

## THE NECESSITY OF ENSURING COMPETITIVENESS OF ROMANIAN WINES ON WORLD MARKET

Ion Șerban Dobronăuțeanu<sup>1</sup>

### Abstract

European wines sector is in a structural crisis for a long time and their stakeholders: producers, EU governments and EU authorities agree that only by increasing the competitiveness, this agro-food product can re-become a success and a positive trend on international markets, according to the quality production's potential.

The Community financial support allocations for our country's wine sector, was stipulated by the Romanian's Accession Treaty to the European Union and was implemented by successive regulations for Common Organization of the Wine market R (CE) 1493/1999 and R (CE) 479/08 and included in „Single CMO Regulation” R (CE) 1234/2007 establishing a common organisation of agricultural markets, emphasizing on increasing productivity of Community wine.

This paper focuses on updated dynamics in terms of global wine market and measures implementation but also the Romanian producer's tendency and efforts to increase the competitiveness.

**Keywords:** competitiveness; consumption; common market organization; the wine market; financial support grant.

### INTRODUCTION

The wine sector environment has changed profoundly in recent years and will continue to do so in the future. Liberalization and globalization have induced greater mobility of production factors, rapid relocation, fragmentation and higher specialization of activities regarding products quality and services. The agreements with the OCM and opening Chinese and Indian markets are important factors that will mark the next evolution of world trade in wine.

In addition, retention of national value becomes increasingly difficult due to the expansion of global value chains in an attempt to minimize costs and maximize profits. International competitiveness is therefore dynamic and the competitive advantages are

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<sup>1</sup> Ion Șerban Dobronăuțeanu, PhD student, Bucharest Academy of Economic Studies, Economics 2, , Str. Piaa Romană nr. 6, Bucuresti, Romania

more volatile and less durable.

The EU policy, has emphasized, since Regulation 1493/1999, the European wine competitiveness and has implemented measures to support the production of quality wines, reducing funding for various forms of support aimed to ensure producer’s incomes, which led, mainly, to the decreasing of table wine production. Afterwards, the new Regulation for the Common Organization of Wine market R (EC) 479/2008 was approved, included in “single CMO” R (EC) 1234/2007 establishing a Common Organization of agricultural markets, which focuses even stronger on the measures support, in order to increase competitiveness through quality wine.

**1. Evolution of world wine market**

In recent decades there have been changes in areas under vines, production and consumption at regional and global levels. Thus, globally, the offer marked a decline as follows:

**Table 1: The evolution of area under vines and world wine production**

<b>Year</b>	<b>Surface (ha)</b>	<b>Production (hl)</b>
1985	9823000	333552
1999	7864000	283436
2010	7550000	263700

Source: OIV

At European Union level, in the last decade, there had been noticed significant quantity decreases in the Community wine sector, between years 1985-2009, the European wine production decreased from 78% to 68% share in world production.

There has been a long term reduction of demand in major markets in Europe, countries that actually provide a large share of world production but also consumption. Stopping the decline in consumption in these countries is the main objective of European producers, and therefore they have to “reinvent” the broad categories of wine consumers, especially young people.

Thus, between years 1992-2009, wine consumption / capita in France, Italy, Spain and Portugal fell on average by 20%, exception being Germany with constant consumption during this period. Wine demand was offset, in part, by countries with no tradition of drinking wine, where there was a continuous increase in demand.

In the worldwide context, wine sector developments are a consequence of changes in the consumer’s behavior, raising living standards, strong growth of international trade etc.

A very important trend reported in the past two years, seemingly paradoxical in this difficult economic context, an attenuation of demand decrease in major European markets. This trend began to manifest in the second half of 2008 and continued until 2009. In 2010, wine consumption has remained stable compared with 2009, a total of 236.3 million hl. Except for Spain, where has been noticed a decrease, all traditional

European wine producing countries have stabilized wine consumption compared with 2009. We outline that these countries represent a large share in terms of world consumption, given consumption / person and significant population.

On a global level, the wine market is estimated to have been overcome economic crisis started in 2008. After a decrease in consumption by about 10%, international wine trade volume in 2010 recorded over 92 million hl, representing an increase of 6.7% compared to 2009. “For the first time in fifteen years, this recovery is seen more in European countries than in traditional exporting countries in the Southern Hemisphere and the United States,” said Mr. Federico Castellucci, Director General OIV. It remains to see if the results of 2011 will confirm the growth trend of world consumption.

In terms of mergers and acquisitions among producing wine companies and their financial results, the big players in this field that state the “family” companies are more flexible and more effective than international firms, aimed mainly in short and medium term profit.

## **2. Evolution of Romanian wine market**

In the past 20 years, the evolution of Romanian wine sector experienced the same downward trend, regarding areas under vines and consumption. The causes were multiple, but worth to mention are: poor economic performance of companies in the industry, strong consumer migration to beer (for reasons of price, usually of demand, lack of response to promote this product, etc.) exports decline especially on 1997-1998. This trend has changed significantly in recent years following privatization and Romanian investments during year 2000, accession of EU funds and those of national pre-accession and then the post-accession and foreign investment.

The first signs of economic crisis felt in Romania in early 2009 and the consequences were reflected in all economic sectors and thus on consumption. The decline in trading activity continued in 2011, the first semester general retail loss is 6% over the same period of 2010 and the drinks and tobacco fell by approximately 8%. The main wine consumer’s tendency was to refocus on the cheaper wines, giving up, especially to medium level wines and buying those ones from economic category.

