

## THE NEED OF DEVELOPING THE INVESTMENT OF WINE-MAKING IN THE REPUBLIC OF MOLDOVA IN ORDER TO ENTER THE EUROPEAN MARKET

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### *Abstract*

*Wine-making in the Republic of Moldova is an industrial sector with high growth potential. But in recent years the sector has undergone drastic changes. In order to harness the potential of the wine-making we need to invest in improving the quality of wine products, to develop new products, to enter new markets. In order to achieve these objectives in the country it is developed the restructuring program of the wine sector with financial support of the European Investment Bank.*

*Key words:* evolution, milk production, NW Region, Romania, trends

### INTRODUCTION

The wine-making sector has a special importance for the Republic of Moldova since it may be characterized by a rather high potential. Products from this sector may be competitive and may assure substantial incomes for the public budget and contribute to economic stability in the country. At the same time, development of the wine-making sector provides work places in the rural localities, this being extremely important for the Republic of Moldova, from the social point of view. Operation of wineries brings incomes as a result of grapes processing and commercialization of alcoholic beverages and other foodstuffs. Still, for the last ten years, some problems have appeared in the wine-making sector and their settlement needs great investments into development of all component parts of this sector. These problems include:

- natural risks and limited possibilities to reduce them through application of high-performance technologies and appeal for the insurance companies' services;
- insufficient information base of producers in viticulture and wine-making. There is no

register of viticulture areas in the Republic of Moldova but in the Wineries Register, there are only enterprises having a license for alcoholic beverages production and commercialization. That's why in the Republic of Moldova, where the wine-making sector is considered a strategic one, there are no exact data on vineyards situation and activity of enterprises-producers from the wine-making sector;

- licensing of wine-making production in the existent mode throws back development of the wine-making sector since licensing puts forward certain requirements, realizations of which needs great investments. License value is rather high for small producers. The procedure of grapes planting projection is also rather expensive.

All these and many other problems, as well as the ways of their settlement, should be reflected in a Policy of wine-making sector development that has not been elaborated yet, at the present stage.

### MATERIALS AND METHODS

To examine the situation in the wine-making sector of the Republic of Moldova, there has

been analyzed production of alcoholic beverages, their share in the country export, and number of wine-making enterprises in the Republic of Moldova, including production of green wines at the agricultural enterprises.

The analysis has been carried out for four periods, each of them making 3 years. There have been calculated average meanings for the pre-crisis period of the wine-making sector (period I – 2000-2002, period II – 2003-2005), crisis period (period III – 2006-2008), and post-crisis period (period IV – 2009-2011). For this purpose, data from the National Bureau of Statistics, Agency for Interventions and Payments in the Agriculture, and Ministry of Agriculture and Food Industry have been processed. There have been applied the methods of average values, comparison, monographic study, economic analysis, and synthesis.

## RESULTS AND DISCUSSIONS

The wine-making sector is a part of the agro-industrial complex in the Republic of Moldova. Agro-industrial complex plays an important role in the national economy.

From Table 1 one can observe that though the share of the agro-industrial complex in principal indicators had been decreasing within 2000-2011, it still remained rather big and made about a half a GDP of the country and of the total export value. The value of the agro-industrial complex products and export value had grown up in their average within 2009-2011 by the factor of 2-1 if compared with the average value of 2000-2002. The share of rural population had remained constant within the period examined.

In the agro-industrial complex structure, there is distinguished agriculture and foodstuffs and beverages industry, where production of alcoholic beverages had made 15.1% within period I, achieved the maximal value within 2003-2005 – 20.3% and slided to 8.2% in 2006-2011.

The fact that alcoholic beverages production had been growing in 2000-2005 gives evidence of interest of the business sphere in high potential of the wine-making sector.

