"The Cradle of Wine Civilization" - Current Developments in the Wine Industry of the Caucasus

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"The Cradle of Wine Civilization"—Current Developments in the Wine Industry of the Caucasus

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Abstract
Wine has been cultivated in the Caucasus for thousands of years. Caucasian viticulture experienced its greatest evolution and development during Soviet rule. However, Gorbachev's anti-alcohol policy and the transformation processes in the 1990s led to a dramatic decline in wine production. For the last 15 years, the viticulture in this region has experienced rediscovery, renewal, and growth. Although Russia remains the largest and most important export market for the wines from Georgia, Armenia, and Azerbaijan, all three countries try to diversify export destinations and to penetrate non-CIS countries. The following article outlines the developments in the wine industry of these three Caucasian countries and identifies similarities between them.

Introduction
The Caucasus mountain range, with a length of 1100 km, runs between the Black and Caspian Sea. It is located within the borders of Russia, Georgia, Armenia, and Azerbaijan. Despite the diverse cultural heritage and distinct national

identities, the region has been known as "the cradle of viticulture". The archeological findings of 6,000 years old seeds in Georgia and a 6,100-year-old cave used as a winemaking facility in Armenia constitute the earliest recorded evidence of winemaking. Additionally, the presence of over 500 unique indigenous grape varieties in the region indicate the deep-rooted history of winemaking and wine production (Barnard et al. 2011). Thus, viticulture has played a major role in these countries for many thousands of years. In the 1980s, during the Soviet period the area under vine reached its peak of expansion.

In the mid-1980s, the mortality rate of the population—especially among males—was significantly higher than in the "West" due to alcohol abuse. Additionally, alcohol abuse caused massive economic issues. Consequently, Mikhail Gorbachev introduced an anti-alcohol campaign in 1985. This prohibitive law had led to extensive grubbing-up of vineyards and restrictions on alcohol production. Due to these measures, the land area covered by vineyards fell by more than 50% in Armenia, Azerbaijan and Georgia. After the dissolution of the Soviet Union in 1991, being accompanied by wars of secession, privatization processes, and economic crisis, the viticulture in the Caucasus experienced its lowest level of around 60,000 ha.

Over the last fifteen years, the area covered by vineyards has rebounded and the production of wine in volume has risen. Moreover, the wine quality has increased considerably to meet the requirements of new export markets that have been tackled alongside the traditional export markets of the former Soviet Union. The aim of this article is therefore to outline the recent these developments in the three Caucasian countries, and to identify similarities.

Developments in the Wine Industry of the Caucasus Region

The Wine Industry in Armenia

Before becoming a part of the Soviet Union, Armenia produced mainly wine and table grapes. Within the Soviet Union, Armenia had to focus on brandy production (80–90% of grape production was used for brandy) (Khachtryan & Oppen 1999). This led to a big change in the Armenian wine culture (Bitsch, Ghvanidze & Hanf 2019).

The grape production area has gone through a tremendous decline after its 1980 peak of 36,200 ha. During the Soviet-times, Armenia processed more than 200,000 tons of grapes annually mostly for brandy, as well as some wine and sparkling wine. The major part of the production was consumed in Russia and the Soviet Union (Johnson & Robinson 2013). Nowadays, the vineyard area stretches over 17,000 ha (NSS 2016), from which around 2,500 ha are used for winemaking, while the majority (14,500 ha) is still used for brandy and table grape production (Urutyan 2017). The share used for table wine production is stable, but a steady increase in productivity is noticeable (NSS 2016). Overall, there are 35 wineries producing and selling table wine. This number has more than doubled within the last 10 years, as in particular more small-scale wineries were established (Bitsch 2017).

In 2017, overall, 66,544 farmers cultivated grapes on an average plot size of 0.23 ha (Urutyan 2017). Many smallholders cannot manage to finance winemaking facilities and/or get access to the market to sell the high-valued final products. Therefore, the farmers are heavily dependent on selling their grapes to the few operating wineries (Hanf et al. 2019). Most of the sales are organized through oral agreements or contracts based on quantity and trust (Hanf et al. 2016; Bitsch 2017). However, there is a current trend among wineries towards in-house grape production to control grape quality and yields, as well as variety (Hanf & Marquardt 2014; Bitsch 2017).

