Comparative Advantages of EU Member States in Trade with Wine

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Сравнителни предимства на страните - членки на ЕС в търговията с вино

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Целта на настоящото изследване е да се идентифицират сравнителните предимства на страните – членки в ЕС в условията на силно конкурентен глобален пазар на вино. Сравнителното предимство на всяка държава – членка в търговията с вино се оценява в зависимост от средното ниво в ЕС (28 държави – членки). Сравнителният анализ използва официални данни, предоставени от FAO (www.fao.org) и OIV (www.oiv.org). Страните от ЕС, които увеличават сравнителното си предимство в износа за изследвания период, са: Великобритания (+30%), Италия (+28%), Литва (+24%), Латвия (+14%) и Малта (+11%). Държавите – членки, които губят сравнително предимство в износа на вино, са: България (-48%) (драматична промяна), Румъния (-38%), Кипър (-25%), Люксембург (-20%), Португалия (-18%), Белгия (-11%), Франция (-10%). В групата на страните, които увеличават сравнителното си предимство при внос, са: Латвия (+86%), Литва (+84%), Естония (+38%), Ирландия (+28%), Дания (+24%), Словакия (+18%) и Швеция (+17%). Драматична загуба на сравнително предимство при внос на вино имат следните държави – членки: Белгия (-21%), Люксембург (-16%) и Испания с -10%.

Introduction

During the last few years, the agricultural policy of the EU aims to achieve comparative advantage in wine sector based on improving the quality of wines and diversification. The impact of the CAP on the wine sector in EU member states is different and led to the formation of a few leaders in export of wine and many countries that remain inert in sector (Mozell, 2014).

On the global wine market emerged new competitors as New Zealand, Australia, Argentina and Chili, countries that applies different competitive strategies compared to EU member states. New Zealand, Australia and Chile implemented a sharp increase in exports last decade (Cusmano, 2010). New Zealand has developed its wine sector based on improving the quality of wines produced and traded. The country bet heavily on exports of bottled white wines, thereby establishing itself as a leader in this product group. Exports during the past five years increased by only 10%, but at the expense of the country dealing with products that have a high added value, which determines the major comparative advantages in the wine industry. Australia applied another strategy for its wine industry. The country diversifies the varieties of vines and achieved consolidation of vineyards. This resulted in increasing the quality of the raw material base of winemaking. The country is specializes in the export of bulk and bottled wines. During the period 2004–2011, exports of Australian wine are expanded up to 20 times. That export expansion is carried out based on the production of quality wines at competitive prices to the member states of EU, which cannot reach with ease due to the high fragmentation of the vineyards, and the prevailing small series production. Chili plays role as a leader in comparative advantage of the export of wine. This country in the group called "new comers" that develops the most cleverly in strategic aspect its wine sector. Today the sector has high importance to Chilean agricultural export.

The new players on the global wine market shifted current market leaders – the member states of EU as France, Italy and Portugal. The last three are significantly weakened their comparative advantages in export, most obviously this process is observed in France (Goulet, 2011). Weakening the market position of these countries is caused by the restructuring of their wine sectors under conditions of the new agricultural policy. There is a large surplus of wine on European market for a several years. This leads to the lowering of prices and to a significant decrease in production of wine and grapes. EU forced to reform agricultural policy to minimize these surpluses and stabilize wine sector. The most significant structural changes started countries such as France and Italy.

Bulgaria also experienced major changes in the wine sector last decade. The Bulgarian wine sector is getting restructuring following the trend of reduction of area under vines, increasing the share of set aside vineyards (Todorova, 2007). This leads to shortening of the production of grapes and wine, respectively. As a result, the country loses its comparative advantages in trade with wine compared to other member states (Kirovski, 2011). In present days, the country prefers mainly imported bottled wines and exporting bulk table wines, which are positioned in the lower price segments of the international market. Structure of imports of country wines on the Bulgarian market is Macedonia. Within a few years, this country expands its share and it reached 42% of total imports of wines in Bulgaria. Macedonia entering bulk table wines with low added value.

Major consumer of Bulgarian wines is Russia. Bulgaria exports almost 64% of the wines to the Russian market. These are mainly table draft and bottled wines. Other important destination of Bulgarian exports is Poland; it occupies 22% of total exports of wines.