Table 1. Place of the agro-industrial complex in the national economy of the Republic of Moldova

	Average annual value for the periods			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
1. Gross domestic product, mln. lei	19209	32434	53677	71484
2. Total export, mln. US dollars	561.2	955.4	1327.2	1680.4
3. Total population, thousand people	3635.6	3608.6	3580.6	3562.8
4. Including rural one	2140.4	2129.4	2106.6	2085.7
5. Value of the products made in CAI, mln. lei	13990.4	21166.3	25076.4	30070.4
6. Export of the agro-industrial complex products, mln. US dollars	354.0	529.1	532.2	760.8
7. Share of the agro-industrial complex in the GDP, %	72.8	65.3	46.7	42.1
8. Share of the agro-industrial complex in the total export, %	63.1	55.3	40.1	45.2
9. Share of the rural population, %	58.9	59.0	58.8	58.5

Source: calculation of the author based on [7]

Table 2. Structure of the agro-industrial complex in the Republic of Moldova, %

	Average annual value for the periods			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
I. Agriculture	60.3	54.9	57.2	61.3
II. Foodstuffs and beverages industry	36.0	42.9	41.2	36.5
of which:	0.8	3.3	2.1	1.7
- production of distilled alcoholic beverages				
- wine-making	14.3	17.0	8.2	6.5
III. Tobacco goods production	3.3	2.0	1.4	2.1
IV. Perfumery and cosmetic goods production	0.4	0.2	0.2	0.1
In total – agro-industrial complex	100	100	100	100

Source: calculation of the author based on [7]

But embargo introduced by the Russian Federation – principal market of alcoholic beverages commercialization – caused reduction of the wine-making share in the agro-industrial complex structure.

Table 3. Evolution of the number of enterprises from the agro-industrial complex industry in the Republic of Moldova

	Annual average value			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
Agro-industrial complex industry, in total	350	320	1547	1508
of which: foodstuffs and beverages industry	336	307	1517	1488
- production of distilled alcoholic beverages	10	13	19	19
- wine-making	136	128	154	130
Share of the enterprises-producers of alcoholic beverages:	41.7	44.1	11.2	9.8
- the agro-industrial complex industry				
- in the foodstuffs and beverages industry	43.5	45.9	11.4	10.0

Source: calculations of the author based on [7]

During the period examined, the number of enterprises from the agro-industrial complex industry had substantially increased and the greatest part of them represents the foodstuffs and beverages industry. As for the wine-making sector, the average number of enterprises had grown up insignificantly within 2009-2011, in comparison to the average number of 2000-2002 (only by 2.1%). The biggest number of enterprises worked in the wine-making sector in 2006: 166 of them produced wine and 19 of them produced distilled alcoholic beverages. Still, during the crisis (2006-2008), the number of wineries had been decreasing step-by-step and by 2011, their amount had reached the number of 146. The modifications mentioned had provoked reduction of the wineries share in the agro-industrial complex industry from 43.5-45.9 in the years before the crisis (2000-2005) to 10 in the post-crisis period (2009-2011).

Analysis of the structure of the wine-making enterprises in the Republic of Moldova under aspect of the forms of ownership allows us drawing a conclusion that circa 2/4 of active enterprises are privately owned. The share of private enterprises had insignificantly decreased during 2009-2010 (by 2.8 p.p.) in comparison to 2006-2008. The share of the state ownership was practically at the same level. Its reduction in 2006-2008 is explained

only by the fact that 2 state enterprises were registered in 2008, in comparison to previous years.

Table 4. Structure of the enterprises having the principal type of activity "Wine-making", according to the forms of ownership, %

	Annual average value		
	I 2003- 2005	II 2006- 2008	III 2009- 2010
State ownership	2.2	1.8	2.0
Private ownership	75.4	76.6	73.8
Mixed ownership	3.8	2.9	2.0
Foreign ownership	2.2	2.3	4.0
Ownership of foreign joint-ventures	16.4	16.4	18.2
In total	100	100	100

Source: calculations of the author based on the data of the Statistical Yearbook [7]

Table 5. Structure of the enterprises having the principal type of activity "Wine-making", according to the organizational-legal forms

	Annual average value		
	I 2003-2005	II 2006-2008	III 2009-2010
Individual enterprises	0.3	0.2	-
Closed joint-stock companies	20.2	17.5	18.4
Opened joint-stock companies	29.3	30.7	28.7
Limited liability companies	48.5	50.0	51.3
Production cooperatives	0.3	0.6	0.7
State enterprises	0.2	1.0	0.9
In total	100	100	100

Source: calculations of the author based on the data of the National Bureau of Statistics

From the table data, it is observed that a half industrial enterprises from the wine-making sector of the Republic of Moldova work as a limited liability companies and their share in the total number had been growing during 2003-2011. A great part of enterprises work as joint-stock companies but their share had been reducing from 49.5% in average during 2003-2005 to 47.1% in average during 2009-2011. The share of other organizational-legal forms is insignificant and do not exceed 1.0%. Alcoholic beverages production shall be examined further.

