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Wine Sector Update

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Report Highlights:

The authorities released the first official data about 2014 wine production and trade in late March. Crop year 2014 turned out to be the most challenging year for the industry in the last 30 years due to adverse weather which resulted in sharp reduction in yields, production, and quality, much below earlier expectations. Grapes production declined by 60% and wine output by 58%. Both wine exports and imports in 2014 were lower, by 11% and 5%, respectively (by value).

At the same time, a favorable local demand stimulated higher wine sales, especially of lower-end wines due to the lack of competition from homemade wine. Demand is likely to be met by sales of old stocks. FAS/Sofia has updated its supply and demand market estimates based on the above data.

Disclaimer: Information in this report is collected from publicly available sources such as specialized and daily printed and electronic Bulgarian media, published surveys of consulting companies, interviews with trade and industry, AgSofia interviews with trade and trade associations, and official statistics.

General Information:

PRODUCTION

In late March the Ministry of Agriculture and Foods (MinAg) released the first official data about 2014 wine production and trade. Crop year 2014 was described as the most challenging year for the industry due to very adverse weather - unusually long, cool and rainy spring and summer and early fall which resulted in sharp reduction in yields, production, and quality (higher acidity, lower sugar content). The industry opined that 2014 was the worst for the last 30 years.

Vineyard area

Vineyard area on farms decreased by 10% while the size of abandoned vineyards outside the farms doubled compared to 2013 (10,298 HA vs 4,900 HA). As a result, total area under vineyards declined by 0.4% to 62,885 HA.

Due to reoccurring rains, harvested area was sharply down and represented a 37% decline compared to 2013. Harvested area was only 60% of planted vineyard area on farms compared to 96% in 2013. More than 20,000 HA were not harvested due to unfavorable climate conditions.

Young, not yet yielding vineyards were at 1,400 HA, and 622 HA were newly planted vineyards. As per the latest MinAg data, 2.3% of vineyards are up to 3 years old, 17.6% are 4-10 years old, 5.3% are 11-20 years old and 6.5% are 21-30 years old. This makes a total of about 20,000 HA in relatively good production shape, while 68% of total vineyards are above 31 years old (41,300 HA) and need upgrading.

In 2014, the concentration of vineyards continued to be the highest in the South East and South Central regions, 34% and 32% shares, respectively, or 66% together. Red varieties dominated with 64% of all harvested area versus 31% of white varieties (5% of harvested area was under table grapes).

Table 1. Industry Development 2014 and 2013

Vine Industry Development 2014 and 2013		
	2014	**2013**
Total Vineyard Area on Farms	52,587	58,236
- Protected Designation Origin (PDO), HA	15,285	15,095
-Protected Geographic Indication (PGI), HA	21,449	21,072
-Other, HA	22,968	24,132
Total Harvested Vineyards, HA, including:	31,892	50,192
-Table Grape Vineyards, HA	1,610	2,842
-Vine Vineyards, HA	30,282	47,350

--Of which: White Varieties, HA	9,938	17,908
Red Varieties, HA	20,344	29,442
Grape Production, Total, MT	132,731	325,596
• Vine grapes, MT	124,216	304,452
• Purchased for commercial wine making	103,521	249,637
• Used for home winemaking	10,808	20,181
• Table Grapes, MT	7,079	16,770
• From Standing Vines, MT	1,436	4,374

Source: MinAg Statistical Bulletins,#268/June 2014 and #282/March 2015

Grape Yields, Production and Use

Yields declined, along with quality, and were at 4.1 MT/HA for vine grapes and 4.4 MT/HA for table grapes, which represented a reduction of 36% and 25%, respectively, compared to 2013.

As a result, total grape production plunged by 60%. The official data shows that actual grape production was much below earlier estimates (200,000 MT). The quality of the harvest was reported to be below average.

