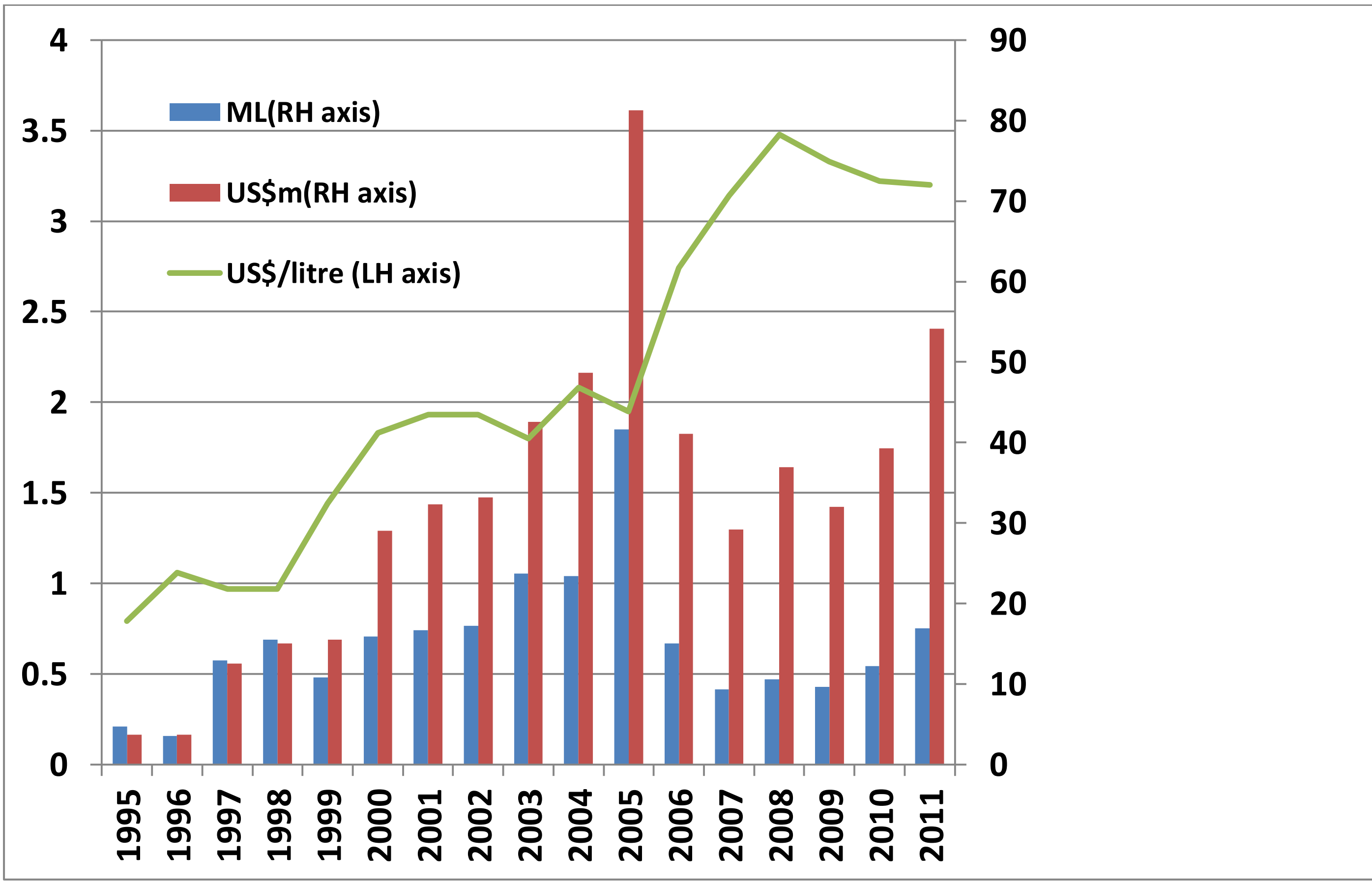
Anderson, K. and S. Nelgen (2011), *Global Wine Markets, 1961 to 2009: A Statistical Compendium*, Adelaide: University of Adelaide Press, accessible as a free e-book at www.adelaide.edu.au/press/titles/global-wine