The value of production indicators in the wine-making sector of the Republic of Moldova has absolutely decreased in all groups of products.

Table 6. Production of alcoholic beverages in the wine-making sector of the Republic of Moldova (mln. dal)

Groups of products	Annual average value for the periods			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
Divin	565.5	887.6	588.8	494.3
Sparkling wines	537.7	909.3	505.0	581.3
Natural grape wines	13.6	29.5	15.7	12.2
Wines of Porto, Madeira, Sherry, Tokay, etc.	N/A	3051.6	1003.8	931.5

Source: calculations of the author based on the data of the Statistical Yearbook [7]

Maximal production indicators had been reached during 2003-2005. In 2005, there was produced: divin – 1189.8 mln. dal, sparkling wines – 402, natural grape wines – 36.3, wines of Porto, Madeira, Sherry, Tokay, etc. – 3237.9 mln. dal.

Although a great part of restrictions for export to the Russian Federation were annulled in 2008, not all producers recovered the market lost. That's why, during 2009-2011, production in the group of divins and natural sparkling wines had been under the level of the annual average value in the first period.

Production of alcoholic beverages at the agricultural enterprises from the Republic of Moldova is of some interest. Pursuant to the statistical data, agricultural enterprises had produced green wine and grape wine.

Analysis of wine products at the agricultural enterprises shows that this category of economic entities produces more green wine that is to be sold to wineries; production of green wine at the agricultural enterprises had been growing up during the period before the crisis in the wine-making sector (i.e., 2000-2005).

During the crisis period (2006-2008), production of green wine at the agricultural enterprises had reduced by the factor of 4.2 in comparison to the second period. During post-crisis years (2009-2011), production of green wine had increased by 57.7% in comparison to the previous period but, if compared to the average value of 2003-2005, it was lower by the factor of 2.7.

Analysis of the structure of green wine production under the aspect of developing regions shows us that the leading position

within the first period had been held by the developing region of South (46.7%) followed by Center (40.7%).

Table 7. Production of green wine and grape wine at the agricultural enterprises from the Republic of Moldova, ths. Dal

Indicators	Annual average value			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
1. Total production of green wine in the Republic of Moldova	1429.5	2684.2	634.1	1000.3
of which, developing regions are: Chisinau municipality	15.6	90.0	230.0	236.7
North	8.0	0.3	0.7	2.4
Center	582.0	1713.3	113.7	589.3
South	668.7	192.9	284.8	167.7
Autonomous Territorial Unit of Gagauzia	155.2	687.7	4.9	4.3
2. Total production of grape wine in the Republic of Moldova	3394	923.6	152.6	73.0
of which, developing regions are: Chisinau municipality	154.4	275.5	146.8	70.0
North	7.2	0.8	0.2	0.7
Center	80.5	500.1	0.2	0.2
South	83.9	31.1	5.3	2.1
Autonomous Territorial Unit of Gagauzia	13.9	116.2	0.1	-

Source: calculations of the author based on the "Specialized form sheets for activity of agricultural enterprises for 2000-2011"

Within the second period, the region of Center had had 63.8% and the Autonomous Territorial Unit of Gagauzia had had 25.6%. Within the third period, the region of South had been at the first place (44.9%) followed by Chisinau municipality – 36.3%.

Within the last period, the region of Center had produced 58.9% of green wine and Chisinau municipality – 23.6%.

