

Secteur du vin

**Pays : Géorgie**

SOURCE : VERTUMNE INTERNATIONAL & ASSOCIÉS

La reproduction totale ou partielle des informations contenues dans le présent document est autorisée, sous réserve des mentions suivantes :“Source: *“Analysis of the Armenian Wine Industry – Strength and Weaknesses – Rehabilitation strategy – Opportunities for further developments” – VERTUMNE International & Associés – February 2001*”.

Total or partial reproduction of this document is authorized under the express condition to indicate : *“Source: Analysis of the Armenian Wine Industry – Strength and Weaknesses – Rehabilitation strategy – Opportunities for further developments” – VERTUMNE International & Associés – February 2001.*

***ANALYSIS OF THE GEORGIAN WINE INDUSTRY  
STRENGTH AND WEAKNESSES  
—  
REHABILITATION STRATEGY  
OPPORTUNITIES FOR FURTHER DEVELOPMENTS  
  
FEBRUARY 2001***

The present document is a brief summary of the analysis

### ANALYSIS OF THE CURRENT FACTS, STRENGTHS AND WEAKNESSES OF THE VINE AND WINE SECTOR IN GEORGIA

#### 1. Facts

① The processed grape market is currently estimated at around 4.4 million US\$. If all grapes were to be processed it would reach 47.2 million US\$.

The value of the market for grapes sold to industrial wine facilities in 1999 represented 4.4 million US\$. If all harvested grapes in Georgia were bought by wine facilities for processing, the revenue generated by the activity for growers would represent more than 47 million US\$.

② In 1999, only 9.31% of the grapes produced in Georgia were industrially processed.

The percentage of grapes processed by industrial wine facilities decreased from 60.42% in 1990 to 9.31% in 1999. This was mainly due to the collapse of the traditional Georgian wine markets in addition to a shift in demand of the wine facilities away from formerly high volume grape varieties such as Rkatsiteli and Tsolikouri toward high quality varieties such as Saperavi, Manavi Matsvane, Kakhuri and Goruli Mtsvane.

③ Around 10 000 grape growers generate revenues from the sale of their production. 2% of Georgian vineyards are owned by industrial wine facilities, which represents about 20% of the vineyards producing grapes for industrial processing.

In 1999, the number of landowners with vineyards was estimated at around 151 300\*, with 60 614 ha of cultivated vineyards.

Taking into consideration that only 9.31% of the vineyards supply grapes for industrial processing, and that a large number of small landowners have sold their land to others, it can be estimated that the number of households with regular revenues from the cultivation of vineyards is not higher than 10 000.

In 1999, 91% of the total area under vine in Georgia was privatised. 98% of the vineyard was cultivated by the grape growers\*.

Around 5 650 ha are used to produce grapes for industrial processing\*. Over the last three years, industrial wine facilities have gained full ownership or long-term lease on 1 212 ha representing 20% of these 5 650 ha\*.

④ The value of vine nursery activity is estimated to be between 190 000 and 315 000 US\$ for 1999. This activity was 15 to 20 times greater in 1990.

Between 540 000 and 900 000 rootlings\* for new plantations were sold in 1999 (representing a newly planted area of 150 - 300 ha). Considering that the price per rootling is approximately 0.35 US\$, the value of the nursery business is estimated to be between 190 000 and 315 000 US\$ for 1999. Ten years ago, 18 nurseries were active, producing 15 to 20 million rootlings per year.

---

\* Source : Based on CERMA Baseline study of the Viticulture and Wine sector in Georgia

# Vertumne

---

## Etude de marché

⑤ **Return on investment for establishing one hectare of new vineyard is 2.5 times faster with high quality red grapes (such as Saperavi) than with white grapes (such as Raktseteli) under current market conditions.**

**Under present conditions of demand, high quality red varieties (such as Saperavi, Alexandrouli, Mujuretuli) have a higher rate of return on investment than white varieties (such as Rkatsiteli, Tsolikori, Tsitska). Even when borrowing at a 20% interest rate to cover planting and maintenance costs, growing red grapes is considered to be profitable starting the 7<sup>th</sup> year after planting.** For white grapes, profitability starts after 17 years.

⑥ **Grape growing generates close to 620% added value. Grape processing generates close to 780%.**

**Processing grapes generates a higher added value than growing them.** However, for more expensive varieties, and without computing the cost of initial establishment of the vineyard, the difference in the value added at the grape grower level and that at the wine processing level is negligible.

⑦ **Wine production decreased by 86 percent over 8 years.**

**Wine production decreased by 86 percent from 1 628 300 hl in 1990 to 217 900 hl in 1998.** The decline was sharp from 1990 to 1993 and slower from 1994 to 1999. Since 1996, production seems to have stabilised at around 220 000 hl.