Table 2. Grape Production and Utilization, 2012 – 2014

	2012		**2013**		**2014**	
	MT	**Percent**	**MT**	**Percent**	**MT**	**Percent**
Total grapes	260,672	100	325,596	100	132,731	100
Grapes for wine manufacturing	243,585	93.4	304,090	93.3	123,912	93.3
Grapes for direct consumption	17,087	6.5	21,506	6.6	8,819	6.6
Grapes processed at commercial wineries	191,923	78.8	249,637	82.2	103,521	83.5
Grapes processed for homemade wine	23,825	9.8	34,272	11.2	10,808	8.7
Other products	27,837	11.4	20,181	6.6	9,583	7.7
*as a share of grapes for wine manufacturing						

Source: MinAg Statistical Bulletins,#268/June 2014 and #282/March 2015

Of total grapes, 93% was used for wine-making, the same share as over the last five years, although this represented a 59% reduction in absolute volume due to lower supply. More importantly, 84% of all grapes processed into wine were managed by commercial wineries, versus 82% in 2013 which demonstrated stable and expanding commercialization. Home-made wine making shrunk further, with grapes used for homemade wine down to 8.7% compared to 11.2% in 2013.

Contrary to the previous expectations that the quantity of home-made wine may grow due to an inability to sell most grapes to commercial wine makers, the much lower crop resulted in 4.8 million liters of home-made wine, some 70% less than in 2013. Due to the lower grape quality, home makers preferred to produce more distilled brandy than wine.

Due to strong stocks from the excellent 2013 crop and the lower quality of 2014 crop, commercial wine makers limited their purchases of 2014 harvest. For this reason, wineries estimated 2014 crop wine production to decline to 74.7 million liters, as compared to 172 million liters in 2013 (commercial wine), by 57% or 97 million liters less.

Table 3. Bulgarian Wine Production, 2013-2014, thousand liters

	2013 (,000)	**2014 (,000)**	**Percent Change 2014/2013**
With protected designation of origin	2,089	1,053	-50%
- Red and rose	NA	NA	
- White	NA	NA	
With protected geographic indication	55,401	32,223	-42%
- Red and rose	NA	NA	
- White	NA	NA	
Other	114,956	41,419	-64%
-Red and rose	NA	NA	
- White	NA	NA	
Commercial Total	**172,447**	**74,695**	-57%
- Red and rose	100,947	NA	
- White	71,500	NA	
Grapes must	3,073	8,615	280%
Homemade	15,894	4,808	-70%
Total	**188,341**	**79,503**	-58%

Source: MinAg Statistical Bulletins,#268/June 2014 and #282/March 2015

The Executive Vine and Wine Agency registers a higher interest towards production of Protected Geographic Indication wines. The relative share of these wines grew from 32% in 2013 to 42% in 2014, and industry expectations are for these wines with hold a 50% share in the near future.

In 2014, a total of 375 wine makers were registered as legal entities for wine manufacturing.

CONSUMPTION AND DEMAND

Lower wine production, especially in home-made wines in 2014, led to interesting new trends on the market. Total wine consumption is estimated to decline due to lower production, however, commercial wine sales are projected to increase in 2014 and in 2015 as consumption of homemade wines may be minimal. In addition, lower wine output will be compensated by sales of older local stocks. Data about stocks is not typically published, the last available data is about stocks as of July 2012 at 72,680 thousand liters.

Imported wines should preserve their stable share in the market. These trends are reflected in the updated FAS/Sofia Supply and Demand market estimates.

