

Grigol Robakidze University



Wine Cluster of Georgia

Viktoria Mikava

Salome Tsuladze

Alexander Mamaladze

Microeconomics of Competitiveness

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Overview of Georgia

Georgia is a country in the Caucasus region of Eurasia. Located at the crossroads of Western Asia and Eastern Europe, it is bounded to the west by the Black Sea, to the north by Russia, to the south by Turkey and Armenia, and to the southeast by Azerbaijan. The capital and largest city is Tbilisi. Georgia's population is about 3.72 million. Georgia is a unitary, semi-presidential republic, with the government elected through a representative democracy.

Following the Russian Revolution in 1917, Georgia obtained its short-lived independence and established the first-ever republic led by the Social-Democrats in 1918, only to be invaded by Soviet Russia in 1921 and subsequently absorbed into the Soviet Union as the Georgian Soviet Socialist Republic.

Since the establishment of the modern Georgian republic in April 1991, post-communist Georgia suffered from civil and economic crisis for most of the 1990s. Following the bloodless Rose Revolution in 2003, Georgia pursued a strongly pro-Western foreign policy, aimed at NATO and European integration, and introduced a series of democratic and economic reforms, which brought about mixed results, but strengthened state institutions. The country's Western orientation soon led to the worsening of relations with Russia, culminating in the brief Russo-Georgian War in August 2008.

Since the early 21st century visible positive developments have been observed in the economy of Georgia. In 2007, Georgia's real GDP growth rate reached 12 percent making Georgia one of the fastest growing economies in Eastern Europe. In 2016 GDP per capita was 3852.5 USD. Compare to 2015 it increased by 2.7%, which means, that during 1 year increased production within the country and market value of final goods and services. The World Bank dubbed Georgia "the

number one economic reformer in the world" because it has in one year improved from rank 112th to 18th in terms of ease of doing business. The country has a high unemployment rate of 12.6% and has fairly low median income compared to European countries.

Georgia is one of the oldest wine regions in the world. The fertile valleys of the South Caucasus house the source of the cultivated grapevines and neolithic wine production, from over 8,000 years ago. Due to the many millennia of wine in Georgian history, and its key economic role, the traditions of its viticulture are entwined and inseparable with the country's national identity.

Among the best-known regions of Georgia where wine is produced are Kakheti, Kartli, Imereti, Racha-Lechkhumi and Kvemo Svaneti, Adjara and Abkhazia.

Wine lovers have a lot to thank Georgia for. It is widely believed that this is where wine production first began, over 7000 years ago. In fact, word "wine" is derived from "gvino" – the Georgian word for wine. Archaeological remains suggest that as early as 4000 BC grape juice was being placed in underground clay jars, or quevri (also known as kvevri), to ferment during the winter.¹

¹ <http://georgianwinesociety.co.uk/about-georgian-wines/>

Georgian wine history

Georgia is the motherland of wine. Our country is the one of the ancient wine making place. Georgia has 8000 year history of continuous wine making tradition, which is evidenced by numerous archeological discoveries. The earliest traces of viticulture and wine were found in the ancient Neolithic settlements in the neighborhood of Dangreuli Gora (Shulaveri Hill, Cut Hill, Khrami Big Hill, Arukhlo Hill, Khizanaant Hill and others). Also archeologists discover several grape pips on ancient millennia in Kvemo Khartli, to the South of Tbilisi, in Marneuli valley.

The qvevri vessels dating the Neolithic era were discovered during different archaeological excavations, as were cultural vine fossil seeds, tartaric acid sediment on the fragments of earthenware vessels for wine and resin the domesticated grapevine. The diversity of the wild and indigenous grape varieties, the unique wine vessel (the qvevri) and the oldest technologies of making wine by qvevri all confirm that Georgia is truly an ancient wine making country. In the National Museum of Georgia, you can find ceramic vessel for wine which is the ancestor of the qvevri. This information is believed by scientists.

In the Soviet Union Georgian wine was the first by its quality, taste and different species. On the other side Soviet Union's time was the downhill period for Georgian wine. This happened because demand was on huge quantities of wine and with this the quality of wine was getting low and low. Beside this at Soviet Union Georgian wine still was the number one wine at Union. 2000 year is the beginning of the modern history of Georgia in winemaking. In this year established most Georgian wine making companies. This companies created new vineyards, factories and also they created new Maranis and updated older wine Maranis. All this events helped in growing of wine quality. These companies are Teliani Valley, Askaneli Brothers,

Badagoni and others. They started introduction of new technologies in winemaking and also their factories were able to satisfy high standards.