⑧ **104 private companies are involved in wine production and wine marketing. 2 companies have a 70% market share of Georgian wines sales.**

**104 private wineries and 18 state owned wineries** are involved in buying grapes from growers for wine or spirits production. Among the 104 private wineries, 86 are former State Farms, 13 are new private investments and 5 are owned by Labour Unions.

**10 wine companies dominate the sales and marketing of Georgian wines.**

99 out of 122 industrial wine facilities have been privatised, and 13 new investment projects have been conducted since 1990. Approximately 10 industrial wine facilities produce and sell 80% of Georgian wines with two companies (GWS and Dionise Club) representing more than 60% in 1999. This year (2000), the activity of Dionise Club has almost stopped due to difficulties encountered in the Russian market.

⑨ **Exports of Georgian wines is estimated at around 15 million US\$ and non-CIS sales values have been multiplied by 4.5 in 4 years.**

**Exports of Georgian wines are estimated, for 1999, at 156 675 hl generating 15.37 million US\$ in sales.** It has been impossible to have accurate figures on the value and the volume of wine sold on the domestic market. According to some estimates, volumes of wines sold domestically should represent 30% of total sales, i.e., approximately 67 150 hl.

**The CIS markets have largely dominated exports of Georgian wines.** However, exports to western countries are starting to increase. In value, exports were multiplied by 4.5 between 1995 and 1998.

# Vertumne

## Etude de marché

---

### 2. Strengths

#### ❖ History

Strength n°1 : **Georgian history and tradition.**

Georgia has a very long history of being a world renowned vine growing and wine producing country. Books, paintings, objects, songs, the way of life and trade have testified over the years of the historical link between Georgia, grapes and wine. In the eyes of Georgian people, but also internationally, Georgia has a place of its own among the wine producing countries.

#### ❖ Vineyards

Strength n°2 : **Georgia's diversified grape-producing regions.**

Georgia has very diversified wine growing regions: Kakhetia in the east (63% of total vineyards) – Kartli in the centre (13.4%) – Imereti in the centre-west (19%) – Racha-Lechkhumi in the Northwest (2.5%) and the Black Sea Coastal Zone (2%). Each area has different climatic and geological characteristics, **allowing Georgia to build a wine sector economy on a large diversity of wines**, sold at a large spectrum of prices. This diversity should be maintained.

Strength n°3 : **Georgia's patrimony of a large number of indigenous varieties.**

The Law of Georgia on Vine and Wine authorised cultivation of 35 different vine varieties. The vast majority of this assortment is composed of **indigenous Georgian varieties** with adaptation

analysis to soil and climate of specific micro-zones already conducted and implemented. These varieties constitute **an extraordinary historical and economic**

**patrimony that should be preserved.** Furthermore, some of these varieties have the qualitative potential, with modern vine cultivation and wine making techniques, to yield unique products which could compete on the international market.

Strength n°4 : **Grape growing represents a source of income to 10 000 farmers.**

If the estimated number of landowners with vineyards (around 150 000 in 1999) is considered, it can be estimated that the **number of households with partial or total revenues generated from grape growing is around 10 000.** This number could be considered small at this stage, but, compared with other farming activities, the revenue generated should encourage other grape growers to enter the activity to produce grapes suitable for industrial wine facilities.

Strength n°5 : **A third of the existing vineyard is irrigated.**

**Between 20 000 and 25 000 ha of vineyards are concerned by an irrigation scheme.** Under the World Bank Irrigation and Drainage Project currently implemented, current systems of irrigation will be improved and irrigated land will be increased.

Strength n°6 : **98% of the vineyards have been privatised.** Industrial wine facilities own 20% of the vineyards that supply grapes to be processed into wine.

91% of Georgian vineyards are privatised. **98% (59 434 ha) of the vineyards are owned by farmers** and about 1 200 ha are owned by wine producers (representing 2% of the vineyard area and 20% of the vineyard used for wine processing). This

situation automatically generates a necessary, strong inter-dependant relationship between producers and

# Vertumne

## Etude de marché

---

processors of grapes. It also contributes to flexibility of supply.

### ❖ Nurseries

**Strength n°7 : Private nursery activities have been initiated.**

Private initiatives to supply demand for rootlings have been taken: **between 1.7 and 1.8 million rootlings were grown in nurseries in 1999.** With an estimated 30 - 50% success ratio, between 550 000 and 900 000 grafted plants have been supplied to the industry for new plantation, generating between 189 000 and 315 000 US\$ in revenues.

