The Future for Romanian Wine in Export Markets

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Overview

"It remains to be seen what effect Romania's entry to the EU will have its wine industry" wrote Hugh Johnson in 2007 (Johnson and Robinson, 2008). Thirteen years on, what has become of the Romanian wine industry?

Romania has a long tradition of grape growing and wine production which appears to have been started by the ancient Greeks (Robinson and Harding, 2015). Vines are grown in 11 regions across the country and the vineyard surface in Romania is the fifth largest in the European Union (Johnson and Robinson, 2019). Around half of the vines planted are *vitis vinifera*, eligible for PDO or PGI status. There are 34 PDO and 11 PGI regions. There has been a steady decline in vineyard area from 340,000 in 1972 to 180,000 in 2018, partly as a result of a restructuring policy to remove older unproductive vineyards and concentrate on more favourable locations (Larousse, 2018) and although Romania is still a major wine producing nation, the country has been a net importer of wine since 2006 (Bărbulescu, 2019; Johnson and Robinson, 2019).

Romania produces red and white wines both from indigenous varieties such as Fetească Albă and Fetească Regală and international varieties including Chardonnay, Pinot Grigio and Merlot. For many years a major producer of bulk wines, the focus has switched to producing quality wines with an emphasis on the indigenous varieties (Gruia, 2016).

During the Communist era, the very fragmented vine growing and wine production sector was nationalized and the hundreds of thousands of small growers were obliged to join cooperatives. Wines were produced by large state-owned plants, one in each of the wine regions (Gilby, 2018). The industry produced a basic quality wine for the home market and exported only to Soviet bloc countries. There was no opportunity to develop an export industry and even today, Romania has one of the lowest export to production ratios of any traditional wine producing nation (Bărbulescu, 2019). By the end of the communist era in 1989, 30% of vineyards were state-owned, 60% run by state-controlled cooperatives and 10% were private.

A further legacy of the collectivist period is the domination of a small number of formerly state-owned wine plants that have become private industrial scale operators such as Jidvei, Cotnori and Murfatlor[1]. Jidvei and Cotnori are the largest and second largest wine producers respectively in Romania (Gilby, 2018), contributing to an oligopolistic structure with the five largest wine producers controlling 68% of the domestic market. Jidvei owns the largest single vineyard in Europe with 2,400 hectares (Johnson and Robinson, 2019)

In 1989 the process of privatization and restitution of vineyards to former owners began and by 1991, 69% of vineyards were privately owned (Noev, 2007). Growth of private businesses was very slow as the new owners had little capital to invest, and the first significant investment in the wine sector came in 2007 when Romania joined the European Union. The biggest investors were European

[1] Murfatlar went out of business in 2017

distributors, including Halewood from the UK, SC Vinarte in Italy and the Chris Wine Group from Sweden (Noev, 2007). Foreign direct investment in Romania became legal in 1991 but foreign land ownership was only permitted after accession to the EU. This enabled European wine importers to invest in vineyards and production facilities to improve quality and maintain consistency of supply.

With greater emphasis on quality and exposure to international markets, the Romanian wine industry increased the number of PDO and PGI wines produced from 280 in 2012 to 710 in 2017 (COMM/DG/UNIT, 2019) and increased exports. In 2018, Romania exported 12.8 million litres of wine with a value of €22.6 million, the first fall in exports for five years. The largest export markets are the United Kingdom and Germany, partly explained by the presence of Halewood (see above) and Carl Reh, a German wine group that found the Crama Oprişor winery.

The Romanian wine industry – strengths

Romania has a wide range of grape varieties (95 officially recorded) (Robinson and Harding, 2015) and a number of indigenous varieties - Fetească neagră and Fetească regală - that demonstrate strong varietal character (Bora et al., 2018). Research shows that grapes grown in Romania can produce wines with a clear regional character or elements of *terroir* (*op.cit*.). With the availability of commercial clones, the indigenous varieties that can distinguish Romanian wines from international competition can be grown with better reliability.

The Romanian climate, a temperate, continental climate, is well disposed to vine growing and the production regions are spread across areas with different climatic conditions and soils. This geographic and climatic variation contributes to the variety of wines that can be produced.

The concentration of the wine industry in an oligopoly of five producers provides a good basis for investment in large-scale production. It should be possible for large producers such as Jidvei and Cotnori to invest in modern fermentation and bottling plants that enable the production of a quality, price-competitive wine. Large wine producers can invest in building brands and produce at the scale necessary to supply the big supermarkets.

