THE UKRAINIAN WINE SECTOR: THE DYNAMICS, RESENT SITUATION, PERSPECTIVES

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ABSTRACT

The work is directed on the consideration and analysis of the situation and tendencies in the Ukrainian wine sector and measures that have to be taken for the branch support. For the characteristic of the situation in the branch the dynamics of area under vines, productivity of vineyards, wine production etc are considered for the last period.

Comparison of trends in the wine sector of the EU and the countries of the New World, which have considerable part in the world wine market, is made as well. Some legal aspects and legislation provided for wine production quality guarantee are discussed in the work.

Key words: wine, grapes, Ukraine

1. INTRODUCTION

For many vine growing regions wine is integral to a culture and traditions. Regions, where vines are planted, is often more attractive than some other rural areas. It can be explained by particularities of vineyard landscapes and wines produced in the regions, which give popularity to the place and attract visitors and tourists. History of viticulture and wine making of the southern regions of Ukraine goes back to the ancient time.

The branch had periods of raise and recession during its development (RYBINTSEV,1998). Over a period of the 20 years negative trends in the Ukrainian wine sector are observed. Economic instability of the transition period, long process of reformation of agricultural enterprises, distribution of land under vines affected the branch and made obstacles in its development. As a result, decrease of areas under vines and grapes production takes place.

After measures taken by the authorities and directed on support of vine growing enterprises, slight improvement of the situation is observed. However, still there are a lot of unsettled questions: grubbing of vines exceeds establishment of new plantations, existence of low quality or counterfeited wines on the local market, low level of productivity, lack of regulating legislation etc. At the same time, one of the most discussible questions today between people involved in the brunch is joining of Ukraine the WTO (World Trade Organization) and its impact on the Ukrainian wine sector. There are various assumptions of the future of the Ukrainian wine sector under condition of WTO. Very often some negative predictions are given, which are mainly explained by inefficiency of the legal support of domestic grape growers and wine producers, inefficiency of the branch etc. From other hand, some positive trends are also predicted, which are mainly based on the following improving of quality standards, promotion of the best Ukrainian wines etc (BRONKERS, 2008; LUZAN, 2008).

2. DATA AND METHODS

In the work the methods of description, comparison, consideration and discussion of experts’ opinions are applied. Information and facts are based on the literature studies, statistic materials. Official sources, data of Eurostat and the Ukrainian Statistics, literature sources as well as Data of Economic department of the National Scientific Centre “Institute of wine-growing and wine-making” were used in the work.

By collecting and analyzing the data, the aim was to present the picture of the Ukrainian wine sector development and make assumptions of its perspectives. For comparison, trends in wine sector of wine producing countries were considered. Wine producing countries of the EU and some countries out of Europe were chosen for reference. Since analysis of the situation in the sector could include great number of various characteristics, in this work only the following indices were used:

- dynamics of areas under vines,
- productivity of vineyards,
- wine production,
- wine sales.

Some issues on measures that have to be taken for the branch improvement were made on the base of analysis of recently adopted legislation directed on the branch support and consideration of opinions of experts.

3. SITUATION AND TRENDS IN THE BRANCH

3.1 Areas under vines and vineyards productivity

The Ukrainian viticulture and wine-making of 70 - 80 th of the last century had the highest showings concerning area under vineyards and gross yield of grapes. More than 210 thousand hectares were planted with vines. Gross yield counted more then a million tons of grapes. (LUZAN, 2008).

In 1991 when Ukraine was a part of the USSR the area under vineyards counted 171 000 ha or 16,3 % of the total area of the vine plantations located on the territory of the 11 Union republics. From that time steady negative trends are observed towards areas under vines cultivated in Ukraine (Figure 1).