### ❖ Wine production

**Strength n°8 : Industrial wine facilities have gained control (through vineyard ownership or long term lease) of 20% of their grape supply needs.**

In order to gain stronger control of their grape supply, industrial wine facilities **are in the process of buying or leasing vineyards.** In 1999, 1 200 ha were directly owned or leased by industrial wine facilities. Over a total of 5 640 ha of vineyard are used to supply industrially processed grapes. This strategy will contribute to increasing the size of the average vineyard, thus improving the necessary conditions for **increased mechanisation.** By gaining partial control of their supply, industrial wine facilities also contribute to **better vineyard management, improved cultivation practices and lower risk on raw material price fluctuation.**

**Strength n°9 : The decline in wine production seems to have stopped.**

**Wine production seems to have stabilised at 220 000 hl** since 1996, after a sharp fall from 1 628 300 hl in 1990.

**Strength n°10 : Exports are increasing.**

**The value of wine exports to non-CIS countries has been multiplied by 4.5** during the last 4 years. Even if most of the wine has been exported to CIS countries (which offers the advantage of reliable payment conditions), this increase in exports shows that the international markets are ready to import more Georgian wines, if accepted quality standards are met.

**Strength n°11 : New technological investments have been made.**

**Investments in wine making equipment have been made at different** industrial wine facilities, leading to a big improvement in quality of some of the wines put on the market.

**Strength n°12 : Financial support from banks has been initiated.**

**Local bank loans have been granted** to industrial wine facilities for investment in equipment. Working capital financing at the winery level is also relatively well accepted by local banks. Financing of vineyards through industrial wine facilities has also been granted.

### **3. Weaknesses**

#### ❖ Vineyards

**Weakness n°1 : The Georgian vineyard is old. Vine mortality rate is higher than replanting.**

**The average vineyard age in Georgia is between 25 and 30 years.** For the last 10

years, the vineyards have been badly maintained and replanting has been almost non-existent, leading to a **rate of replacement lower than the rate of**

# Vertumne

---

## Etude de marché

**mortality.** It is anticipated that this trend will continue in the near future as replanting remains very limited. **Therefore, the size of the Georgian vineyard will continue to decrease from the existing 60 614 ha.**

Weakness n°2 : **80% of the Georgian vineyard is planted with grape varieties for which demand has dropped.**

**More than 80% of the vineyards are planted with varieties that were formerly dedicated to high volume wine production.** Supply exceeds winemaking demand hence these varieties are bought at cheap prices by industrial wine facilities, thus revenue generated by the growers is low, as are the economic incentives for them to maintain the vineyards.. **It can be anticipated that in the near future, growers involved in the production of these varieties will have tougher conditions to market their production.**

Weakness n°3 : **Vine and grape disease protection practices are badly implemented.**

Vine and grape disease protection measures are badly implemented due to a lack of know how, scarcity of available chemicals, poorly organised distribution networks, lack of financing, and competition from fraudulent chemicals. Import licensing procedures for chemicals are complicated.

Weakness n°4 : **Momentum created by industrial wine facilities for vineyard rehabilitation is still very slow.**

Only 2% of the vineyard is owned or leased by industrial wine facilities. **This situation leads to great difficulties for**

**industrial wine facilities to control quality and quantity of grapes delivered.** Conflicts of interest between expectations

of grape growers (trying to have high yield and high selling prices) and wine factories (trying to find low yield and low buying prices) are inherent to such a situation, until the tendency to seek mutually agreeable goals is borne out of necessity for survival.

Weakness n°5 : **Financial support downstream of the sector is non-existent.**

There is little or no banking or institutional financial support available for the primary production of grapes due to the absence of liquid collateral from grape growers. Furthermore, grape-growing activities are not appealing to bankers, mostly due to the influence of unpredictable climatic consequences on return of investment. The average interest rate on a one-year loan varies from 20-24%. Long term credit is seldom granted to the wine industry.

### ❖ Nurseries

Weakness n°6 : **Reliable sources for mother-vines are non-existent.**

Before 1990, 940 ha of vineyard were dedicated to nurseries producing 15-20 million grafted vines a year. Mother vines for varieties and rootstocks existed. Today, almost everything has been destroyed. This situation forces grape growers who want to expand their vineyards to improvise. It appears that much propagation material is being sourced from other existing vineyards, often as own-rooted cuttings that are not resistant to phylloxera. Without any action taken to improve this situation, **Georgia is running the risk of replanting its vineyards with non-certified, non-virus-free vegetative materials.**

Weakness n°7 : **There is no scheme in operation for vine nursery and planting material certification.**

Private initiatives to redevelop nurseries have been taken. However, **this has been done without any provisions for enforcement of the current “Law on Wine and Vines”**. In addition, there is no disease inspection facility, or control mechanism for the use of adequate rootstocks, thus leading to a flourishing non-certified grafted vine market. Absence of implementation of a vine selection and certification scheme at nursery level could jeopardise future development of the entire Georgian wine sector.