The aim of the current research is to identify the comparative advantage of member states in EU in condition of highly competitive global market of wine. The comparative advantage of every member state in wine trading is estimated according to the EU (28 members) level. The comparative analysis is conducted by using official data given by FAO (www.fao.org) and OIV (www.oiv.org)

Materials and methods

The comparative advantages of the EU member states in wine trade are evaluated with the following indicators - (1) a comparative index of export advantage (RXA), also known as the Balassa index and (2) a comparative index of import advantages (RIA). In the study, we use a matrix technique for the comparative analysis of the advantages of the countries in trade in wine. The matrix is constructed based on the importance of the two indicators – RXA and RIA. Thus, matrix consists of four quadrants, in which we distribute the countries according to what advantages they have in the import and export of wines. In the first quadrant are countries which are "expansionists" and have a comparative index of export advantage greater than 1 ($RXA > 1$) and comparative index of import advantages greater than 1 ($RIA > 1$). This group of countries does a quick turnover in wine trade. The second quadrant of matrix is called "sustainable exporters" ($RXA > 1$ and $RIA < 1$). Countries that are in this quadrant have greater advantage in export than import in wine sector. They achieve stability in wine exports in long-term period. The third quadrant of the matrix is for countries that have grater advantage in import than export and they called "sustainable importers". In fact, these countries are the major importers and consumers of wine in EU. The fourth quadrant is for countries that have advantages in neither export nor import of wine ($RXA < 1$ and $RIA < 1$). This group of countries is called "inert traders" and they do a very slow turnover in wine trade.

RXA = (Xdi / Xd) / (Xwi / Xw) (1)
Xdi – the value of wine exports from the member state;
Xd – the value of total exports of the agricultural sector of the member state;
Xwi – the value of wine exports of the EU;
Xw – the value of total exports of the agricultural sector of the EU.

RIA = (Xdi / Xd) / (Xwi / Xw) (2)
Xdi – the value of wine imports from the member state;
Xd – the value of total imports of the agricultural sector of the member state;
Xwi – the value of wine imports of the EU;
Xw – the value of total imports of the agricultural sector of the EU.

Table 1. Matrix of comparative advantages in trade of wine

RXA > 1 **RIA > 1** "Expansionists"	**RXA < 1** **RIA > 1** "Sustainable importers"
RXA > 1 **RIA < 1** "Sustainable exporters"	**RXA < 1** **RIA < 1** "Inert traders"

Source: Adapted based on BCG-matrix.

Results and discussion

Member states that are main producers of wine in EU are France, Italy and Spain (see fig.1). These countries are also the major exporters of wine within border of EU. The both significantly weakened its comparative advantages in export, most obviously this process is observed in France. Weakening the market position of these countries is caused by the restructuring of their wine sectors under the effect of CAP and the dramatic push of new comers on global market such as New Zealand, South Africa, Chile and Australia. For several years, EU accumulates large surpluses of wine. This leads to the lowering of prices and leads to a significant decrease in production of wine and grapes. EU forced to reform agricultural policy to minimize these surpluses and stabilize wine sector. The most significant structural changes started countries such as France and Italy which processed a large sized vineyard. France cut off 30% of the arable vineyards also the same tendency is followed in Italy. Respectively Spain managed to expand the vineyards and to introduce new varieties of vines and new brands of wines on global market, which benefits its wine sector.

Major importers of wine are United Kingdom and Germany as member states of EU (see fig. 1.). United Kingdom is a part of global market, which is very dynamic, attractive and competitive. The consumption of wine last few years has a stable increase and gives good opportunity for global exporters to expand their wine export. In addition, the same condition appears on German market – with stable consumption of wine per capita 25 l. These two countries consume 33% of the EU's import of wine and take very important piece of global market.

Expansionists

According to the results of matrix analysis only one country is defined as expansionist in wine trading. This is Latvia with RXA > 1 and RIA > 1. According to the data of OIV the consumption of wine per capita is far away above EU – level with only 3 *l*. This means that the sector has strong positions on re export of wine. The country does very quick turnover in wine sector compared to the other EU members. The comparative advantage of Latvian wine sector in export for last four years rise up to 14% compared to the EU level (see fig. 2.). For the same period, the country's comparative advantage in wine import is increased with 86%. Thus, prove that wine trading plays role as a major economic sector in the country.

Sustainable exporters

This group includes countries that have greater comparative advantage in wine exports (RXA > 1) and weaker comparative advantage in the import of wine (RIA < 1) towards the EU-level. In other words, these countries are net exporters of wine and have a strong market position in the global market. As sustainable exporters are France, Italy, Portugal and Spain. The wine sectors of these countries have sustainable export and the trend of expansion is very slow and difficult. They reach their maximum potential in competitive ability among the major players on global market. The wine sectors of these countries support a wide range of wines in purpose to cover more consumer preferences in different price segments. Following such a strategy can support further expansion of production and export. In matter of fact France and Portugal have decline of their comparative advantage of export for last several years (see fig. 1). Spain stays almost steady with no change in comparative advantage in wine export in the group. Italy stand out as leader in-group with almost 30% rise of comparative advantage in wine export.