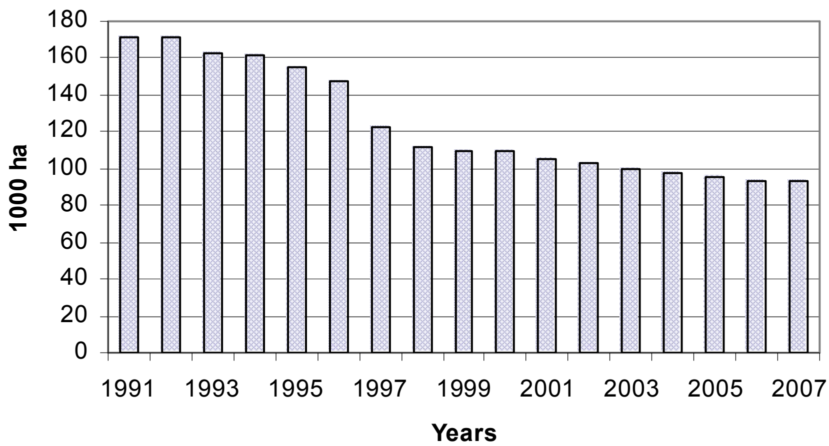


Figure 1 Changes in Cultivated Areas under vines in Ukraine (period 1991 – 2007)

Source: Own compilation (based on the data of Economic Department of the NSC"Institute of wine-growing and wine-making named after V.Tairov" and UKRAINIAN STATISTIC YEARBOOKS)

Period 1994 – 1998 is considered as the most critical for the branch. This time land privatization was carried out as one of the most important ideas of the land reform. At the same time it was stipulated that privatization of vine growing enterprises with its division and distribution between members of agricultural enterprises could decline efficiency of (or even destroy) the branch. It was oblivious that after distribution of land under vineyards not all new owners would be interested in growing vines.

Therefore according to the adopted legislation (the law “On particularities of property privatization in agrarian complex”, 1996) privatization of property of many agrarian enterprises specialized in growing of perennial plantation was realized by means of its reorganization into stock companies. It was organized 141 Stock companies (on January, 2002) (CHERNOIVANOV, 2002).

Despite the fact that after reformation approximately 600 agricultural enterprises deal with grape production, the main vine area (about 70%) is concentrated in about 150 large specialized enterprises (VLASOV, 2002). Development of private vine growing farms is restrained. The reasons for this are high level of investments for establishment of a new vineyard and a winery, long term of expenditure covering (10 – 15 years after vineyard begins to bring yield), practically unaffordable conditions for a farmer to bottle and to sell own wine because of too high price for license. As a result, now only vine farms with specialization in table grape growing are more or less successful. Production of wine grapes is still much less profitable for the Ukrainian farmers.

Today total vineyard area of 93300 ha is concentrated in the state and non-state agricultural enterprises. The non-state agricultural enterprises include 62100 ha (67%) and mainly consist of the agricultural companies (agricultural stock companies and cooperatives). The state enterprises consist 14300 ha of vineyard area (nearly 15%). Other area under vines belongs to private households (13 200 ha) and farms (3 700 ha). The vine farms take only 4% of total area under vines. (Figure 2)

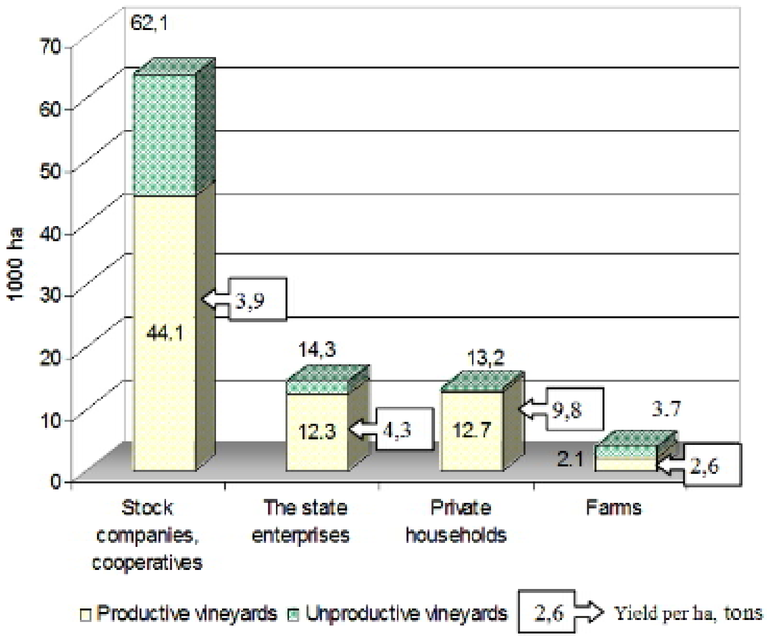
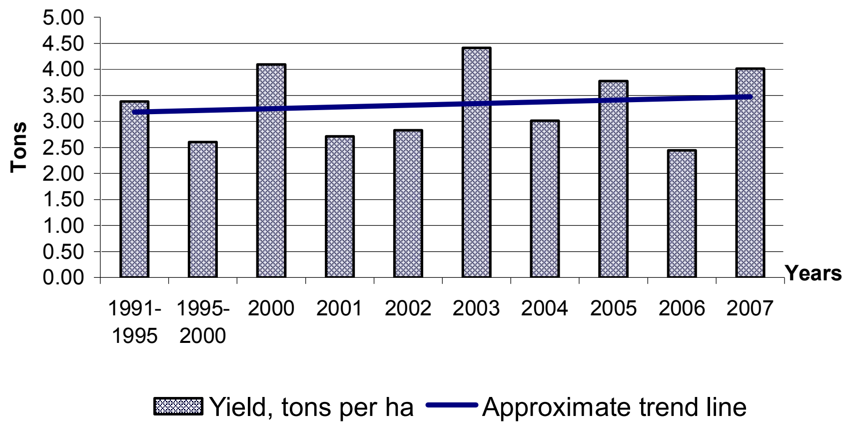