As for production of grape wine, there had appeared a trend for growth within 2000-

2005, as well as in production of green wine. But, if average production of green wine had increased within 2003-2005 by the factor of 1.8 if compared to the average value of 2000-2002, production of grape wine had grown up by the factor of 2.7. Within the third (crisis) period, production of grape wine had reduced by the factor of 5.4 and had been continuing to reducing during the post-crisis years (2009-2010) and had constituted the lowest value from the whole period examined. Within the pre-crisis years (2000-2005), grape wine had been mostly produced in the central regions (45.5% – Chisinau municipality and 23.7% – Center within period I and, respectively, 30% and 54% within the second period). Within periods III and IV, 93-95% had been produced at the agricultural enterprises from Chisinau municipality.

Export of alcoholic beverages in the total export of the Republic of Moldova will be examined further.

Table 8. Position of alcoholic beverages in the total export of the Republic of Moldova

Indicators	Annual average value			
	I 2000- 2002	II 2003- 2005	III 2006- 2008	IV 2009- 2011
Total export, mln. US dollars	561.2	955.4	1327.2	1680.4
Export of alcoholic beverages, mln. US dollars	164.0	276.5	169.1	169.1
Share of alcoholic beverages in the total export, %	29.2	28.9	12.7	10.1

Source: calculations of the author based on the data of the Statistical Yearbook [7]

It is observed from the table data that the total export in the Republic of Moldova had been continuously growing and increased by the factor of circa 3 within the fourth period if compared to the first one. But the export of alcoholic beverages within the crisis (third) and post-crisis (fourth) period had been at the level of 2000-2002. Respectively, we have a permanent decrease of the share of alcoholic

beverages in the total export. In 2011, the value of the export of alcoholic beverages constituted 177.7 mln. US dollars but in 2005, the Republic of Moldova exported alcoholic beverages valuing to 313 mln. US dollars. In the CIS countries, in 2011, there were sold products by 4% less than in 2010 but in the EC countries, sales grew up by 16%. This growth made 30% in the quantitative values this meaning that the selling prices were lower than in 2010. The share of exports to the CIS countries constituted 77.6% in 2011 and it made 13.7% in the EC countries. In 2010, this correlation constituted 84.6% and 11.7%. Alcoholic beverages are exported to 52 countries. The leading position is held by the Russian Federation, Belarus, Ukraine, Kazakhstan, and Poland.

The trend for growth of alcoholic beverages export to the European market is a positive moment, although the Russian market is also very important for local wine-makers. It is necessary to make an accent on quality of alcoholic beverages produced of grapes, in order to increase sales in these markets. Realization of this problem needs substantial investments.

In our opinion, development of investment activity shall be oriented towards:

- Provision with raw materials of the enterprises that process grapes, as well as increase of efficiency of grapes products.
- Modernization of grapes processing technologies in the course of wine productions.

With regard to provision of the wine-making sector with high-quality raw materials, it should be mentioned that vineyards in the Republic of Moldova shall be renewed. At the present moment, circa 40% of wines are produced of European species (*Vitis vinifera*) and 60% are made of *Vitis labrusca* and direct hybrids of producers. The last species do not possess high-quality characteristics and products of *Vitis labrusca* are forbidden in Europe. During the last years, products of species of local and international grapes have been discussed. Nowadays, international species having priority in the Republic of Moldova are: Cabernet-Sauvignon, Merlot,

Shardoneu, and Sauvignon-blanc. But local wine-makers manifest interest to local specific and original species (Feteasca, royal Feteasca, Raza neagra – black ray, etc.). Wines made of these species may be presented to the international markets and form the image of original Moldavian wines.

The state contributes to renewal of vineyards through subventions in various proportions, depending on species characteristics.

In 2002, the “Program of Reestablishment and Development of Viticulture and Wine-Making in 2002-2020” was launched.

The Program mentioned (1) stipulates planting new vineyards by the end of this period over the area of 325 hectares. By 2010, planting 39.2 thousand ha had been foreseen. But in reality, by the end of 2010, the area of new vineyards had made 29.94, i.e. by 9.26 thousand ha or 24% less. Within 2002-2005, 10.58 thousand ha had been planted, i.e. the volume stipulated in the Program had been exceeded by 11.5% and within 2005-2010, 18.9 thousand ha had been set out, this hardly exceeding the half of the areas of new plantations stipulated in the Document, by 3.9 thousand ha.

