

Pays : Bulgarie

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***ANALYSIS OF THE BULGARIAN WINE INDUSTRY
STRENGTH AND WEAKNESSES
–
REHABILITATION STRATEGY
OPPORTUNITIES FOR FURTHER DEVELOPMENTS

MAY 2001***

The present document is a brief summary of the analysis

I – Bulgarian Wine Industry background

- ◆ Around 50 companies are involved in grape processing in Bulgaria
- ◆ all of them were privatized from 1997-1999
- ◆ The surface area of vineyard in Bulgaria represent 90,000 ha, including 20,000 ha dedicated to table grape production.¹ Almost no new planting have been recorded over the last 8 to 10 years.
- ◆ Exports of wine used to represent more than 2% share of Bulgarian exports in value terms.
- ◆ The value of wine export was divided by more than half between 1997 and 2000.
- ◆ The volume of wine exports was divided by more than 5 during the same period.
- ◆ The top export markets are (by rank of importance based on 1999 value terms): Great Britain, Japan, Germany, the Ukraine, Poland and the Netherlands. Russia and the CIS countries used to be large markets for Bulgarian wines but they have diminished significantly since 1985.
- ◆ The sector is regulated through a new legislation adopted in 1999 and entered into force on January 1, 2000. Through this legislation, the Executive Agency on Vine and Wine (a State agency dependant on the Ministry of Agriculture and Forestry) was created to organize and control the industry. The law also established the National Vine and Wine Chamber, a consultative organ, representing the processing companies, the grape growers and the wine trading companies.
- ◆ More than 25 varieties of red and white wines with registered trade marks of origin are produced in addition to more than 24 types of white and red wines from designated geographical origin.
- ◆ The most widely planted grape varieties are Cabernet Sauvignon, Merlot, Pamid, Mavrud, and Melnik for the reds, and Rcatziteli, Muscat de Hambourg, Muscat Ottonel and Dimiat for the whites.

¹ According to the Executive Agency of Vine and Wine, among the 60,000 ha planted with wine grape varieties, an estimated 20,000 ha are in good condition.

- ◆ The Bulgarian domestic wine market is small and it is estimated to be consuming between 10% and 20% of the domestic production.

II –Major strengths and weaknesses of the Bulgarian wine and vine industry

In this report, we do not intend to present an exhaustive description of all the strong and weak points of the Bulgarian wine and vine sector, we will only emphasize the issues directly affecting the competitiveness of the Bulgarian Wine and Vine sector.

2.2 Strengths of the Bulgarian wine and vine sector

❖ History

Strength n°1 : Bulgarian history and tradition.

Bulgaria has a very long history of being a world renowned vine growing and wine producing country. Among all the former Eastern Countries, Bulgaria has received the highest attention from buyers and wine book writers and still enjoys today the reputation of having the potential to produce world class quality wines.

❖ Vineyards

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

Bulgaria has very diverse wine growing regions: Rousse, Svishtov, Pavlikeni, Suhindol in the north – Targovishte, Preslav, Pomorie, Burgas in the East – Sliven, Stara Zagora, Slaviantzi, Imaboli in the Center – Perushtitza, Damianitza, Assenovgrad, Haskovo, Liubimetz in the South. Each area has different climatic and geological characteristics that could **enable Bulgaria to build a wine sector economy based on a large diversity of wines with a large spectrum of qualities, organoleptic characteristics and prices .**

Strength n°3 : Bulgaria's vast patrimony of wine grape varieties.

According to the Pleven Institute, there are **more than 2,000 varieties** planted in Bulgaria, **including indigenous and international varieties**. Their compatibility with specific micro-zone soils and climates was analysed during the Soviet time and the results implemented. These varieties constitute **an extraordinary historical and economic patrimony**. Furthermore, some of these varieties have the qualitative potential, with modern vine cultivation and wine-making techniques, to compete on the international wine market.

❖ Wine production

Strength n°4 : Bulgaria has a significant number of wine processing companies.

Following the completion of the privatization process, Bulgaria has **more than 50 well established private wine producers selling wine, sparkling wine, brandy, and other grape related products**. Through their activities, they have transformed more than 300,000 tons of grapes produced by more than 100,000 grape growers.

Strength n°5 : Some industrial wine facilities are gaining, or are in the process of gaining, control of their grape needs.

In order to gain better control of their grape supply, **the leading wine processing companies are planting new vineyards or establishing long-term contracts with some vineyard owners**. This strategy will contribute to **better vineyard management, improved cultivation practices, increased mechanization, lower risk of raw material price fluctuation and increased employment**.

❖ Marketing & sales

Strength n°6 : Some companies have been very active, domestically and in export markets, in promoting and distributing Bulgarian wines.

Even if the quantity of Bulgarian wine have been decreasing over the last 4 years² **some companies**, (including Domaine Boyar, Winery Damianitza, Winery Svishtov Co., Targovishte Wine Complex, Suhindol winery, Lovico Ltd, Haskovo winery, Magura winery), **have been very active on the domestic and export markets**, thus keeping the wine buyers' interest high.