## **3. The measures taken by Romanian producers to increase competitiveness**

### **a) Absorption of EU funds**

Among the most important financing measures are restructuring and conversion of vineyards, which aims to increase the competitiveness of grapes growers, and also promoting on third country markets, measures given for information or promotion of community wines, to improve the competitiveness of wines with protected designation of origin or geographical indication or wines with an indication of the variety.

**Table 2: National Support Program (in 1000 euros)**

Nr. crt.	Measure	Fiancar year					TOTAL
		2009	2010	2011	2012	2013	
1.	Promotion on third countries	54,40	109,48	805,90	802,50	610,47	<b>2.382,75</b>
2.	Restructuring vineyards	30.381,10	37.414,27	40.952,64	40.777,50	41.139,53	<b>190.665,04</b>
2.1	<i>Plans underway</i>	11.311,60	4.134,31				<b>15.445,91</b>
3.	Harvest insurance	323,40	360,66	265,00	350,00	350,00	<b>1.649,06</b>
4.	Concentrated must	29,50	81,28	76,46	170,00		<b>357,24</b>
<b>TOTAL</b>		<b>42.100,00</b>	<b>42.100,00</b>	<b>42.100,00</b>	<b>42.100,00</b>	<b>42.100,00</b>	<b>210.500,00</b>

Source MADR

### b) Measures of producers management

Amongst the decisions taken by producers we mention minimizing costs but also reducing the selling price of bottled wine, the adjustment range of products especially by launching new brands in the range economic, supply chain optimization, selection of marketing activities in order to obtain immediate positive financial results, increased exports.

With the need to provide a good table wine quality / price ratio and taking into consideration that 2010 was, in our country, a year with substantially low production of grapes, many producers have turned to imports of bulk wine from various European countries especially Spain. In table 3 we can see the wine imports increased at an annual rate of about 80% in 2010 and 2011. This wine is bottled as table wine or wine mixed or not with native one and labeled “wine produced in the EU.”

**Table 3**

Indicators	Import Val. (1000 E)	Import Val. (1000 E)	Import Val. (1000 E)	Import quantity (1000 kg)	Import quantity (1000 kg)	Import quantity (1000 kg)
Country	Romania	Romania	Romania	Romania	Romania	Romania
Year	2009	2010	2011	2009	2010	2011
ExtraEur27	2478.65	2029.06		1770.7	1397.4	
IntraEur27	12335.05	18677.03		11693.4	21093.4	
<b>TOTAL</b>	<b>14813.7</b>	<b>20706.09</b>	<b>17336.150</b>	<b>13464.1</b>	<b>22490.8</b>	<b>34116.816</b>

Source: EUROSTAT years 2009-2010, INS January-May 2011

Export data show stagnation, but we should outline the superior value / liter of wine, comparing to wine import. Should also be noted that exports remain an important outlet for many producers and they make great efforts to increase sales in foreign markets: developing their own export departments, participate in fairs and trade missions, and conduct many activities of prospecting and tender. “The production of local wine needs more than one brand of national promotion, must be created a brand

by which international markets recognize the wine”.<sup>2</sup>

Romanian producers participated in the international wine competitions, their portfolio shows a beautiful recognition of Romanian wines quality: the 2009 Romanian wines have won 59 medals in 2010 - 74 medals and the first half of 2011 were have won 56 medals in competitions abroad.<sup>3</sup>

#### **4. Conclusion and proposals**

Analyzing the structure of the wine on a global and national level and its socio-economic evolution context, we draw the following conclusions:

- a) Nowadays, the demand / supply balance has improved greatly, the global wine stocks indicator is at the lowest level in decades.
- b) The chronic decline of wine consumption / person in traditional European countries, countries that provide an important share in world consumption, has slowed down and the data for 2010 show a constant consumption compared to 2009.
- c) The past few years period was marked by economic crisis hit, leading to lower consumption in many countries and consumer orientation, partly to cheaper wines. This situation is still present in Romania but in other countries has improved.
- d) The effects of the crisis for producers were not only lower consumption, but also worsening of business environment, mainly in terms of opportunity to attract capital and possibility of allocating investment funds, development, research and marketing.
- e) The wine export potential still remains important, export markets provide a growing share of total sales higher and higher and in 2010 the report shows that export volumes increased in most markets.
- f) The measures provided by wine Common Market Organization identified as quality of supply, market orientation and promotion of wine in third countries as the most efficient ways.

To sum up, given the applied Community financing systems and their effects on the wine sector and also taking into consideration the most important trends in the wine market, we outline the following recommendations:

1. For the current situation of the Romanian wine growing sector, vineyards restructuring and conversion measure is a top priority. Bear in mind that in the new CAP, in order to raise the amounts given to our country, in this applying the measure to a greater number of hectares, an effective objective would be to apply the measure to

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2 Livia Mirescu *Possibilities for improving the marketing of products at SC Domeniul Segarcea*, PhD thesis, Academy of Economic Studies , Bucharest

3 Producers and associations of wine producers sites

approximately 5-6000 ha / year.

2. Wine producer's orientation to the new markets: China, U.S. and Great Britain.

3. Only companies that will keep pace with changes taking place in the field of marketing will be able to adapt to the new economic and social environment. Implementation of modern marketing, courageous and effective, as applied in other beverages such as beer, spirits, low alcohol drinks - Alco pops or non-alcoholic beverages in so-called soft drinks and ready to drink

4. Entrepreneurs and managers must draw up plans for medium and long term business that will lead to consolidation and business development and to provide protection in case of any adverse factors such as increased business input costs, wine price stagnation, unfavorable agricultural years etc.

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