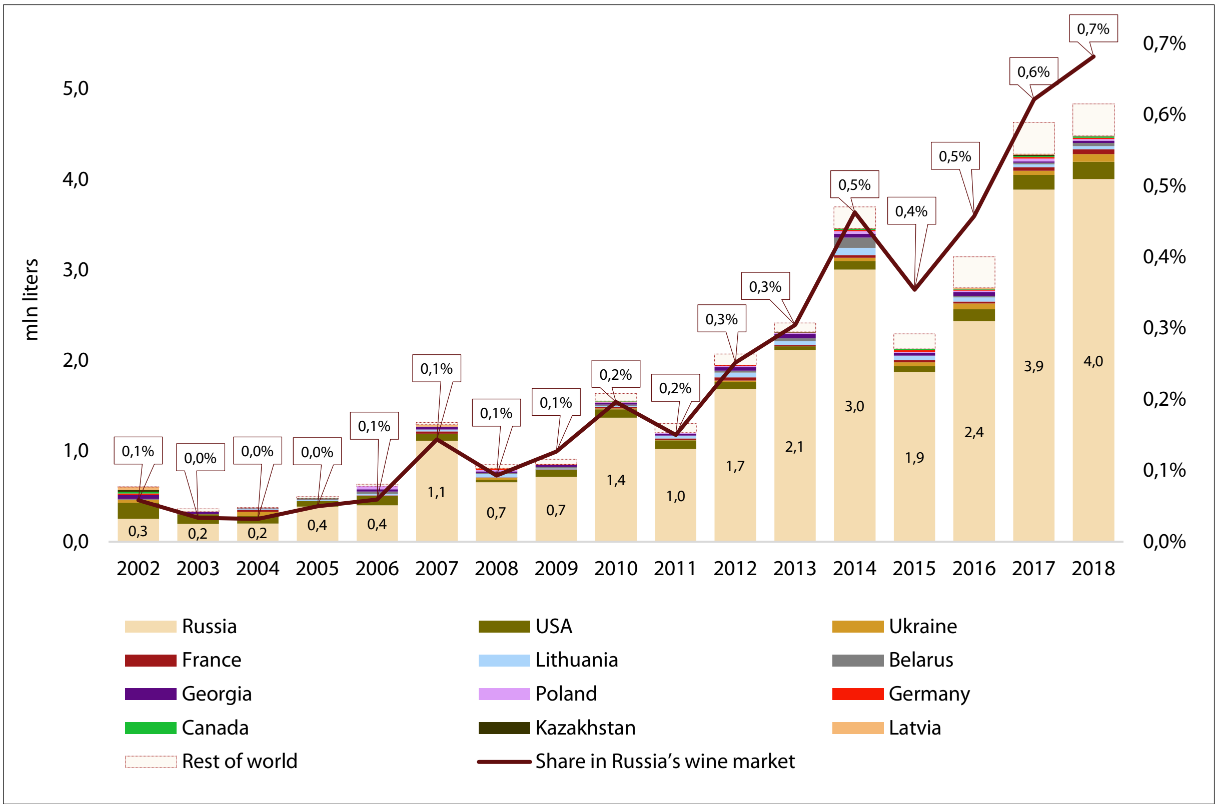
Nowadays, the wine industry is still a key industry for Armenia and is emerging and developing positively (VWFA 2019). Until now, though, most Armenian wine-producing companies strongly focused on wine exports, as export developments were overall positive. Russia is by far the most important export market, accounting for 90% of all exports followed by the USA, Ukraine, France, Lithuania and others (Figure 1 overleaf). Since Armenian wine exports are so undiversified, economic shocks occurring in the Russian market directly affect Armenia's wine export dynamics. The strong devaluation of the Russian Ruble in 2014 resulted in a large decrease of Armenian wine exports (up to – 40% in one year). However, the wine exports recovered, market share was regained and wine exports are increasing again.

The local demand for wine is steadily increasing (VWFA 2018; Harutjunjan et al. 2020). The growing number of wine bars and restaurants and availability of imported and domestic wines in supermarkets and restaurants in Armenia's capital Yerevan underline this evolution. Nowadays, especially the young population, seems to be interested in wine and is willing to spend money on it (BBC 2019; Harutjunjan et al. 2020).

The Wine Industry in Azerbaijan

At the beginning of the 1980s Azerbaijan was one of the major wine producers of the Soviet Union, with over 200,000 ha vine cultivation. The produced wine was exported to Armenia and Georgia. Due to the "anti-alcoholism campaign"

Figure 1: Wine Export of Armenia (volume)



Source: Comtrade (2020)

as well as the transformation process the area under cultivation was reduced to merely any production at all in the beginning of the new millennium (Musayev & Akparov 2013). Since then the area under cultivation has increased again (Hanf 2015).

In 2014, in Azerbaijan, a total area of 16,115 ha of agricultural land was covered by vineyards (SSCRA 2014). About 40% of the total grape production, corresponding to approximately 65,000 tons of grapes, is used to produce wine and 40% is consumed as table grapes (Burchell et al. 2014). 10,000–15,000 tons of these grapes are used for the production of sparkling wine and brandy (SSCRA 2014).

