Recent Opportunities for Increasing Georgian Wine Export - Incentives or Obstacles to Improving Wine Quality

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Abstract

Along with the internationally recognized image of Georgian wine and the increase of wine exports, special attention is paid to maintaining and improving the quality of Georgian wine. Taking into account the requirements of the local and international wine markets and, consequently, promoting the development of a competitive market remains a challenge for Georgian law. The creation of favorable conditions for the export of wine at the local and international level implies, first of all, the existence of legal regulations. The aim of the Law of Georgia on Vine and Wine and its accompanying subordinate normative acts is to develop a competitive wine market in Georgia and to protect the interests of consumers, to maintain and grow the international reputation of the Georgian viticulture and winemaking sector. The law was substantially amended in 2017 and the aim of the reform was to adapt to the challenges in the wine sector and bring it closer to international standards. At the same time, the export of Georgian wine to different countries is regulated by a different legal framework. Therefore, it is in our interest to analyze these different legal regulations, which have a direct impact on the opportunities for wine exports from Georgia - the incentive or obstacle to improving the quality of Georgian wine. EU regulations apply to both wines produced in the EU and imported to the EU market, as well as to Georgia, as a third country that has signed the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Russia, Ukraine and the USA are important export markets for Georgia. Georgia has different international legal relations with each of them and, accordingly, the legal requirements for wine exports to these countries are different. The paper examines the current state of the modern Georgian wine market in the context of domestic and international norms regulating wine exports. It is analyzed whether local legislation and international agreements regulating wine exports contribute to the growth of Georgian wine exports and the improvement of wine quality.

Keywords: wine, wine export, wine quality, wine market, wine legislation, trade agreements
Introduction

Georgia has recently entered into new types of trade agreements with the EU and partner and neighboring countries, which provide for the gradual reduction of tariff barriers and the shift from traditional tariffs and quotas to non-tariff measures (mainly to quality assurance measures). Non-tariff measures are central to trade agreements and are often seen as a particular challenge for developing countries. The Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Georgia, signed in 2014, is a prime example of this. It is a new generation trade agreement that combines liberalization and regulation. The agreement gives Georgia access to the EU market with 500 million users but, at the same time, provides for complex legal and institutional harmonization (Kasradze, Tea, 2018).

Unfortunately, even seven years after the implementation of the DCFTA, the removal of tariff barriers has not had the expected positive impact on exports, including wine exports. Non-tariff measures related to quality are considered to be one of the main impediments to the growth of exports to the EU.

Due to the fact that bilateral agreements with partner and neighboring countries place less emphasis on the quality of export products, the growth of Georgian wine exports in these countries is noticeable.

Research methodology

The paper is a desk study of the impact of new generation trade agreements on Georgian wine export. It is based on trade agreements, national legislation governing Georgian wine export, scientific papers by Georgian and foreign researchers, and studies and reports by various local and international organizations. The data was retrieved from the Internet, official websites and various scientific databases. Relevant conclusions were made based on the processing and analysis of the information obtained.

Literature review

Economists agree that trading barriers, such as tariffs and quotas, harm trade because they distort the price and hinder the distribution of resources so that they prevent the comparative advantage of the country. It is easy to calculate the exact effect of tariffs as they are transparent and predictable. According to the OECD, if tariffs were removed entirely, it would reduce trade costs and carry welfare gains equal to 1.37 percent of GDP per year in developing countries and 0.37 percent in developed countries (Love & Lattimore, 2009).

Unlike tariffs, non-tariff barriers, which are an essential part of new trade agreements, are not easily measurable. The impact of non-tariff SPS (Sanitary and Phytosanitary) and TBT (Technical Barriers to Trade) measures is mainly negative on the agriculture and food sector (Li & Beghin, 2012). Some scholars have suggested that compliance with standards increases short-term production costs (Maskus, Wilson, & Otsuki,
2000). Some argue the opposite, that standards have a positive effect on exports because they indicate quality protection. (MANGELSDORF, PORTUGAL-PEREZ, & WILSON, 2012).