Strength n°7 : Bulgaria is developing sales strategies based both on indigenous and international grape varieties

Through the sales and marketing efforts developed by the leading wine exporters, Bulgaria is offering international markets a wine range composed of local indigenous varieties (Melnik, Mavrud, Pamid, Dymiat, Gamza...) as well as internationally renown varieties (such as Cabernet Sauvignon, Merlot, Chardonnay...). Strategies of marketing and selling premium wine brands from Bulgaria have also been implemented, contributing to positioning the image of Bulgaria as a potential high quality wine producer.

❖ Education, Research and Extension

Strength n°8 : Education, Research and extension services are still operating.

During the transition period until today, Bulgaria has been able to keep a highly qualify group of Professors and scientists. Through the Higher Institute of Agriculture and the Academy of Agriculture, education programs in viticulture and oenology have been provided to students. Through the Institute of Vine and Oenology of Pleven a network of research and extension services is operating and providing services to the industry and the State agencies.

❖ Legal framework

Strength n°9 : A Wine and Alcoholic Beverages Law has been adopted.

In 1999, the Law on Wine and Alcoholic Beverages was adopted. Following the enforcement of the law on January 2000, the Executive Agency on Vine and Wine was created, followed in February 2000, by the formation of the National Vine and Wine Chamber. Even if numerous decrees and normative acts are still to be taken, this Law established the new framework for further development of the industry. In particular, it establishes the direction to be followed to comply with the European integration.

2.2. Weaknesses of the Bulgarian wine and vine sector

❖ Vineyards

² See Appendix 4 and 5 for key Bulgarian Wine sector Indicators

Vertumne

Etude de marché

Weakness n°1 : The Bulgarian vineyard is old. The vine mortality rate is higher than the rate of replanting.

During a previous mission conducted in 1998, we estimated that the Bulgarian vineyard would stabilize at 100,000 ha. Unfortunately, based on data collected during this assignment, we have to reckon that the actual size of the Bulgarian vineyard is now closer to 60,000 ha.

More than 70% of the vineyard in Bulgaria is older than 25 years. For the last 10 years, vineyards have been poorly maintained, and replanting has been almost non-existent³, leading to a **rate of replacement lower than the rate of mortality**. It is anticipated that this trend will continue in the near future as replanting remains very limited. **Therefore, the size of the Bulgarian vineyard will continue to decrease from the existing 60,000 ha.**

Investment needs are related to the age structure of existing vineyards. In view of the poor level of maintenance of existing vineyards and their age structure, this would require the planting, over the next 15 years, of up to 50,000 ha of new vineyards.

Considering that investment costs could reach USD 15,000 per ha, investment needs could therefore reach USD 750 million in constant terms, or USD 50 million a year.

Weakness n°2: The size of a single vineyard is small and market for land is non-existent.

During the privatization of land, large plots of vineyard were divided between numerous farmers, resulting in privately owned vineyards with **an average surface area of around 0.3 ha per farmer**.

Such a small size prohibits any industrial use of the land and tends to encourage grape growing for home use. Mechanization is impossible.

In addition to this situation, the necessary conditions for the development of a land market has not been created.

❖ Nurseries

Weakness n°3 : Reliable sources for mother-vines are non-existent.

Bulgaria has been unable to preserve a reliable collection of mother vines of the indigenous or

international vine varieties. Under such circumstances, new vineyards are planted with vines of uncertain quality and reliability.

❖ Wine production

Weakness n°4: Insufficient knowledge of modern wine-making techniques

For the last ten years, since the beginning of the transition period, it has been very difficult for the researchers, teachers or wine makers to up-date their knowledge, travel to foreign wine producing countries or attend international symposiums. Unfortunately, during this period a lot of countries (Australia, South Africa, Chile, New Zealand, USA, etc ...) have developed new approaches to wine-making. This has led to the arrival on the markets of new style wines which are much appreciated by consumers. In order to compete at the international level, Bulgaria is now forced to adopt these new techniques at fast pace.

Weakness n°5: Wine equipment is old and often inadequate for modern wine-making

To the exception of the two or three biggest wine companies in the country, new investments have not been made for the last 15 years. Most of the wineries are still equipped with the Russian-style equipment installed in the 60's, designed to vinify large quantities of wine. This equipment has not been maintained properly and is in very bad condition (rusted and inefficient). Stainless steel tanks seldom exist. Most of the tanks are cement or enamelled metal. Their linings have been so poorly maintained that they have disintegrated, leaving no protection between the wine and bear cement or metal. Metal pipes and taps containing high levels of lead are often seen.

To solve the problem of potential defects, most Bulgarian wines are pasteurized or go through a sterilizing filtration process before bottling. This stabilizes the wine, but heavily damages the quality.

❖ Marketing, sales and financial support

Weakness n°6 : Bulgarian wine labels could be misleading.