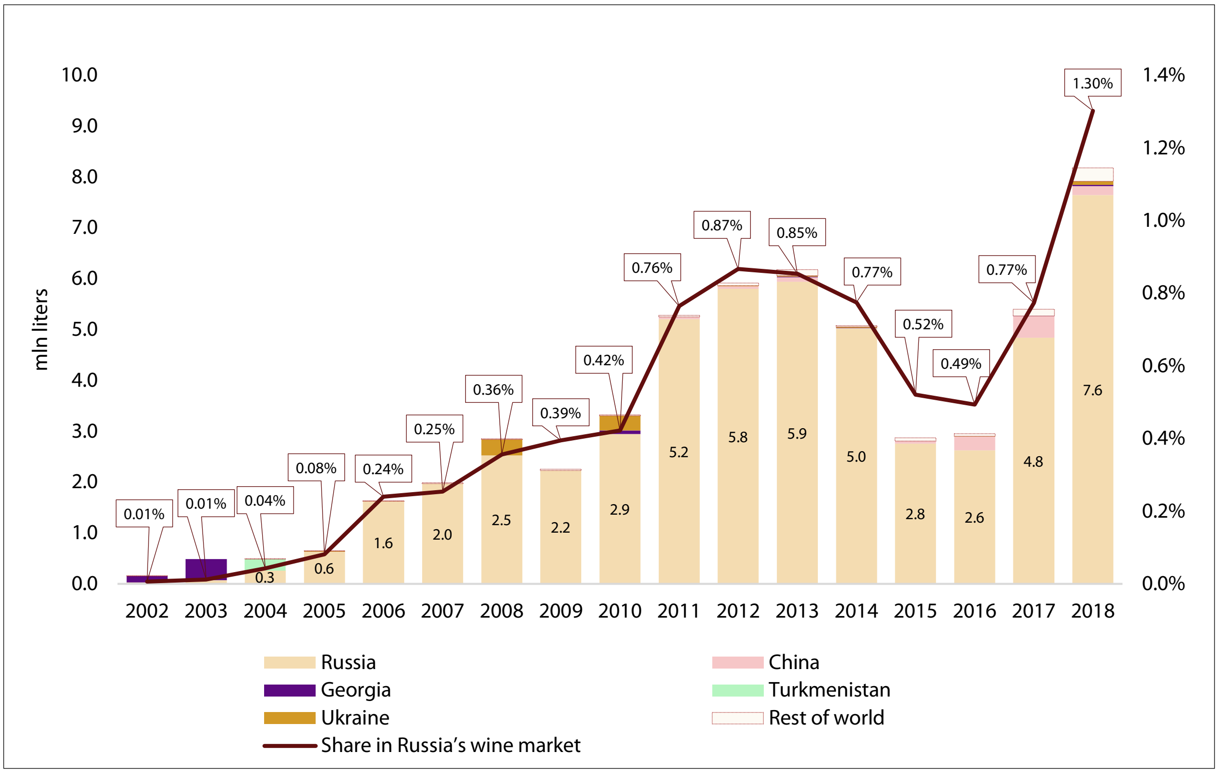
The vast majority of grapes (87%) are grown by very small grape producers (less than 1 ha). The remaining 13% are grown by seventeen large-scale wine producers (Hanf 2016). Total wine production in Azerbaijan is about 200,000 hl a year, but the yearly consumption is only 100,000 hl, resulting in a surplus of about 100,000 hl (Hanf et al. 2014).

The majority of wines consumed in Azerbaijan are domestically produced; only 15,000 hl of wine is imported annually. The main part of wine imports (12,000 hl) originates from Moldova, followed by France, Belgium, Italy, the United Kingdom, and Germany (SSRCA 2014).[1]

According to FAO, Azerbaijan exported nearly 40% of its total wine production in 2011. The vast majority of this wine leaves Azerbaijan in the direction of Russia (FAO Statistics 2014). However, Azerbaijan wine exporters have started searching for new markets and have expanded wine exports to China (Figure 2 overleaf). Due to the domestic overproduction of wine, a general willingness to increase exports can be observed (Hanf et al. 2014).