The goal of policymakers when pursuing a non-tariff policy is not to influence foreign trade flows. Unlike tariffs and quotas, which are discriminatory measures that lead to inefficient allocation of resources. However, non-tariff measures, like tariffs, can damage trade flows (Maskus, Wilson, & Otsuki, 2000). In addition, their evaluation is often more difficult because they are less transparent due to their qualitative and complex nature. Moreover, the diversity of regulations represents a significant international trade barrier as it generates transaction costs (Ederington & Ruta, 2016). Therefore, accurately quantifying the impact of non-tariff measures on foreign trade is a challenge for countries.

Numerous well-known scholars have advocated for free trade and argued in their own works against scholars with opposing views. Developing countries will develop faster if they are allowed to pursue their own policies, taking into account their own stage of development and other conditions. In the long run, this is beneficial for developed countries as well, as investment and trade opportunities expand, although, unfortunately, developed countries do not take advantage of this opportunity. (Chang & Gershman, 2003).

The paper "Economic Feasibility, General Economic Impact and Effects of the Free Trade Agreement between Georgia and the European Union" examines the economic benefits, feasibility and potential impacts of the Free Trade Agreement between Georgia and the European Union. The study emphasizes that in order for agro-companies which produce agriproducts to enter the EU market, this is especially true of Georgian wine, it is important to introduce modern production methods, raise the awareness of Georgian brands through proper marketing and for all agro-companies the starting point should be the implementation of EU regulations and compliance with modern quality standards. (Kudina, et al., 2008).

DCFTA allows Georgian products that meet non-tariff requirements to enter the EU market with zero customs tariffs. This fact pushes Georgian wine producers to improve the quality of products, to be able to diversify the types of products and, most importantly, to increase the export of products produced, thus contributing to the economic progress of the country. Norway, Canada, Japan and Switzerland are also on the list of export countries whose preferential systems can be used by Georgian producers. (Eisenbaum, 2007).

**Georgian Wine Market Overview**

Over the last decade, the wine industry in Georgia has experienced a strong growth in all key indicators, such as exports, turnover, employment and salary of employees. The financial situation of the sector during this period also looked quite impressive (Zarnadze & Kasradze, 2020).
In 2019, the average monthly salary of employees in the wine production sector amounted to 1046 GEL, and this figure increased by an average of 11.5% annually in 2011-2019. The average salary in the wine production sector has increased significantly compared to the average salary in Georgia - from 79% in 2014 to 93% in 2019 (Georgia Today, 2021).

In 2019, wine was the 3rd most exported commodity from Georgia (after copper ores and ferroalloys) and accounted for 8.2% of the country's total exports. The most significant increase in wine exports was recorded in 2017, when compared to 2016 it increased by 54.4%.

Source: National Statistics Office of Georgia

The average price of wine exported in 2011-2020 was $2.46 per bottle. From 2012 to 2014, the price increased significantly from $2.41 to $2.95, although in 2016 it dropped sharply to $2.26. In 2016-2020, the price stabilized from $2.2 to $2.4. For comparison, the world export price of wine in 2019 was $2.59, which is slightly higher than the average price of a bottle of wine exported from Georgia that year - $2.38. In 2011-2016, Georgian wine was more expensive than the average price in the world.
Percentages of wine exports from Georgia by countries look like this:

![Wine export from Georgia by countries in 2016-2020]

Source: National Statistics Office of Georgia

As the data shows, exports have been growing over the years, with only 2020 data showing a 5% decrease due to the pandemic compared to 2019 data, which is not really a large number considering other sectors of the economy. In 2020, compared to 2019, there is a 1% decrease in the amount of wine exported in bottles. In 2020, up to 92.4 million wines were exported outside the country. However, as the price of wine in the world market has fallen, wine exports in value terms have declined by 9% (National Wine Agency, 2020).

![Export of Georgian wine to Russia, million USD]

Source: National Statistics Office of Georgia

The year 2021 was especially important for the Georgian wine industry: the largest number of wines was exported in the history of independent Georgia. Georgia exported 107 million bottles (0.75 l) of wine to 62 countries around the world, with revenues from exports reaching $250 million, which is also a record high (Placeholder2).
Russia has been the main wine export destination since 2017, but there has been a significant increase in Europe as well.