The State granted financial aid, making partial subventions to vineyards planting, in order to stimulate economic agents to invest into implementation of the “Program of Reestablishment and Development of Viticulture and Wine-Making in 2002-2020”. [2]

For this purpose, there had been gathered monetary funds from entrepreneurs dealing with production, processing, commercialization and/or import of wine products, on the basis of taxes stipulated in Law on Vineyards and Wine no.57-XVI of March, the 10<sup>th</sup>, 2006: grape wines (natural and special ones) – 3.0 lei/dal; divins – 20.0 lei/dal; brandy and other grape beverages – 20.0 lei/dal. The state partially subsidized planting those 18.7 thousand ha of grape vine from sources collected in such a way. [1]

Since 2010, a special fund of subventions for agricultural producers has been formed in the State Budget, this fund foreseeing concrete measures for stimulation of investments into

certain spheres, including creation of multiyear plantations, as well.

Table 9. Allocation of state subventions for setting out vineyards within 2004-2009

	2004	2005	2006	2007	2008	2009	Total
Area presented for compensations	3.7	3.9	3.3	2.9	2.8	2.1	18.7
Accepted sum of compensations, mln. lei	86.7	87.4	83.8	71.7	71.5	50.6	451.7
Savings in the Fund, mln. lei	26.6	82.1	34.9	39.7	43.3	29.9	256.5
Allocated sum of compensations for planting, mln. lei	26.4	79.9	58.5	100.7	85.3	50.5	401.1

Source: data of the Ministry of Agriculture and Food Industry [8]

Table 10. Amount of financial aid for creation of vineyards

Destination	2010 (3)	2011 (4)	2012 (5)
1. Table grapes	30000 lei/ha	30000/ha	30000/ha
2. Wine grapes	-	20000/ha	25000/ha
3. Source and rootstock plantations, biological category “Base”	40000/ha	50000/ha	50000/ha

Source: Regulations Regarding the Way of Use of the Assets from the Fund of Subventions for Agricultural Producers, for 2010, 2011, 2012 [3; 4; 5]

Pursuant to the data of the Agency for Intervention and Payments for Agriculture, in 2010, 496.37 ha of grape vine were planted and the sum of subvention paid constituted 12.7 mln. lei. In 2011, the area of vineyards (table grapes) reached 511.7 ha; the area of technical grapes reached 41 ha and the sum of subvention granted made 16.5 mln. lei. In 2012, 991 ha were set out and the sum of subvention granted constituted 16.2 mln. lei. [9]

Subventions granted by the state for creation of vineyards cover only 13% of total investments.

As for modernization of grapes processing technologies for wine making, it should be mentioned that, although many enterprises have already implemented modern equipment and facilities, at the same time, many enterprises need modern technological lines for wine bottling. Some enterprises do not

have such lines, others have old lines. There is a necessity for renewal of grapes processing lines and of refrigerating installations. Wineries do not have equipment for used water treatment since, in the opinion of the wineries' managers, such equipment does not have an influence on wine quality and there are other priorities in investment of financial resources. Besides this, local wine-making is distinguished by the fact that many necessary resources are purchased in other countries and this is reflected in the acquisition prices and later – in prices for commercialization of products yielded.

Wine-making in the Republic of Moldova shall be modernized and settlement of this problem needs considerable investments. To grant a financial aid, the European Investment concluded a contract with the Government of the Republic of Moldova for a loan amounting to 75 mln. Euros designated for realization of the “Program of Wine-Making Sector Restructuring” (PWMSR).

The goal of the Program is to contribute to reforming of the country's wine-making sector and to promote production of wine with a protected origin name (PON) and protected geographical indication (PGI).

The objectives of the Program are:

- Restructuring of the wine-making sector and related industry (production of packages, labels, etc.);
  - Improvement of quality and consistence of wine produced in the Republic of Moldova, from the vineyards quality to final packing and products supply;
  - Diversification of the country's markets of commercialization through assurance of authenticity of the wine products yielded.
- The financial products of the Program offered to the Final Users are:
- Credits granted through intermediary of the Commercial Partner Banks;
  - Leasing of wine-making equipment and production facilities realized by the Consolidated Union for Implementation and Monitoring of the Program of Wine-Making Sector Restructuring;
  - Financial guarantees granted by the CUIM PWMSR;

- Investments into the shareholders' capital realized by the CUIM PWMSR.