1 It is not clear why Georgian wine imports do not appear in this statistic since the results of store checks show that the biggest proportion of foreign wine sold in supermarkets and restaurants originates from Georgia. Georgian wine may be listed among the category "Other countries" but it seems that the amount of imported Georgian wine is bigger than the ones from France or Italy. Moldovan wine, in contrast, could not be found in any shops or restaurants sampled. In the GIZ-expert workshop, it was established that most probably Moldovan wine is used for re-export to Russia and other countries and thus, does not appear in on- or off-trade sales channels in the domestic market. Some experts think that this re-exported volume of Moldovan wine might be substituted by genuine wine from Azerbaijan. However, it seems as this re-exported wine is rather cheap bulk wine exports. As UK is re-exporting particularly wines from New World countries, UK can be understood as a proxy for wines from the New World. (Hanf et al. 2014).

Figure 2: Wine Export of Azerbaijan (volume)



Source: Comtrade (2020)

The Wine Industry in Georgia

In the mid-1980s, 160,000 hectares of wine was cultivated in Georgia. Due to the above-mentioned prohibitions and transformation process, the area under cultivation declined to 62,000 ha at the end of the 1990s (FAOSTAT in DWVG, 2010). Today, 55,000 ha of vineyards are being cultivated (OIV 2019).

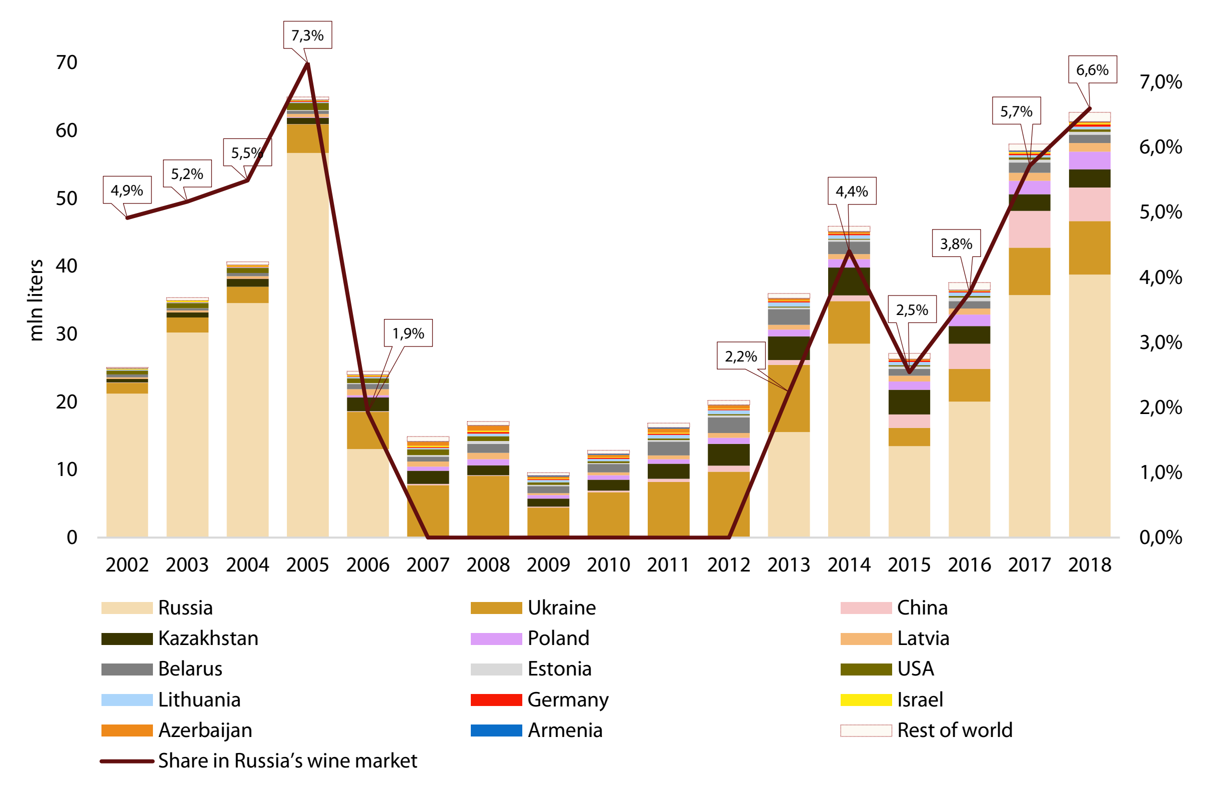
Nearly 36,000 households, small wine-grape growers owning up to 1 ha are currently involved in viticulture and grape production (NSO 2020; Kvariani & Ghvanidze 2015), mostly producing grapes for home processing, for their own consumption and for informal sale in their rural areas[2] (Anderson 2012). The quality of the grapes of smallholder producers does not meet the requirements of the commercial wineries. While they struggle to sell their surplus grapes, the commercial wineries increasingly plant their own vineyards to ensure the quality of grapes (Kvariani & Ghvanidze 2015).