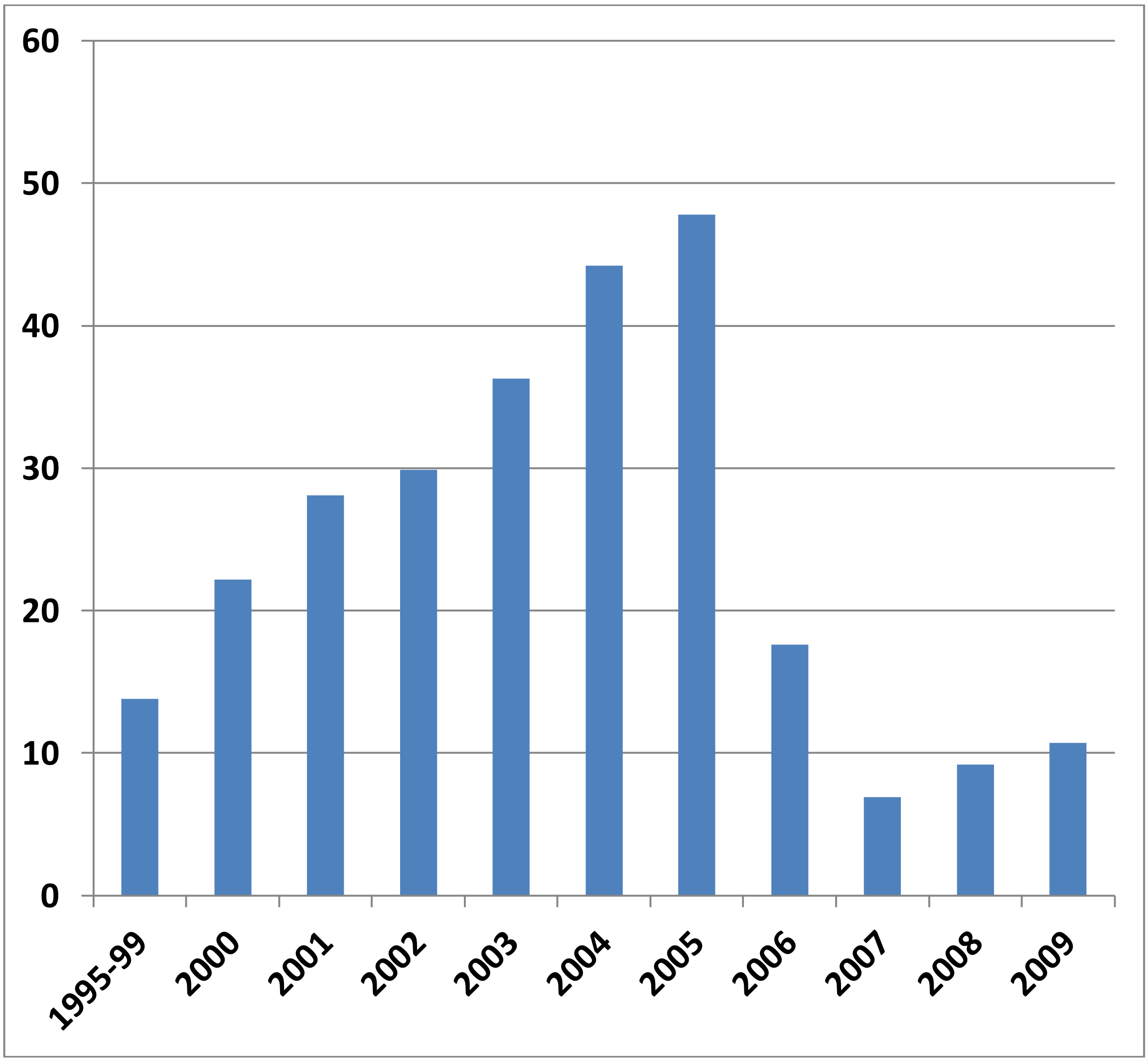
Figure 1: Wine export volume, value and average price, Georgia, 1995 to 2011



Source: Anderson (2012).