Source: National Statistics Office of Georgia

Export rates are growing every year in strategic European markets: Poland, UK, USA, Ukraine, France, etc. However, it should be noted that despite the bitter experience of the 2006 Russian embargo, unfortunately, the Russian market is still inalterable, especially for small and medium-sized wineries to export their wines. The main determining factor, however, is the difficulty of adhering to quality standards (Kasradze & Zarnadze, 2019). Small and medium-sized wineries do not have a large scale of production, they suffer from a lack of resources and qualifications, due to which their products do not meet the requirements of the EU market. It is easier to acquire the Russian market, because there are no such strict requirements for quality there. However, based on the past experience, such a high level of dependence on the Russian market poses a great risk to the country (Kasradze & Kapanadze, COVID-19 Pandemic - Challenges and Opportunities for Georgian Wine Industry, 2022).

Taking into account the requirements of local and international wine markets and, consequently, promoting the development of a competitive market remains a challenge for Georgian law. Creating favorable conditions for the export of wine locally and internationally, first of all, implies the existence of proper legal regulations.

Discussion of domestic and international norms regulating wine exports

In Georgia, wine production, processing, distribution and export are regulated by various legislative and sub-legislative normative acts in force in Georgia. There are requirements of normative acts for wine production in Georgia, such as registration of business operators, state control, internal system of traceability and threat control, labeling, standardization, metrology, hygienic certification, as well as obligations, rights and responsibilities of business operators.
Determining the designations of the origin of wine and including them in a strict legal framework is especially important for Georgia. It is a necessary precondition for the production of high-quality and valuable products in our country and to protect it from unfair competition.

In accordance with the “Law of Georgia on Appellation of Origin and Geographical Indication of Goods” - Appellation of origin is a modern or historical name of a geographical place, district, region, country, used to denote goods originating in that geographical location; Whose exceptional quality and properties are, in whole or in part, determined solely by the natural environment and the human factor of this geographical place; Whose production, raw material production and processing take place within the boundaries of this geographical place.

The place of origin can be the village, the city, the region and the country itself. Thus, in accordance with the legislation of Georgia, the concept of a geographical indication is more general and fully includes the concept of appellation of origin. Any designation of origin is also a geographical indication, but not vice versa. The registration of the appellation of origin and geographical indication of the goods is carried out by the LEPL National Intellectual Property Centre of Georgia - Sakpatenti.

Decree #88 of the President of Georgia of 28 February 2002 “On the Measures Related to the Enactment of the Law of Georgia on Appellation of Origin and Geographical Indication of Goods” defines the procedures for determining, registering, using and controlling the appellation of origin of the wine. This Ordinance provides a list of wines with appellations of origin and conditional boundaries of specific viticulture zones for wines with appellations of origin and wine brands.

The Law of Georgia “On Vines and Wine” regulates the promotion and development of viticulture and winemaking as a priority sector of the country’s economy, and the production and marketing of competitive grapes, wines and other alcoholic beverages of grape origin, and the protection of the consumer market from falsified and poor-quality products.

According to the Law of Georgia “On Vines and Wine”, activities in the field of viticulture and winemaking are regulated by a legal entity under public law (LEPL), the National Wine Agency, which is controlled by the Ministry of Agriculture of Georgia. Certificates of Conformity and Origin are issued by the National Wine Agency in accordance with the rules established by the Ministry of Agriculture of Georgia. The Law of Georgia “On Vines and Wine” regulates the general requirements for the certification of alcoholic beverages. According to this law, certification of wines with appellations of origin is mandatory.

Certification of the table and regional wines, as well as strong spirits, is voluntary. For certification, it is sufficient to submit a declaration of conformity drawn up by the manufacturer of alcoholic beverages, based on the test protocol of an accredited
examination laboratory, which provides information on the manufacturer's requisites, product origin and quality.

Tasting is mandatory to issue a certificate of conformity of wines with the appellation of origin intended for export. In other cases, wine tasting is voluntary and is carried out by a standing tasting commission set up by the National Wine Agency on an order basis. According to the same law, the export of wines with the appellation of origin is allowed only in bottled form.

Order #2-221 of 2003 of Minister of Agriculture and Food of Georgia on “Certification System of Alcohol Drinks”, “Rules for Certification of Alcohol Drinks”, “Issuing Certificate of Origin for Alcohol Drinks”, and “Rules for Writing off Wines” regulates the issues of certification of alcoholic beverages and spirits of grape origin. In order to make a decision on issuing a compliance certificate, three necessary conditions are considered: the results of the analytical examination; the results of organoleptic testing and the results of state control over the observance of the rules and regulations for the production of alcoholic beverages.