Figure 2 Areas under vines and yield per hectare broken down by types of enterprises (in 2007)

Source: Own compilation (based on the data of Economic Department of the NSC “Institute of wine-growing and wine-making named after V.Tairov”)

In general, productivity (yield per ha) of the Ukrainian vine growing enterprises and private farms is not high. It is a little more than 3 t/ha in average for period 1991 – 2007 (in 2007 - 4 t/ha). However it varies from one enterprise to another and depends on management and maintenance of the plantations. Productivity of people holding vines is much higher, but their contribution in the development of wine sector is not so substantial. Yield per hectare varies also from year to year generally depending on the weather conditions but still remains much lower than in the leading vine growing countries (France, Italy – about 9 t/ha, Germany – 10 t/ha). The observation of the dynamics of yield of grapes per hectare and gross yield is made for period 1991 – 2007 (Figure 3).



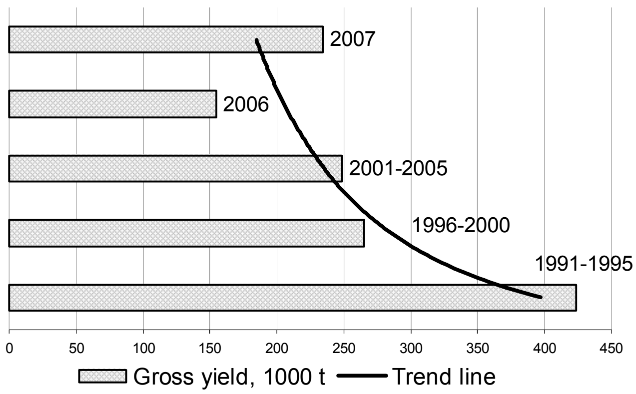


Figure 3 Productivity of vineyards (period 1991 – 2007)

Source: Own compilation (based on the data of Economic Department of the NSC "Institute of wine-growing and wine-making named after V.Tairov")

3.2. Wine production

In Ukraine there are about 200 wine-making enterprises that process grapes, make wine materials and produce different kinds of wines and brandies. They can be divided into two main groups: specialized wine-growing enterprises with own vineyards and wineries and companies dealing only with the bottling of wine. Enterprises of the first group produce wine (or wine materials) from grapes grown on their vineyards. The second group of enterprises purchase wine materials from various producers and manufacture wines of their own trade marks. Nevertheless, experts consider that future belongs to the enterprises of complete cycle – from grapes to wine production. First of all it is explained by peculiar properties of wines to reflect the environment in which it was grown. Special qualities of wine are defined to a great extent by the location where vines were planted.