Officially, in 2017, Georgia produced 117,000 liters of wine (Wine Institute 2017). The Georgian wine industry has experienced rapid expansion over the past six years. The entire industry is going through a period of rediscovery, renewal, and growth. The number of registered wineries has increased from 80 in 2006 to 961 in 2018 (GNW in Granik 2019).

During the Soviet period, Russia and other Soviet countries were the most important export destinations. After Russia imposed a wine embargo on Georgian wine in 2006, Georgia lost 87% of its export market and Georgian wine exports fell by 62% compared to the previous year (Figure 3 overleaf). Despite the significant negative effect of the Russian embargo on the Georgian wine industry and the entire economy of the country, it offered at the same time the opportunity to Georgian winemakers to improve the quality of their wines and to diversify their export markets (Ghvanidze 2012). Georgian wine penetrated non-CIS countries such as the USA, China, UK, Germany, and Poland (Figure 3). Since 2012, when the Russian market was reopened, the majority of Georgia's wine exports again shifted mostly to Russia; however, its share has fallen from 87% in 2005 to 62% in 2018. The Georgian National Wine Agency reported that in 2018 Georgia exported 86.2 million bottles of wine to 53 countries, the highest value in 30 years (Agenda.ge 2019).

2 Neither production nor sales of homemade wines are included in the country's official statistics.

Figure 3: Wine Export of Georgia (volume)



Source: Comtrade (2020)

A transformation of wine consuming culture can be observed in today's Georgia, especially among the young generation. They consider wine not only as a beverage for toasts during social gatherings, but they are also interested to explore more about the provenance of wine stemming outside of Georgia. The number of wine bars, as well as institutions, offering training classes for wine professionals and enthusiasts is rapidly increasing (Granik 2019). Moreover, the rising numbers of tourists and the rapidly growing process of urbanization will stimulate further demand for Georgian commercial wines in the domestic market.

Conclusion

South Caucasian countries have a long history of winemaking. Notwithstanding Gorbachev's "dry law" and the decline in wine grape production associated with the 90s economic recession, winemaking is gaining further interest in the region even today. However, viniculture had to follow a different path of development in the Caucasian countries during the communist period. In particular, Armenian wine grapes were designated primarily for brandy production, whereas Azerbaijan had to focus on table grapes and Georgia was appointed as a wine-producing republic. Therefore, while the history of winemaking remained unbroken in Georgia and the country preserved its wine culture, Armenia and Azerbaijan had to revitalize their wine sectors after the dissolution of the Soviet Union.

Wine production became increasingly popular in the South Caucasus region during the last decade, accompanied by the emergence of many small-scale wineries as well as large wine producers in Armenia, Azerbaijan and Georgia. However, since the market for bottled wine is only gradually evolving in the region, local demand still falls short of supply. Consequently, wine has taken a leading position in agricultural exports, particularly in Armenia and Georgia, where the share of alcoholic beverages accounts for 35% and 50% of total agricultural exports, respectively (Comtrade 2020).

As wine from Georgia, brandy from Armenia, and table grapes from Azerbaijan were very popular in the Soviet Union, wine exports from these countries mainly followed the same trend even after those countries gained independence. Although Russia is still the largest export market, the demand for wine from the South Caucasus region is slowly but steadily increasing in non-CIS countries as well. Given the recently-experienced economic shocks in Russia accompanied by declining wine exports, it would be to Caucasian wine producers' advantage to diversify export destinations and ensure long-term stability of their export revenues.

See overleaf for information about the authors and a bibliography.

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Grain Import Dependency and Food Security in the South Caucasus

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Abstract

Although food security has improved during the transition period, the issue is still prevalent in the countries of the South Caucasus, which are heavily depending on wheat, the most important staple crop in the region, imported from Russia, and to a limited degree from Kazakhstan and Ukraine. Due to their favorable location next to the largest wheat exporting region, trade costs play a relatively small role and wheat markets in Armenia, Azerbaijan and Georgia are relatively well integrated with the Black Sea export market. Nevertheless, Armenia has the least diversified wheat imports among the South Caucasian countries due to its closed border with Azerbaijan. Despite the well-integrated markets, wheat imports and thus food security remain challenged by repeated restriction of wheat exports by the governments of Russia, Kazakhstan and Ukraine, most recently implemented as crisis policy during the COVID-19 pandemic.

Food Security in the South Caucasus

After the breakdown of the Soviet Union in the early 1990s, the South Caucasian countries Armenia, Azerbaijan and Georgia transitioned from centrally planned to market economies. Deterioration in the economic situation during