The state strictly controls the compliance of export wines and certificates of origin issued. In order to inspect the samples submitted by the exporter, the National Wine Agency and the LEPL National Food Agency are authorized to take samples from the relevant certified batch, submit them for laboratory testing and compare them to the samples submitted by the exporter no later than 3 working days after the prior notification of the business-operator by the National Wine Agency. It is not allowed to export the certified batch or place it on the market otherwise before the expiration of this period.

The Code of Administrative Offenses of Georgia (Art. 1794) provides for punitive sanctions, in particular: forgery of a wine laboratory test report by a testing laboratory, forgery of a wine certificate by a certification body is punishable by a fine of 5,000 GEL, in repeated cases 20,000 GEL; Placing or exporting non-compliant products specified in the wine certificate to the export party shall be punished by a fine of 10,000 GEL, in repeated cases - 20,000 GEL (Art. 1795).

It should be noted that the state requirements for the wine to be exported are different for the EU and CIS countries. Only the analysis of the forms of certificates of origin allows us to see clearly the difference between the legal regulations of the EU and the CIS countries when it comes to the quality control of exported wine.

Under the legislation of Georgia, which is consistently in line with EU regulations, if certified wine is intended for export to EU countries, it must be accompanied by a Form VI 1 Certificate of Compliance, which is fully compliant with EU regulations and legislation issued by the National Wine Agency.

In the case of wine export to Russia and Ukraine, the agency issues another type of certificate of origin - CT1 form. We want to note here that in this case too, the legal
regulations for the export of wine are conditioned by the bilateral agreements between Georgia and the Russian Federation and the state of Georgia and Ukraine.

We will briefly review the requirements for both deep and comprehensive free trade agreements with the EU, as well as the requirements for certificates of compliance to be issued under Georgian law in the context of the above-mentioned bilateral agreements on wine exports.

The Georgian-Russian Free Trade Agreement (Agreement, 1994) is used for trade with the Russian Federation and the Free Trade Agreement between the Government of the Republic of Georgia and the Government of Ukraine (Agreement, 1995) is used for trade with the Ukraine. The terms of the agreements are identical for both countries. According to the first article, 1. “Sides to the agreement do not impose customs duties, taxes and charges having equivalent effect on export and import of commodity originated from the customs area of one of the Sides and designated for delivery to the customs area of another Side.”

According to Article 2, “Sides will not impose local taxes or charges directly or indirectly on goods, covered by the present agreement, at the rate that exceeds the level of relevant taxes or charges imposed on analogous goods of the local production or those produced in third countries; Sides will not introduce special restrictions or demands towards export and/or import of goods, covered by the present agreement, that in similar cases are not used towards analogous goods of the local production or those produced in third countries;

However, the free trade regime with the Russian Federation, unlike other countries, provides for exceptions, in particular, the removal of certain goods from the free trade regime.

It should also be noted that under Article 1 of the Treaty the peculiarity of using the trade regime to agree on the nomenclature of goods between the two countries are formalized in annual protocols which is an integral part of this Agreement. Which allows the parties to revise these terms.

The contracts do not contain details about either the quality or the special requirements related to the labels.

We have a different reality in the case of wine exports to EU countries. Currently, under this agreement, 18 geographical names of Georgian wines are protected in the European Union. In addition to geographical indications and appellations of origin, the issue of labeling in relation to wine quality protection regulations within the framework of Georgia's Association Agreement with the European Union is noteworthy.

The Law of Georgia on Vines and Wine complies with EU standards and sets requirements for mandatory information on the label.
According to the Law of Georgia on Vines and Wine, Art.31. The label of a product bottled for the market shall include the following necessary information:

a) Name of the product;

b) Nominal volume;

c) Actual alcohol content;

d) name of protected appellation of origin and geographical indication, as well as an indication “controlled appellation of origin” or “protected geographical indication” (should be sequential), which may be replaced by sign or abbreviation of controlled appellation of origin or protected geographical indication approved by the agency;

e) In the case of special wine – the name of the appropriate category; the name of the manufacturer country of the product;

f) Name and address of the manufacturer of the product, name and address of the bottler, if the manufacturer and bottler of the product are different persons, and in the case of wine or drinks imported to Georgia – name and address of the importer;

g) Lot number;

h) Noting “contains sulfites”, if the content of sulfites in one liter of the product exceeds 10 milligrams.