Sustainable importers

This quadrant of the matrix includes many countries such as Belgium, Estonia, Germany, Ireland, Denmark, Lithuania, Luxemburg, Sweden and United Kingdom. Sustainable importers mean member states that are net importers of wine in EU. It is obvious that these countries have not proper climate condition to grow vines

"Expansionists" LAT	**"Sustainable importers"** BEL; EST; FIN; GER; IRE; DEN; LIT; LUX; SWE; UK
"Sustainable exporters" FRA; ITA; POR; SPA	**"Inert traders"** AUS; **BUL**; CRO; CYR; CZR; GRE; HUN; MAL; NET; POL; ROM; SLK; SLN

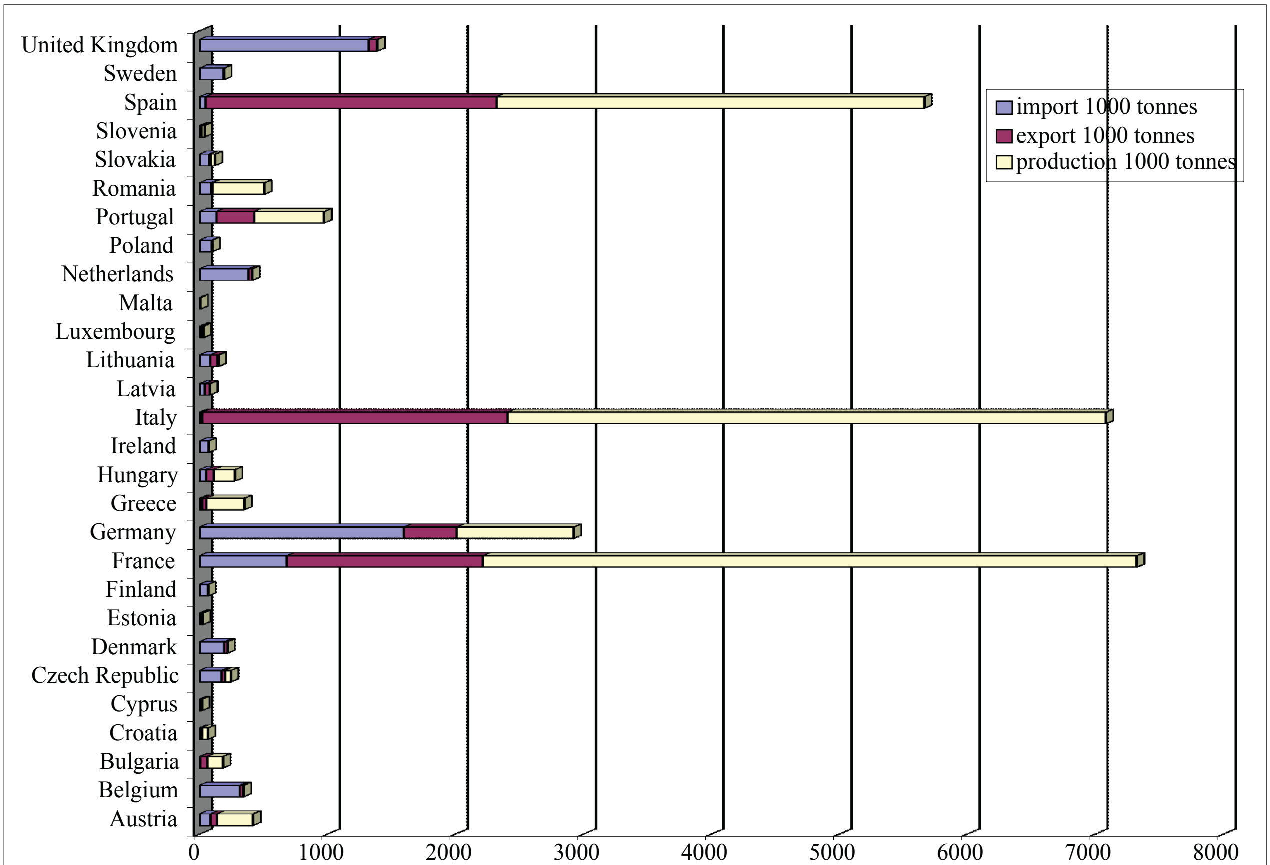

Fig. 1. Production, import and export of wine in member states (2008–2011)
Source: FAOSTAT.

and they depend on import of wine. This quadrant of the matrix also gives information about the future strategic markets in EU. Almost in every country in this group, there is positive tendency of increase of wine consumption. This means that the market is not yet saturated and there is opportunity for member states to relocate their export of wine.

Inert traders

The quadrant shows which part of the EU is frozen in trade with wine. It is impressive the largest number of member states that fall into this group. Many countries have proper geographic and climate condition for developing vine growing and producing wine like Bulgaria, Slovakia, Slovenia, Croatia, Greece and Romania. Although these member states do not gain comparative advantage in export nor in import of wine (RXA < 1 and RIA < 1). The major part of the member states have decline in comparative advantage in wine trading. The reason is the decrease of wine consumption and production of wine (there are such tendencies in Bulgaria, Greece, Malta and Cyprus).