Table 4. Wine Supply and Demand, 2011-2015, thousand liters

Wine Sector Development, 2011-2015					
	2011 (000 liters)	**2012 (000 liters)**	**2013 (000 liters)**	**2014 (000 liters)**	**2015 F (000 liters)**
Wine production, total	118,847	137,650	188,341	88,118	135,000
- Commercial wine	104,980	127,171	172,447	74,695	125,000
- Home-made wine	13,867	10,479	15,894	4,807	10,000
Imports	6,980	7,064	6,541	4,937	6,500
-Intra EU	6,163	5,526	5,884	4,121	5,600
-Extra EU	817	1,538	657	816	900
Total supply	**125,828**	**144,714**	**194,882**	**93,055**	**141,500**
Exports	54,065	55,964	50,901	43,288	49,000
-Intra EU	33,551	36,976	35,801	29,838	37,000
-Extra EU	20,514	18,988	15,100	13,450	12,000
Local Market/Consumption (and stocks)	71,762	88,750	143,981	49,767	92,500
-Estimated Consumption	70,700	89,900	90,500	87,000	90,000
-Incl. Commercial wine sales	48,934	48,855	49,823	50,300	51,300

Source: MinAg, WTA data, Euromonitor International; 2015 F- Forecast by FAS/Sofia

The latest market surveys showed positive growth in the wine market (November 2013/November 2014) of 5% in value and 4% in volume. The demand for quality wine increased due to wine's image as a healthier product. Industry reported that consumers do not want to compromise on wine quality and choose to consume better quality products for their home consumption, reducing their purchases at HRI outlets if they need to limit their expenses.

At a major industry event in March, wine industry reported higher sales, especially of bottled wine, due to softened competition from home production. First survey data for sales in October-November 2014 (source: Nielsen) showed higher red wines sales than a year earlier. Industry confirmed that demand for bottled wines in the low-end category (2-4 Euro/bottle) which competed with homemade wines has increased. On the other hand, due to the deficit of quality grapes, production of higher-end brands was estimated to decline. Select wine makers reported that they would announce a zero year for certain brands. As a substitution, wine makers planned to sell higher quality wines from older stocks in 2014/2015.

Industry reports revealed that imported wines accounted for 4% of volume sales and 10% in value sales due to higher average prices in 2014. Still, 90% of wine sales came from local product.

The off trade channel was the major driver for higher sales. About 40% of the sales were generated through modern retailers (super and hypermarkets), as these sales demonstrated growth in both volume and value. Traditional groceries sold mainly lower-end wines and in larger packages.

Sales of imported wine were concentrated in modern retailers and specialty shops. The off trade channel accounted for 80% of imported wine sales and 20% of sales were generated from the HRI sector. A new trend for imported wine was more use of larger packages (1.5-5.0 liters) which were imported directly by retailers.

On trade channel, mainly restaurants, also showed higher wine sales in value, despite the fact that consumers had less frequent visits and the number of HRI outlets declined. The winner in this channel was imported wine which enjoyed growth in sales of 24% in volume and 11% in value compared to domestic wine sales of 3% and 5%, respectively.

A new trend is the increasing use of wine as a long drink at night clubs, especially of sparkling wines. Red wine still dominated sales, followed by white wines (especially imported ones) and increasingly better performing rose. Rose wine has a healthy and modern image and is a good drink for lighter foods. It also proved to be an easier choice for less wine experienced consumers and has gradually expanded its market penetration towards male drinkers. It still remains mainly an urban drink.

TRADE

Exports

Bulgaria remains a net wine exporter but over the last 3 years exports have been declining in absolute and relative terms. At the traditional annual wine trade fair Vinaria in early March the industry reported that wine exports in 2014 declined by 11% in value and 12% in volume, although the average export price increased by 4.4%. It was US$1.27/liter varying between US$0.75-1.8/liter for the major export markets. (Table 5)

Poland was the major export market with 27.4% share in value and 36.7% share in volume in total exports. However, this market attracted cheaper wines registering 21% lower average export prices, and despite 25% growth in exported quantities, value exports declined by 1.6%. Due to the troubled Russian market, it is expected that this trend will continue in 2015.

Exports to Russia which began to decline in 2013 have continued this tendency in 2014 with 9.5% reduction in value and 11% drop in volume. The reasons were related to the lower stocks and to the devaluation of the Russian currency. However, the relative share of this trade remained high. In 2014, the relative share of exports to Russia actually increased, as follows.