In addition, the law permits placing the following information on the label (article 32):

a) Trademark;

b) Name of vine species if the product is produced at least 85% of grapes of the mentioned vine species;

c) Year of harvest if not less than 85% of the wine is produced from grapes harvested in that year; according to the production method: in case of Georgian wine – designation “Georgian wine”;

d) In case of sparkling wine – designation “traditional method”, if the sparkling wine is produced by the bottled method;

e) In case of wine – designation of fermentation and/or aging in a wooden barrel if the wine was fermented and/or aged in a wooden barrel.

Any information that does not mislead the customer regarding the quality, place of origin, year of harvest, manufacturer, type, style and/or other characteristics of the product is permissible. To include nutritional and/or health claims on a wine label is not obligatory, to include environmental claims on a wine label is not obligatory.

Any information that does not mislead the customer regarding the quality, place of origin, year of harvest, manufacturer, type, style and/or other characteristics of the product is permissible.
Conclusion

Recently, Georgia has signed new types of trade agreements with the European Union and various other countries, in which the emphasis has shifted from traditional tariffs and quotas to non-tariff quality assurance measures. These agreements, on the one hand, allowed Georgian products, including Georgian wine, to enter and establish themselves in new markets at competitive prices, and, on the other hand, the non-tariff measures provided for in these agreements became a special challenge for Georgian winemakers.

The practice has shown that the DCFTA has contributed mainly to the growth of exports of raw materials which are less affected by non-tariff measures, but have not had an economically significant positive impact on the growth of the agri-food and manufacturing sectors. Moreover, the SPS and TBT measures of the EU have a significant limiting impact on Georgia’s export potential to the EU. On the other hand, there is a tendency to focus on the CIS and Asian markets, which have much lower requirements in terms of non-tariff measures.

Experts agree that the growing dependence of Georgia on the Russian market is alarming given the lessons of the recent past. The main challenge today is the quality of Georgian wine. It is possible to export relatively low-quality wine to Russia and that is why Georgia is actively cooperating with it. In order for Georgian wine to achieve serious success in Europe and other countries, producers must first improve its quality. Since the 2006 embargo, Georgia has diversified its wine markets, though insufficiently. Since 2013, Georgian wine exports to Russia continue to grow.

Although there was already a bilateral free trade agreement in 2006 that included dispute resolution mechanisms in line with international practice (Agreement on the establishment of a free trade zone, 1999), the Russian authorities, without any hesitation, unilaterally used the politically motivated decision on the embargo.

The Russian market is obviously highly attractive. However, at the same time, it is dangerous, unsustainable and creates many risks, especially of a political nature. Because there is a temptation for Georgian wine producers to return to the production of low-quality and falsified products, which they will sell freely in the Russian market (which again makes it possible for the embargo to be repeated multiple times due to political motives).

Given that Ukraine has also signed the Association Agreement with the EU and the DCFTA, in the near future this means the modernization of the Ukrainian market and rapid harmonization with EU standards, which in the future will lead to the revision of bilateral agreements and the establishment of EU standards.

The EU market is attractive, first and foremost, only to producers of high-quality products and services. Differentiation of products and services helps to diversify
markets for Georgian exporters. Moreover, this is the only way to develop our small open economy (Tea Kasradze, 2018).

If high-quality wine is ensured, in the presence of free trade agreements with different countries it will inevitably have an impact on the growth of wine exports. Quality, authentic Georgian wine has a great potential to acquire new strategic markets. To achieve this, companies need to consider the needs of local and international markets. It is especially necessary to harmonize the local regulations related to wine quality with the EU regulations and strictly adhere to them, which will help increase the international reputation of Georgian wine and increase its demand in foreign markets, improve the financial performance of the wine industry, there will be further increases in employment and salaries of employees in the industry (Kasradze & Kapanadze, COVID-19 Pandemic - Challenges and Opportunities for Georgian Wine Industry, 2022).

References