### ❖ Wine production

Weakness n°8 : **91% of the grapes produced in Georgia are not industrially processed.**

Only **9.31% of the grapes produced are industrially processed** into wine (29 300 tons out of a production of 314 600 tons). With an estimated average yield of 5 tons of grapes per hectare, the wine industry is processing grapes from an estimated 5 800 ha, i.e. about **9.5% of the planted vineyards, generating revenues for approximately 10 000 grape growers.**

Weakness n°9 : **Industrial wine facilities control only 20% of their supply.**

Wine producers have taken ownership (or lease) of approximately 1 200 ha of vineyard, meaning that they are self-sufficient at a ratio of 20% (1999 figures). It is like they will seek to continue to gain control up to a certain percentage of their requirements. If this trend continues, **downstream integration of the sector could lead to a decrease in the number of farmers involved in grape production.**

Weakness n°10 : **Wine production has been reduced by 86% in 10 years.**

Wine production fell from 1 628 300 hl in 1990 to 217 900 hl in 1999 due to a difficult economic situation, lack of vineyard maintenance, and a partial loss of the international market share. **To reverse this trend, Georgian wines will primarily have to regain international recognition as well as market shares on the export markets.**

Weakness n°11 : **Regulations of the “Law on Wine” are not implemented.**

Formulation and implementation of the regulations of the «Law on Wine» has been delayed, leading to a chaotic market situation which is seen to have favoured, among other things, the development of counterfeited wines and illegal production. Such a situation has a very strong negative effect on the development of profitable wine companies in Georgia.

Weakness n°12 : **Development of commercial brands by industrial wine facilities is limited.**

Most Georgian wines are sold with district, region or village names as the “brand” on the label. These names are not the property of any individual wine facility, nor do they always correspond to the district, village or region from which the wine actually originates. Hence it is impossible to protect them from being abused or from being used by counterfeit wines. **On the international market, this situation does not foster confidence on the part of buyers of Georgian wines:** If one wine producer puts out a poor quality wine bearing the village or region name, the reputation of the entire village or region of production is damaged. Industrial wine facilities should be encouraged to sell wines bearing patented brand names. The State should implement regulations to protect the use of the names of Georgian geographic entities: villages, regions or districts.

# Vertumne

---

## Etude de marché

### Weakness n°13 : **Labelling of Georgian wines is misleading.**

Information provided on the label is often inaccurate regarding vintage, variety used, and origin of grapes. The lack of any mechanism to ensure enforcement of regulations regarding Georgian wine

labelling can be expected to lead to a lack of buyer confidence, misleading consumer information, development of counterfeit wines, a decline in the international reputation of Georgian wines, and non-compliance with EU regulations.

**For more information, please use the order form hereafter.**

# Vertumne

## Etude de marché

### VERTUMNE INTERNATIONAL & Associés

Conseil, Etudes & Formation pour les entreprises du Vin et des Spiritueux  
Consulting, Engineering & Training for the Wine and Spirits Industry  
29, rue St Maur  
33 000 BORDEAUX  
Tel : 05.57 87 72 00 – Fax : 05.57 87 72 01

### ORDER FORM

#### Your references: (to fill in capital letters)

<b>M./Mrs/Ms</b> (family name – first name)	
<b>Job Title</b>	
<b>Company name</b>	
<b>Nature of business</b>	
<b>Address</b>	
<b>Post Code - Town</b>	
<b>Telephone number</b>	
<b>Fax number</b>	
<b>E-mail</b>	
<b>Web Site</b>	

#### Your order :

<b>Document title</b>	<b>Unit Price HT</b>	<b>N° of copies</b>	<b>Total Price</b>
Analysis of the <b>GEORGIAN</b> Wine Industry - Strength and Weaknesses - Rehabilitation strategy, Opportunities for further developments	80,00€ht		
<b>Total before VAT</b>			
<b>VAT 19,6 %</b>			
<b>Total with VAT</b>			

#### Your payment :

- SWIFT Transfer to VERTUMNE INTERNATIONAL & Associés  
Bank Code : 10907 - Agency Code : 00 001 - B.P.S.O Bordeaux Jean Jaurès  
Account N° : 024 217 025 11 key 57

Date :

Signature and / or company stamp :

**N. B : Analysis will be sent after reception of payment**