Russian Embargo on Georgian Wine and its effects

The critical periods for Georgian wine making companies was 2006-2008. At this period Russia added embargo about wine to our country. This was very bad and stressful situation for Georgia because Russian market was consumer of 80% of wine which was produced in Georgia. Russian market was Georgia's primary market for many years. This was a serious harm to Georgian wine making companies, for Georgian economy and for Georgian peasants. As always harvest of plural grapes was huge at this period, so most of the harvest was tainted because there was no demand as high as was supply.

At the end of this hard period Georgian companies slowly started to finding new markets for wine. Georgian wine making companies started export of their goods in Europe and Asia. Of course the rate of this export was very small at first time, but year after year this rate started growing (see **Exhibit 2**).

Georgia territorial and climate conditions are optimal for wine-making. Extremes of weather are unusual: summers tend to be short-sleeve sunny, and winters mild and frost-free. Natural springs abound, and the Caucasian Mountain streams drain mineral-rich water into the valleys. Georgia's moderate climate and moist air, influenced by the Black Sea, provide the best conditions for vine cultivating. The soil in vineyards is so intensively cultivated that the grape vines grow up the

trunks of fruit trees eventually hanging down along the fruit when they ripen. This method of cultivation is called *maglar*.

Competition

There are several companies, which are operating in Georgian wine market. Their main goal is to export more bottle of wines outside, because most of Georgians have their self produced varieties.

Now, we will make a brief overview of the main georgian winemaking companies such as Teliani Valley and Badagoni.

Teliani Valley

Teliani Valley follows Georgian tradition of winemaking and at the same time, uses modern technologies, knowledge of young, motivated professionals.

In May 2004 Teliani Valley established strategic relationship with European Bank for Reconstruction and Development. The latter has purchased the shares of Teliani Valley. This investment enabled the company to build a new wine factory, create new vineyards in the best micro zones of Georgia, improve marketing initiatives and increase sales of superior quality wine locally and abroad, partially renew equipment and increase capacity. Company replaced an out of date production line with a western analogy and installed modern, Italian grape processing equipment in a considerably short period of time.

Pneumatic presses were installed in order to improve the quality of wine. A strict quality control system was established on every level of production, from grape selection to bottling.

On February 23rd, 2005 Georgian Chamber of Trade and Industry named Teliani Valley as the best company of the year.

In September 2005 Teliani Valley's new wine factory, equipped with modern laboratory was open in Telavi. A small hotel was also built nearby to host any guest interested in Georgian viticulture.

In May 2005 Teliani Valley founded a first school of sommeliers. The aim of this school is to educate people on Georgian and European cultures of wine drinking.

Teliani Valley is a leading integrated wine producer, accounting for approximately 50% of the sales of bottled wins domestically and circa 11% of the Georgian bottled wine exports.

Teliani Valley traces its roots to 1954. A new page was turned in 2004, when the shareholders' structure changed and a new management team was brought in, the EBRD (The European Bank for Reconstruction and Development) acquired a 29% equity interest in Teliani Valley. This investment enabled the company to build a new well-equipped winery in Telavi, with the vinification and bottling capacity of 3 million bottles. In 2007 Galt & Taggart Capital, the merchant banking subsidiary of Bank of Georgia has acquired a 32% equity interest in Teliani Valley, that was preceded by the buyout of the EBRD's equity interest by the Georgian shareholders, financed by Bank of Georgia.

In 2007 company's sales increased by 50% compared to 2006. Number of export countries increased from 20 to 25.²

Teliani Valley maintained the leading position on the domestic and Ukrainian markets.

In 2015, Teliani Valley finished financial year with loss. The loss was related to Ukraine crisis and exchange rate change. The group has sold products of 29,5 million GEL in the previous year (2014 – 30,77 million), gross profit has made up 14.3 million GEL (2014, 16.2 million), operating profit was decreased from 4.3 million to 2.7 million. At that, net loss gained from foreign currency transfer has exceeded 2.3 million.

Profit and Loss Statement (income statement) shows that net loss has been 1,2 million GEL in the previous year. The company had income of 1,76 million in 2014.

It should be noted, that assets have been increased to the group up to 40,64 million (2014 – 37,87 million), total liabilities – 22,5 million.