The strength of the Romanian wine industry is dependent on the performance and stability of the Romanian economy. Inflation (2.7%) and fiscal debt (-1.1%) are currently low and the economic climate appears very positive for new business growth (*Romania Country Monitor*, 2019). GDP grew 4.1% in real terms in 2018 against an EU average of 1.7%. Politically the country appears stable and there has been no return to the kind of authoritarianism that is apparent in other former Eastern Bloc countries (Engel, 2019).

As the wine industry is changing its focus to producing quality wines, a number of premium wine producers are emerging. The Premium Wines of Romania (Asociația pentru Promovarea Vinului Românesc) group is an EU-funded initiative to promote some of the country's producers of quality wines. Most of the 15 participating wineries are owned by foreign European wine groups with an export objective. New wineries are also appearing in Romania, with 120 new producers established in 2014 alone (Robinson, 2015).

Weaknesses

The size and structure of the country's vineyards is one of Romania's long standing weaknesses. Aside from the very large wineries listed above, Romania's wine growers farm very small plots. Estimates of an average plot size vary from 0.15 -0.2 hectares for around 1 million growers (Gilby, 2018; Gruia, 2016). Such tiny plots are difficult to farm efficiently or profitably.

While many former vineyard owners are trying to recover the land lost to them under communism, in the hope of restarting grape growing, the process of restitution of land is complicated by the loss of land borders and the lack of a land register (Gilby, 2018). As long as land borders are in dispute, it is difficult to invest in new vineyards.

A number of authors describe the problems of Romania's ageing wine production infrastructure (Gilby, 2018; Gruia, 2016; Lădaru and Beciu, 2015; Noev, 2007): low yield vineyards, outdated wineries with rudimentary equipment, old barrels and poor hygiene. Again, the fragmented infrastructure of Romanian wine producers means that investment in modern wine-making equipment is not cost-effective. In the past there has been too little investment in growing indigenous varieties, though there are signs that this is now changing.

Equally serious is the lack of skilled labour. Since the fall of communism, Romania has suffered from emigration of skilled workers, a situation that worsened with membership of the European Union and the introduction of free movement of labour. Romania has the highest net migration in the European Union (Financial Times, 2018); 16% of the population have left the country since 2007, leading to an ageing population and severe labour shortage (Gilby, 2018).

Unlike other major European wine producers, Romania has no central or regional marketing bodies (Barnes, 2015).The APVR initiative (see above) is seeking to address this. The large wineries have no sales and marketing experience, another legacy of the communist era, and have a clear disadvantage compared to the big exporting wineries of the New World countries with a large marketing budget.

Romanian wineries hoping to market wines under a regional or national flag are hampered by the poor image of their country. Romania is ranked 37th in the made-in-country image index, which measures the association between the country and quality of its products (Statista, 2017).

The country is ranked even lower – 52nd - on the Global Competitiveness Index, indicating a low level of productivity by international standards and the lowest level of competitiveness of all of the wine producer countries except Greece and South Africa. (*The Global Competitiveness Report 2018*)

Opportunities

Romania has benefited from and continues to be benefited from European Union funding for the wine industry. From 2009 – 2013 the EU invested €42.5 million per year in Romanian viticulture. This funding increased to €47.5 million per year in 2014 and will run until 2020.

The EU National Reform Programme will continue to support Romanian industry, including the wine sector, until 2020. The programme includes funding for structural reform and business development.

The economic forecasts for Romania are largely positive, indicating an improving environment for business investment. The country has one of the fastest growth rates in Europe of potential GDP at European level, predicted to be will be around 5% annually in the medium term. (European Commission, 2019). The revenue from wine production is forecast to increase from $289.37 million in 2018 to $328.83 million by 2023 (Eurostat, 2019)

Romania's main export markets are the UK, Germany, China, the Netherlands, Italy, Spain, the USA, Slovakia, Estonia and Canada, which together account for 88% of the wine exports (Bărbulescu, 2019). While consumption in the EU countries is fairly static, the USA, Canada and China are all growth markets for wine imports and represent a good export opportunity for Romania.