In 1998 wine production decreased in 3.6 times in comparison with the year 1991, brandy – on 24.3%, production of sparking wines increased on 31.2% (this can be explained by traditional popularity of sparking wines for holiday's celebrations and export of the product). The increase of wine production is noted in the period 2000-2006 with the peak in 2002 (Figure 4)

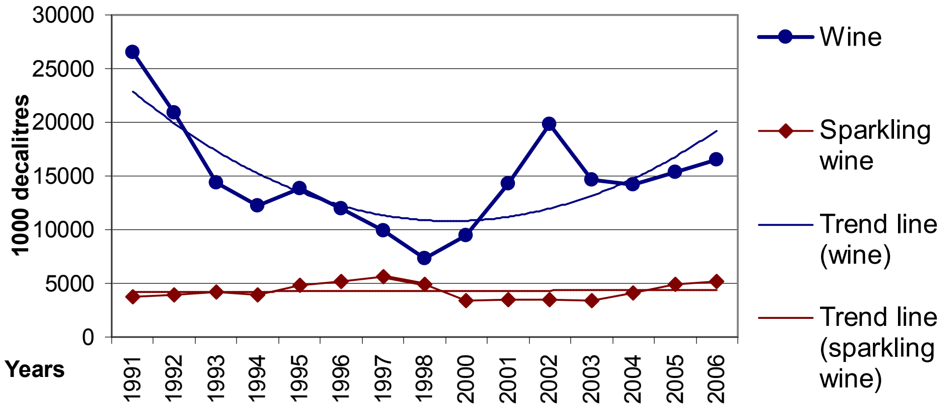


Figure 4 Wine production (period 1991 – 2006)

Source: Own compilation (based on RYBINTSEV, 1998; PETRUS, RADIONOVA, 2008; UKRAINIAN STATISTIC YEARBOOKS)

It is complicated to calculate real wine consumption in Ukraine because of existence of wine falsification on the market, uncalculated production and consumption of "home-made" wine in traditional vine growing regions of Ukraine. However, analysis of official data on retail sales of wine in Ukraine shows considerable increase of the sales from 2000 to 2005 (Figure 5).

Relying only on this official information it is possible to calculate that in average less than 3 liters of wine was sold per one capita in 2006. This is much less then in average in the most EU countries. According to the International Organization of Vine and Wine (OIV, 2008), annual consumption of wine in such countries as France and Italy is more than 50 liters, Spain and Austria – about 30 liters.

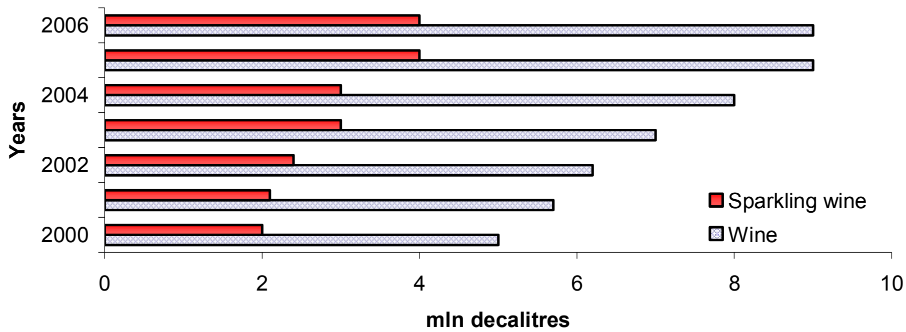


Figure 5 Wine sales in Ukraine (period 2000 – 2006)

Source: Own compilation (based on RETAIL TRADE OF UKRAINE , 2007)

4. SHORT OVERVIEW OF THE WORLD WINE SECTOR

European vine cultivation and wine production has a world dimension and takes leading position on the world wine market. Wine production represents an integral part of culture and heritage of different vine growing regions.

According to the European commission fact sheet (2007), the EU is the world leader: biggest producer (50 % of area under vines in the world and over 60 % of its production); biggest consumer (over 60 % of global consumption); biggest exporter and top import market. Wine production is especially important in the countries of southern Europe, but also in some that are further north. The wine sector accounts for around 10 % (or more) of overall agricultural production in France, Portugal and Italy. The EU has 2.4 million wine producers tending vines on around 3.6 million hectares.

In spite of the fact that the European wine sector has significant position in the world it also has its problems. Overproduction of table wine and growing competition from the countries of the New World stipulate the necessity to take measures for overcoming the difficulties like reduction of areas under vines, distillation of wine, strict principle of the planting rights measures. According to the planting rights vines cannot be planted unless a right to replant or a right to make a new planting is held by the vine-grower.

Though European countries still remain to be the leaders, grapes are grown almost on all continent of the world. Considerable part in the world wine market is taken by some countries that today can introduce high quality wine and compete with so popular and traditional European wines. Such countries as USA, South Africa, Australia and New Zealand take stable position on the wine market producing good wines. The countries of South America (especially Chile, Argentina) improve the quality of their wines that gives possibility to enter the market and to increase export with relatively low prices.