On Figure 2 and 3 is given the variation of comparative advantage in export and import in the member states fore period 2008–2011. Members of EU that gain comparative advantage in export for this period of years are United Kingdom (+30%), Italy (+28%), Lithuania (+24%), Latvia (+14%) and Malta (+11%). Member states that lose comparative advantage in export of wine are: Bulgaria (-48%) (dramatic change), Romania (-38%), Cyprus (-25%), Luxemburg (-20%), Portugal (-18%), Belgium (-11%), France (-10%). The group of countries who gain comparative advantage in import include: Latvia (+86%), Luthuania (+84%), Estonia (+38%), Ireland (+28%), Denmark (+24%), Slovakia (+18%) and Sweden (+17%). Dramatic changes in comparative advantage in wine import have the following member states: Belgium (-21%), Luxemburg (-16%) and Spain with -10%.

Conclusions

The new producers enjoy many advantages in comparison with EU member states. They work in a more favorable climate and do not worry that they will lose their crops, while Europe must cope with unpredictable weather. These countries managed to impose new brand wines at a lower price than European did. It should be noted that the global market now has new trends. Consumers does not care now only on the quality of the wine, but also its price. They do not prefer to be informed about region of wine than its brand and price. Increasingly, efforts, skills become the leading factor to increase or decrease the comparative advantages in trade in wine France, Italy, Spain and Portugal now build its trading laurels and do not want to apply new marketing approaches, striving for greater market share. Delay

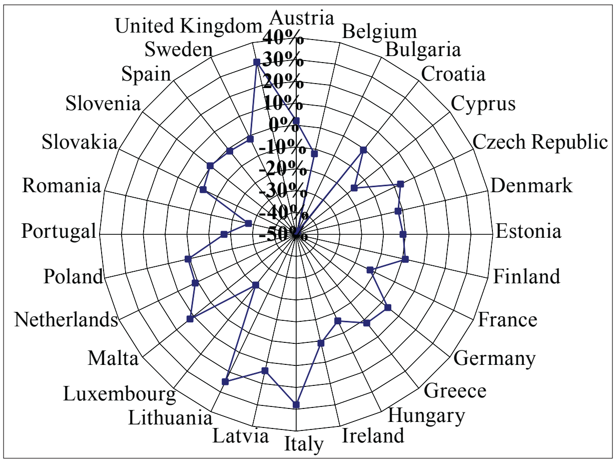

Fig. 2. Dynamic of comparative advantages of the Member States in the export of wines (2008–2011)
Source: FAOSTAT.

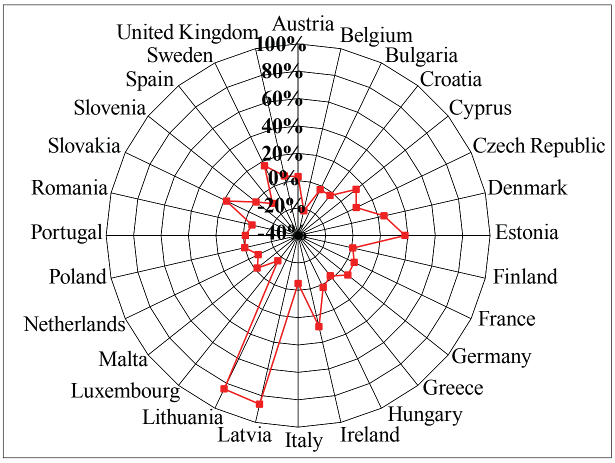

Fig. 3. Dynamic of comparative advantages of the Member States in the import of wines (2008–2011)
Source: FAOSTAT.

to EU member states is whether to restore the old cellars and vineyards, or to focus on the creation and maintenance of new varieties and brands in the experience of the Newcomers on global market. Perhaps the adequate strategy is to combine the experience. The strategy should be based on three key factors:

• *Consolidation of vineyards.* Each grower in France, Italy, Spain and Portugal argued that his produced wine from grapes has unique characteristics because it is grown in a specific microclimate characteristic of his holding, and therefore require a higher purchase price. Vine farms in the country are scattered vineyards due to inadequate agricultural policy in the sector. Whatever the causes of fragmentation of the vineyards on the continent today, most European countries are losing market position in the international market. They should consolidate their vineyards for better results in comparative advantage;

• *Improvement of varieties and the age structure of the vineyards.* Consolidation, either through cooperation or through the operation of market mechanisms will be a prerequisite for accelerating the conversion of the varieties adapted to market requirements;

• *Diversification.* The use of new wine brands or brand new wine beverages allows increasing exports, and hence comparative advantages in exports.

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(Summary)

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Key words: comparative advantages, wine, export, import, trade

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