Figure 2: Export share of volume of wine production (including non-commercial), Georgia, 1995 to 2009

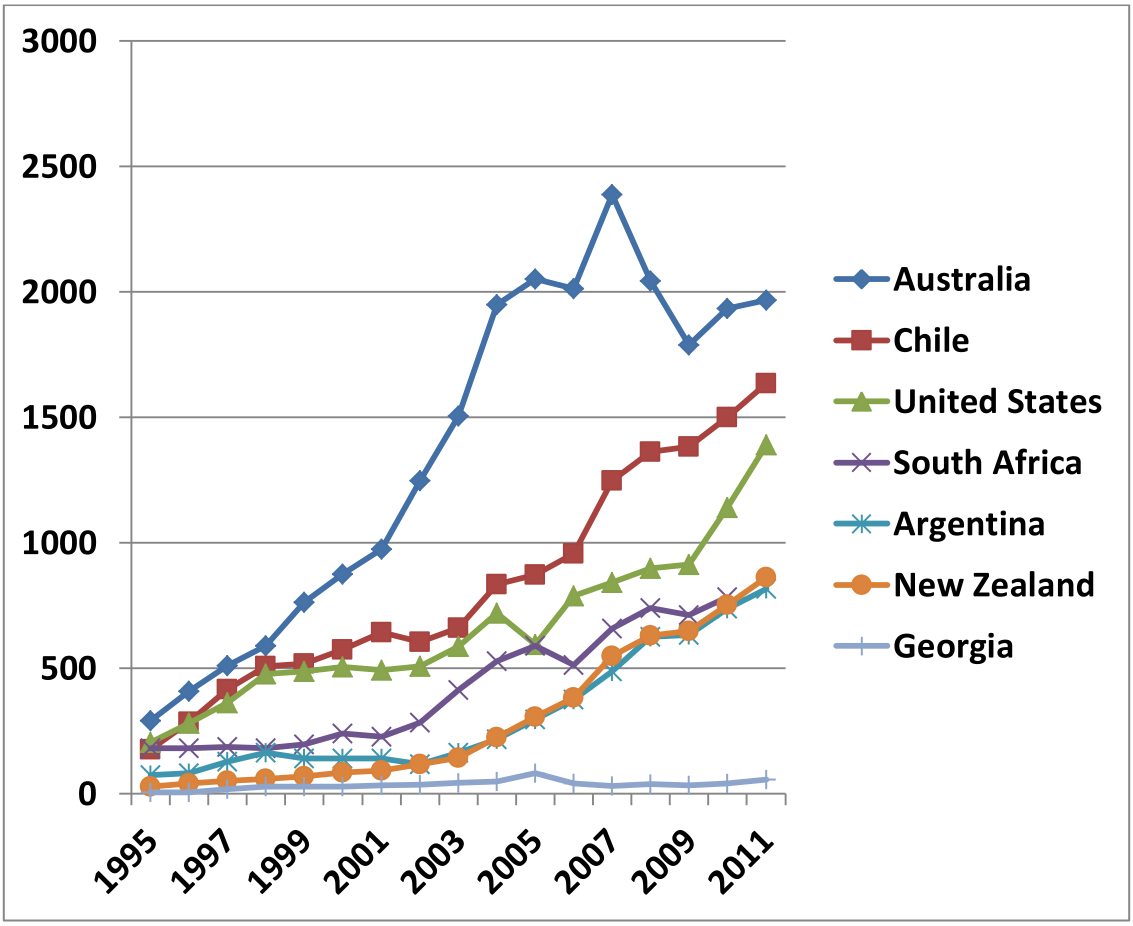
(percent)



Source: A revision of data in Anderson and Nelgen (2011, Tables 15 and 40), to account for non-commercial production.

Figure 3: Georgian and New World wine exports, 1995 to 2011

(US$million)



Source: Updated from Anderson and Nelgen (2011, Table 63).

Photo 1: Qvevri vessels, Georgia

Photo 2: The 6th century Alaverdi Monastery, Georgia

Table 1: Index of revealed comparative advantage in wine,[a] Georgia and 12 other top countries, 2000 to 2009

	2000-05	2006-09
Moldova	96.1	45.9
Georgia	40.4	15.2
New Zealand	4.5	10.3
Chile	13.1	9.9
Macedonia	9.6	9.3
France	7.0	8.0
Portugal	8.2	7.8
Australia	8.5	7.0
Italy	4.4	5.0
South Africa	4.5	4.8
Argentina	2.7	4.6
Spain	4.4	4.4
Bulgaria	4.5	2.7

[a] Share of wine in value of national merchandise exports divided by share of wine in global merchandise exports.

Source: Anderson and Nelgen (2011, Table 75).