There are very good opportunities to expand wine tourism in Romania, as the country has attractive wine regions with beautiful scenery and an increasing selection of quality wines. With a low cost of living, wine tours represent good value for money. Budget flights to Bucharest are available from the UK and Germany, Romania's biggest tourist markets, and the capital has many wine bars to attract tourists and promote wine tours. The wine region of Dealu Mare, a two-hour drive from Bucharest, has many wine tour operators and there are opportunities for growth if the hotel industry can keep pace.

Threats

The major threats to expansion of the wine sector come from Romania's closest competitors: Bulgaria, Moldova and Hungary. Moldova exports 4.5 times more and Hungary 3.7 times more wine than Romania, though both countries produce less wine. (Bărbulescu, 2019). Furthermore, in 2014 Moldova signed a Free Trade Agreement with the EU for wine, and is likely to profit from favourable trading with the EU in years to come. (Lădaru and Beciu, 2015)

Perhaps the biggest threat to the Romanian wine export sector is Brexit. The UK is Romania's biggest export market, accounting for around 20% of all Romanian wine exports. The expectation is that, when the UK leaves the EU free trade zone, it will sign trade agreements with non-EU countries. This will make trading terms with EU countries comparatively less favourable and could lead to a fall in the demand for Romanian wine in favour of wines from non-EU countries. (Anderson and Wittwer, 2017; Bărbulescu, 2019). It is also argued that if the effect of Brexit is to weaken the exchange rate of sterling to other currencies and cause the imposition of tariffs on goods from the EU, the price of wines from Romania could rise by 22%. (Anderson and Wittwer, 2017). Alternatively, the British supermarkets that currently buy Romanian wine will force down the price paid to exporters to remain competitive with wines from other countries. (Bărbulescu, 2019)

From a marketing perspective, the lack of a positive brand image for Romanian wine is significant disadvantage as it means that consumer loyalty is low. Unlike French or Italian wines with very strong regional identity and strong brand loyalty, Romanian wines can be easily substituted for wines from other countries.

Export opportunities for a boutique wine producer in Romania

One of the key areas of growth for the wine industry in recent years has been wine tourism. This represents an opportunity for wine producers to develop their cellar door sales, which generally carry the highest profit margins, providing the producer can be listed on the tours organized by tour operators.

As we have seen, wine tourism is expanding in Romania. The Wine Road project, launched in 2004 by the Prahova County Council in the Dealu Mare region, and the Wine Cellar Road project carried out by the GAL Association Wine Road in Buzau are examples of initiatives to bring tourists to discover wine villages in Romania (Nedelcu, 2014). Where such projects exist, it is vital that the wine producer concerned is included. Where no such tours exist, a partnership with neighbouring wineries and working with a tour operator is recommended.

Boutique winemakers need to differentiate their wines from the competition as they cannot compete on price. The originality and uniqueness of Romanian wines can be achieved through the indigenous varieties and the *terroir*, both unique to Romania. While there seems to be no positive association of the country with quality, the wine region – landscape, culture, history – can convey an image of authenticity and other-world charm. Indeed, the Prince of Wales seems to have charmed enough by the Transylvanian landscape – described by Andrew Eames in the Telegraph as "a timewarped equivalent of Tuscany" - to buy a house there.

Secondly, it would be advisable to look for market opportunities outside the EU, where there is little growth. Imports of wine are increasing in the USA, Canada and China. (Statcan, 2019).

Thirdly, the wine producer needs to explore different routes to market. An import agent needs to be found that deals with specialist wine stores, ideally some that are willing to try new options or whose clients are sufficiently open – minded to try new wines from new regions. The objective is to get the wines on to the shelves of wine merchants with good turnover.

Trade fairs are an essential part of marketing for many winemakers, though they are time consuming to organize. There are a number of trade fairs that cater for independent winemakers, such as The Real Wine Fair in London, that make an ideal showcase for boutique wineries (*The Real Wine Fair*)

Finally, the role of the wine critic is central to the success of any premium wine. If the wines are listed or recommended by the most widely read wine critics, they will sell. A listing in one of the wine magazines – Wine Spectator, Decanter, the Wine Advocate and so on – is essential. This will involve an intensive sales effort to persuade wine critics to include the winery on their sampling lists. Jancis Robinson was sufficiently charmed by the new wineries of Romania to write a highly positive article in the FT magazine (Robinson, 2015), which would have triggered a wave of interest in Romanian wines and possibly a call to Romania from an interested wine merchant.

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