Information provided on the label is often inaccurate regarding vintage, varieties used, and origin of grapes. The absence of implementation

³ During a field visit in Plovdiv, we met with a private entrepreneur involved in the nursery and chemical business. According to his information, 1,500 ha of new vineyards were planted during 2000. If there is no doubt about the fact that new planting is currently occurring in Bulgaria, we do not trust the accuracy of such magnitude of new planting.

of regulations regarding Bulgarian wine labelling leads to a lack of buyer confidence, misleading consumer information, development of counterfeit wines, a decline in the international reputation of Bulgarian wines, and non-compliance with EU regulations.

This situation could be improved in the future thanks to the adoption of the new Wine Law and to the commitments of the Bulgarian Government to implement its control functions.

Weakness n°7 : Bulgarian wine sales and marketing are dominated by a limited number of companies. This situation could jeopardize the ability of the Bulgarian wine sector to impose its image on the international wine market.

The Bulgarian wine industry is dominated by a few companies, with four to six companies doing more than 80% of the business.

A similar situation prevails in some new world countries (the best example being Australia) with successful trade results. The question is: can the same results be obtained in Bulgaria?

We would like to answer that question by stating that we do not foresee, in current situation, the possibility for Bulgaria to reach the same success.

To understand the reasons behind this statement, it is necessary to compare the marketing strategies of the old wine producing countries with the new world producing countries.

In Appendix 3, we propose a schematic description of the mechanism involved.

This chart emphasizes the fact that in new world wine countries, wine marketing is based on private brands financed almost exclusively by the private industry.

In old wine producing countries, the system of appellation and the heavily fragmented industry has led to a dominance of collective brands financed collectively.

Taking into consideration the current financial situation in Bulgaria, the scarcity of financial resources that could be dedicated to brand straightening, the lack of foreign investment in the wine sector and the current image of Bulgarian wines on international markets, we doubt that the success story of the Chilean or Australian wines could be repeated in Bulgaria.

Weakness n° 8 : Lack of understanding of the new competitive environment

Most of the people met at the Scientific Research Center, the Ministry of Agriculture, or former State wineries are convinced that the Bulgarian wines

produced today could easily compete in the international arena. They consider that with a stronger marketing budget, they would easily regain market shares lost during the 90's.

This is without considering the new types and qualities of wines marketable in western markets. Even on the Russian market, the demand for lower quality wines is sharply decreasing. New competition from former Russian wine-producing republics, or from European and Latin American wine countries, has totally changed the shape of this market.

Weakness n°9 : Names of districts, regions, or villages are used as brands without any state supervision.

Most Bulgarian 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, thus making it impossible to protect them from being used by competitors or even on counterfeit wines. **On the international market, this situation does not foster confidence on the part of buyers of Bulgarian 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 Bulgarian villages, regions or districts.

Weakness n° 10: Shortage of working capital

Because of the lack of financial resources, most of the wineries can only pay for the grapes brought by farmers when the wine is sold. This usually leads to 6 to 12-month delay between the sales of grapes and payment to the grape growers. In addition, when the factories are under pressure to reimburse their loans or pay their debts, they distil part of their wine stock to produce cheap spirits (including Rakias) which can be sold more easily (but which generate lower income and low profit margins).

Weakness n°11 : Financial support of the upstream part of the sector is non-existent.

There is no banking or institutional financial support 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.

III - BULGARIA: Vineyards rehabilitation

- Wine production is an important sector for the Bulgarian economy, contributing to 10% of agricultural exports and employing more than 100,000 people.
- In the last ten years, production of wine grape has been declining significantly, by an average of 25,000 tons a year between 1992 and 1998. This decline is due to the poor maintenance of vineyards and to the absence of investment in this sector since 1990. Resulting grape shortages are starting to create pressures on wine markets. Should the situation further deteriorate, exports of Bulgarian wines in their current price/quality segment could be endangered.
- The deterioration of vineyards stems from low grape prices paid to grape growers and from a combination of constraints. These include the difficulties of land access, the restructuring of farming systems, the lack of credit, and the unfortunate separation of wine making and grape production activities that was sealed in the 1990's.
- The new Bulgarian Government is committed to speed up structural reforms to allow the creation of new production systems in the agriculture sector, based on private farming.
- Under the influence of increasing pressures on grape markets, new measures are also proposed by the Government and wineries to address the issues of vineyards. New institutional developments include the drafting of a new

Wine Law, promoting quality through a system of appellations, and discussions on the creation of Regional Wine Boards.

- In parallel, private parties, including grape growers and wineries, are starting to overcome land and organisational constraints and plan investments in new vineyards.
- The investment needs required to maintain the sector at its current production level are massive. They could exceed USD 750 million over the next 15 years.
- Bulgarian wineries should be the most immediate candidates to invest in vineyards, so as to secure their access to raw material. Their financial situation and their level of organisation is strong. Some credit schemes, of a commercial or a quasi-commercial nature, could meet their financial needs for vineyard investment.
- Wineries will not be in a position to bear all the efforts linked to vineyard rehabilitation. If grape prices remain steady, which could happen should winemakers and grape growers manage to reconcile their interests, investment in new vineyards could be financially viable, without necessarily integrating into winemaking. The financial viability of such investments would however be contingent upon the creation of adequate credit schemes, with preferential interest rates, long tenors and less stringent security requirements.

For more information, please use the order form hereafter.

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