The Program has been implemented and monitored through intermediary of the Consolidated Union for Implementation and Monitoring of the Program of Wine-Making Sector Restructuring (CUIM PWMSR). Crediting from the EIB sources is being carried out with the help of Commercial Partner Banks that assume all financing risks and are controlled by the Director of the Crediting Line within the framework of the Ministry of Finances.

Economic agents with any organizational-legal form shall be considered eligible users if:

- they are registered in conformity with the legislation in effect of the Republic of Moldova and possess all necessary authorizations allowing realization of economic activity;
- they maintain accounting records, draft and present standard financial reports in due time;
- their activity is based on the private ownership or public ownership;

The eligible users shall be classified according to the following groups:

- grapes processors (possess grape vine/technical grapes plantations and produce grapes, technical species of grapes, raw materials and unbottled wine);
- wineries (primary processing of grapes and production of unbottled wine);
- wineries (wine treatment – raw material and bottling);
- wineries with the with complete production cycle;
- viticultural enterprises (possess grape vine/technical grapes plantations and produce grapes and raw materials);
- greenhouse enterprises (producers of viticultural plantlings);
- enterprises from related sectors (producers of packages for wine bottling, labels, corks, etc.)

The users that contribute to processing of wine with the protected geographical indications (PGI) and/or protected origin name (PON) shall present the proofs confirming that they respect the quality

standards in the course of production of wine with PGI, regulated by the Association of Producers of Wines with PGI.

To be considered eligible, the grapes processors and viticultural enterprises shall possess or obtain the status of member of the Regional Association of Producers of Wines with PGI (RGPW with PGI) before obtaining a credit.

The viticultural enterprises producing technical grapes shall conform to the technological requirements for grapes production in accordance with the "Task Book of the "Regional Association of Producers of Wines with PGI", referring to production of wines with the protected geographical indications.

Eligible activities shall be also considered those ones related to:

- reuse and renewal of the equipment from the existent wine-making enterprises and those ones from related industries;

- enhancement of activities of the existent enterprises through mounting the bottling lines; creation/renewal of the quality control laboratories;

- research and development (that may include commission fees, development costs and gross salaries that are directly associated with components of research, development, and innovation of activity);

- creation of distribution networks in the domestic and foreign markets, except for the CIS markets (acquisition of goods and/or trade marks, operational costs and human resources costs);

- acquisition of licenses, shares, production and other rights granted by the public entities;

- creation of small enterprises in the rural zones (such as a wine cellar, chateau);

- other types of activity contributing to development of the wine-making sector.

The Program offers the following conditions of financing:

1) 50% of the project sum shall be financed from the EIB sources, the other 50% shall be financed from own sources, from bank credits, loans from financial non-banking institutions and grants obtained from donors.

2) Financing terms shall make up to 10 for the EIB sources and up to 4 for other sources.

3) The interest rate for a user shall not exceed 6.01%.

4) The maximal sum of financing from the EIB sources, for an Investment Project, shall make 5 mln. euros for enterprise reequipping, 2 mln. euros for vineyards restructuring, 600 thousand euros for financing medium- and long-term current assets. 25 thousand euros shall constitute a minimal sum for any viticultural activity.

The principal advantages of the Program are:

- Long terms of crediting;
- Big grace period;
- Big investment sums allocated for implementation of a project;
- Exemption of all customs taxes and excise duties, VAT on import of equipment/services that will be purchased in conformity with the investment project accepted within the program framework;
- Application of zero rate of VAT on purchase, in the country territory, of goods, equipment, facilities/services from local suppliers, necessary for implementation of the investment project. [11]

## CONCLUSIONS

The wine-making sector has high growth and development potential. Development of the wine-making sector needs significant investments. State subventions stimulate investments into planting new vineyards. There are new possibilities of crediting for sector development through intermediary of the Program of Wine-Making Sector Restructuring.

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