Badagoni

Badagoni Wine Company was founded in 2006 in Georgia's principal winegrowing region – Kakheti. Throughout its existence, the company enjoyed outstanding success with the range of site-specific local brands that are amongst the best of Georgia. It exports wines to 32 countries across the world.

Focus on excellence led company to collaborate with some of the world's most advanced winemakers and laboratories such as Donato Lanati and his renowned Enosis, which

² <http://cbw.ge/business/company-teliani-valley-finished-financial-year-2015-loss/>

continuously offers the support, needed to accelerate Badagoni's quality goals. This collaboration also helped Badagoni to produce an enticing Kakhetian Noble wines, white and red, with Mr. Lanati's direct involvement.

In 2006, Georgia's Badagoni wine company was honoured with gold, silver and bronze medals at the 19th Japan Wine Challenge, an event regarded as one of the most prestigious wine competitions in Asia. Badagoni's Kakhuri Tsarchinebuli wine won gold and at the same time, was named the best Georgian wine at the competition. Just over 1,600 wines were entered and judged in the contest by a panel of leading wine professionals from Japan and across the world. The wines were made in 30 different countries, with the principle entries coming from Chile, France, Australia, Italy and Japan. The aim of the Japan Wine Challenge competition was to raise awareness of a variety of international wines.

Organisers noted the wine competition not only supported and encouraged global marketing of wine but it also allowed wine professionals and consumers to learn about and appreciate good wine from different parts of the world.³

On november of 2016 Badagoni and China's Wenzhou Bydoway Import & Export Co. signed a memorandum, which means that for the first time in the history of Georgian winemaking, the Badagoni Company will sell 5 million bottles of wine in the Chinese market.⁴

³ <http://cbw.ge/business/badagoni-wins-7-medals-top-japanese-wine-competition/>

⁴ <http://georgiatoday.ge/news/5262/Georgia%E2%80%99s-Badagoni-to-Sell-5-mln-Bottles-of-Wine-in-China>

Georgian Wine Exports

According to Minister of Agriculture of Georgia wine production has increased from 13.8 millions wine bottles in 2009 to 15.8 millions wine bottles in 2010 with bottle size 0.75 l. (see **Exhibit 2**) In 2009 Georgia exported 10.968 millions bottles of wine in 45 countries. In 2010 Georgia exported wines in: [Ukraine](#) - about 7.5 millions bottles, [Kazakhstan](#) - about 2.0 millions bottles, [Belarus](#) - about 1.2 millions bottles, [Poland](#) - about 870 thousands bottles and [Latvia](#) - 590 thousands bottles.

In 2015 the share of wine in Georgia's total exports was 4.1%, which increased in 2016 by 1%. (see **Exhibit 4**)

Georgia exported 14,199,018 bottles of wine to 38 countries from January to March 2017, adding \$32.2 million to the economy. Revenue increased by 77 percent from the same period in 2016, while the volume of exports increased by 85 percent. The top five countries that imported Georgian wine in January-February 2017 were: Russia – 8,987,745 bottles, China – 1,794,200 bottles, Ukraine – 1,305,508 bottles, Poland – 561,294 bottles, Kazakhstan – 473,515 bottles.

Wine exports also increased to the European Union (EU), China and other traditional export markets for Georgia.

Meanwhile, Georgia exported 3,302,962 bottles of Georgian brandy to 13 countries in the first three months of 2017. This was a 51 percent increase year-over-year . So, in 2017 Georgia has generated \$8.7 million from the sale of brandy abroad.

In total, Georgia has sold \$58.5 million worth of alcoholic beverages in January-March 2017, including wine, brandy, chacha and others.⁵

⁵ <http://georgianwine.gov.ge/eng>

Exhibit 1: Total Exports of Georgia in 2000-2016 years



Source: Adopted from National Statistics Office of Georgia.

Exhibit 2: Georgian Wine Exports in 2000-2016 years



Source: Adopted from National Statistics Office of Georgia.

Exhibit 3: Wine Imports in Georgia in 2000-2016 years



Source: Adopted from National Statistics Office of Georgia.

Exhibit 4: Share of Wine in Exports; 2000-2016 years. (In percentages)



Source: Adopted from National Statistics Office of Georgia.

References

Porter, M., E. (1998). On Competition. Boston: Harvard Business School Press.

NSO (National Statistical Office of Georgia): www.geostat.ge.