In the past twenty years, the overall trend has been towards a reduction in the areas under vines in the EU, with a 10 % drop between 1986 and 2004. This overall decline masks two distinct and contrasting developments: the EU has seen a limited, but steady reduction (of 15%) in area, while its main competitors have witnessed stunning growth in their production capacity, with increases of 21 % in the United States, 33 % in South Africa, 52 % in Chile, 178 % in Australia and 360 % in New Zealand (EUROPEAN COMMISSION FACT SHEET, 2007).

5. STRATEGIES FOR THE IMPROVEMENT OF THE SITUATION IN THE UKRAINIAN WINE SECTOR

Analyzing the situation in the Ukrainian vine-growing one can see the negative trends in many positions – areas are declining, grabbing exceeds new planting, grape yield still remains very low. At the same time we can observe increase in the production of wine in the last years. This situation is very contradictive: grapes production continues to diminish and wine production goes on to rise. It could mean that domestic grape producers are not able to provide adequately qualitative row material for the production of wine. Moreover, the problem of wine falsification and production of low quality wine that are made from dubious material is still remaining one of the most important one.

Taking into account the critical situation, the measures directed on support of the Ukrainian viticulture were taken by the authorities. In 1999 the corresponding legislation was adopted. According to the law, takings in the amount of 1% of all alcoholic production sales were directed on compensation of expenditures on planting new vineyards to the agricultural enterprises of all forms. As one can see on the graphs Figure 1) after the 1999 a slowing down of the decreasing trends in areas under vines is observed and new plantings increase.

However, the Ukrainian vine-growers are worried about possibility to preserve this state support under conditions of WTO. According to the opinions of the Ukrainian specialists dealing with wine sector, one of the necessary positions that has to be retained for protection of vine growers and wine makers is the support of domestic producers after joining WTO (LUZAN, 2008).

As it was discussed above overproduction of wine take place in Europe. It is predicted by some specialists that after joining WTO import of cheap table wine in Ukraine will increase, thereby the development of the Ukrainian wine sector will suffer deprivation. From other hand, it will be very problematic for the Ukrainian wines to enter world market because of high level of competition. Therefore people dealing in the sectors insist on the strict state politics of the protectionism of domestic producers.

Another very important question is not developed system of classification of the Ukrainian wines based on its origin that make the Ukrainian wines and vine-growing regions faceless and unrecognizable. Solution of this problem is very important for presentation of the best Ukrainian wines on the international market. Many of the major wine-producing countries have legally adopted systems of classification of wines based on region of production and grape varieties (SPURRIER, DOVAZ, 1990; JOHNSON, ROBINSON, 2005). By designating the appellations of origin on the label, vintners offer consumers information about the origin of the grapes. Such classification helps consumers to make a selection when they face dozens of unfamiliar choices.

One more important question for the Ukrainian wine sector that have to be solved in the shortest time is carrying out of inventory and register of the existing vine plantations in Ukraine. This can predict production potential of various wine styles as well as delimitate specific areas for production of wine with designation of its origin and provide controlling measures directed against wine falsifications. The latest vine cadastre in Ukraine was conducted in 1980 and inventory of vines in 1998. At the same time in Europe in order to assess wine market situation and its developments, every 10 years, beginning in 1979, basic statistical surveys covering the total areas under vines are conducted in vine-growing holdings. In between the basic surveys, smaller intermediate statistical surveys are also conducted on the area under vines of wine grape varieties (EUROSTAT 2002, 2003). These surveys allow production potential to be adjusted to market demand in good time, keep the development of wine production potential under constant observation, and enable the assessment of the production of wine in the EU.

CONCLUSION

This study shows the main tendencies in the Ukrainian wine sector. It is determined that one of the weakest sides of the sector is insufficient situation in the Ukrainian vine-growing. Being the source for the raw materials of wine making vine-growing and grapes production is the most vulnerable and need to be supported on the state level.

It attempts to determine some of the necessary steps that have to be taken for improving the situation in the branch and protection of the Ukrainian wine producers. The efficient wine sector will positively influence on development of the famous vine growing regions of the country preserving their traditions, landscapes and increasing their attractiveness.

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