	2012	2013	2014
Relative share of wine exports to	28.9	26.9	27.4

Russia in value, %			
Relative share of wine exports to Russia in volume,%	29.7	26.7	27.9

Source: WTA

Several new export destinations were discovered in in 2014 - China with US$1.6 million and Japan with US$1.1 million. Exports to the United States also increased to US$ 0.96 million.

Imports

Imports had a steady growth in value since 2009 despite the economic slowdown with some fluctuations in imported quantities. However, in 2014 imports declined for complex reasons including lower availability of stocks and higher prices in traditional export countries to Bulgaria and in the EU.

Total wine imports were negative in volume (-25%) but less negative in value (- 4.7%) due to the considerable growth in the average import price of 26% to reach US$3.44/liter (Table 6).

French and Italian wines lead this category overall. French wine imports recorded a decrease in value, -7%, while the imported quantity was 17% down. Italian wines witnessed record declines both in quantity, - 31%, and in value, -27%. On the other hand, the next 4 major wine exporters to Bulgaria – Germany, Chile, New Zealand, and Spain- all enjoyed positive growths, often in double digits. For example, Spanish wine exports to Bulgaria increased 33% in value and 106% in digits.

POLICY

In late February 2015, the authorities opened the first program from the new EU CAP 2014-2018 with a budget EUR 133.8 million the sector (26.762 million Euros/year). The industry had the strongest interest towards replacement of old vine stocks with a new plantings program whose budget for 2014 was set at 18 million Euro. A total of 33 farms applied for funds exceeding the annual budget. This compares with 65 projects approved in 2014 for 15 million Euro. The Vine and Wine Executive Agency reported a higher demand for larger single investment projects.

Table 5. Wine Exports, 2012-2014

Bulgaria Export Statistics						
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi						
Year To Date: January - December						
Partner Country	**2012**		**2013**		**2014**	
	Million US$	**Million liters**	**Million US$**	**Million liters**	**Million US$**	**Million liters**
World	62.7	55.9	61.9	50.9	55.0	43.3
Russia	18.1	16.6	16.7	13.6	15.0	12.1

Poland	13.8	13.2	14.7	12.7	14.5	15.9
Sweden	2.8	1.6	3.7	1.9	3.7	2.1
United Kingdom	2.3	1.5	3.4	2.1	3.8	2.5
Czech Republic	5.5	5.1	4.3	4.1	2.8	1.8
Romania	4.3	7.6	4.4	4.6	1.8	2.7
China	1.9	0.6	0.9	0.2	1.6	0.2
Belgium	1.7	0.8	1.2	0.6	1.4	0.6
Japan	0.7	0.2	0.9	0.3	1.1	0.3
France	0.2	0.2	0.6	1.1	1.2	1.2
United States	0.4	0.2	0.6	0.2	0.9	0.3

Source: WTA Export Statistics

Table 6. Wine Imports, 2012-2014

Bulgaria Import Statistics						
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi						
Year To Date: January - December						
Partner Country	**2012**		**2013**		**2014**	
	Million US$	**Million liters**	**Million US$**	**Million liters**	**Million US$**	**Million liters**
World	16.19	7.06	17.79	6.54	16.96	4.94
France	3.94	0.63	5.49	0.82	5.10	0.67
Italy	5.56	3.61	5.01	2.56	3.64	1.76
Germany	1.46	0.60	1.57	0.55	1.93	0.69
New Zealand	0.77	0.15	0.67	0.11	1.36	0.26
Chile	0.97	0.24	1.36	0.33	1.43	0.36
Netherlands	0.52	0.06	0.53	0.06	0.58	0.07
Spain	0.59	0.24	0.54	0.21	0.72	0.44
United Kingdom	0.48	0.08	0.60	0.13	0.55	0.09
Argentina	0.17	0.04	0.07	0.02	0.2	0.05

Source: WTA Import Statistics

End of Report