



VINEYARD SECTOR IN ALBANIA: A CASE STUDY ANALYSIS

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Abstract

The agricultural sector in Albania has faced determinant changes after the fall of the communist regime. During the last decade, the overall agricultural production has increased significantly, thanks to the support of Ministry responsible for agriculture (MARD), through subsidies, and by private investments, mostly former emigrants returning home with an important investment portfolio and know-how. The Vineyard sector has been one of the most active, based on production sold as a fresh product (grapes) or as wine and Rakia (traditional brandy in the Balkans). The Vineyard Value Chain (VS) still struggles for organization and management according to European Union (EU) countries model and faces several risks, mostly climate and financial. The subsidies, by MARD, were provided with the primary intension to boost the production of grapes, in terms of quantity, quality and efficiency. However, the overall performance by the investors whom did benefit by the subsidy scheme was quite more elevated than the one by subsidized farms.

Keywords: Albanian agriculture, trade balance, Vineyard Value Chain, INSTAT



INTRODUCTION

Agriculture is one of the main sectors of the Albanian economy, in terms of employment (40% of the national employment - INSTAT (Albanian National Institute of Statistics) 2019) and contribution to GDP (19.6% of the national GDP - INSTAT 2019), and is considered a priority sector by the government of Albania. Despite recent growth, Albanian agriculture still faces various challenges in terms of access to finance (agricultural sector receives only 1.6% of total credit for the economy - Bank of Albania 2019), access to market and services.

Since the year 2000, production of grapes has increased significantly from about 79,000 ton in 2000 to 185,000 ton in 2018 (Albanian Ministry of Agriculture and Rural Development 2019) – subsidies schemes in late 2000's contributed to this growth. Despite the recent increase, Albanian vineyard area is small when compared to other countries in the Western Balkans such as Serbia and Macedonia. On the demand side, domestic consumers are switching to Wine consumption instead of Rakia(traditional brandy in the Balkans) consumption due to increasing revenues and changes in consumption patterns. Albania has both suitable natural resources and tradition for grape cultivation.

This article's general objective is to provide an overview of the grape and wine value chain in Albania by analysing recent developments and the current state, including opportunities, constraints and challenges.

The focus of the analysis is on the development trends of the value chain, identifying the potentials and the bottlenecks. Showing the remarkable development that the sector has experienced during the last decade, by the efforts of private entrepreneurs and state support.

CONTEXT OF THE ALBANIAN AGRICULTURE

General context

Albania's agriculture today has been shaped by three waves of agrarian reform:

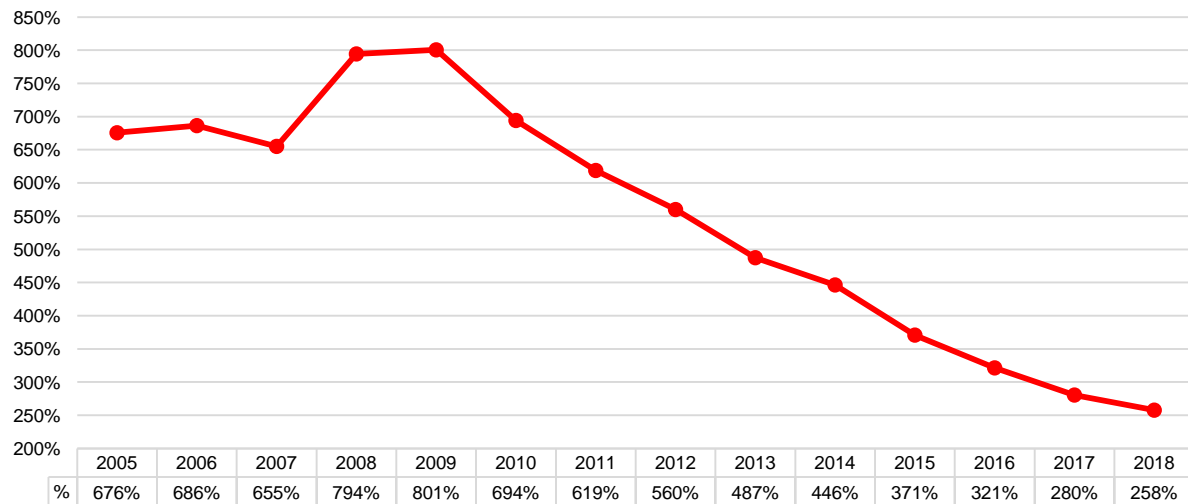
- (i) The post-World War II "land-to-the tiller" reform implemented in 1946 that eliminated the dominance of large estates and distributed land to the agricultural population. This land reform, like distributive land reforms in many countries around the world, was driven by considerations of social equity.
- (ii) The collectivization reforms in the late 1950s and the early 1960s that consolidated land in large collectives (production cooperatives) and state farms, reversing the 1946 distributive reform. The collectivization reform was justified by the Soviet-era ideology that advocated economies of scale and industrialization of agriculture.
- (iii) The post-communist "land-to-the-tiller" reform that began in 1961 as part of the general transition to market economy. As in other transition economies, the objective of this

reform was to transform the agricultural sector from the Soviet model to a market-compliant model of the advanced Western economies. However, contrary to other transition countries in Central and Eastern Europe, Albania did not reconstitute land to former owners but instead decided on equitable distribution of land to the agricultural population, as in many former republics of the former USSR (Union of Soviet Socialist Republics). The post-communist reform produced hundreds of thousands of small farms divided into several parcels: in 2012, there were 350,000 farms with 1.02 ha cropped area in 4.9 parcels per farm on average (INSTAT 2012).

Trade Balance

Agriculture's contribution to exports is very small. Agricultural exports have been increasing during the last decade and especially in the last decade, but by 2018, they had reached only 11.3% of Albania's total exports (INSTAT 2019). This is roughly one-half of agriculture's share in GDP. Albania's agricultural exports are highly undiversified. Agriculture's share in imports is much higher than its share of exports. The trade deficit, in the agriculture sector, passed from 800% in 2009 to 258% in 2018⁵, as it is shown in Figure 1.

Figure 1: Trade balance in agriculture, during 2005 – 2018



Source: INSTAT 2019

The Vineyard sector

As a typical Mediterranean country with ideal pedoclimatic conditions for the development of Vineyards, Albania is the country of origin of many cultivars that in the constant stage of natural and human selection, which are perfectly adapted to the specific cultivation ecosystems,

highlighting plenty of quality and productive value in the natural competition with many foreign cultivators.

Since 2008, the Albanian Ministry of Agriculture and Rural Development (MARD) has started implementing the Subsidy Scheme for farmers, which is mostly based on aid to increase production. Great importance is given to the support based on the planted area (in ha). Until 2018, almost 10% (Albanian Ministry of Agriculture and Rural Development 2019) of the budget for subsidies in agriculture is given to Vineyards. As a result, since the year 2000, production of grapes has increased from about 79,000 ton in 2000 to 185,000 ton in 2018 (INSTAT 2019).

METHODOLOGY

The article combines qualitative and quantitative methodology. This allows for a better understanding of the status and dynamics of the relevant product chain. The article combines analysis of secondary and primary data.

The secondary data was retrieved from MARD, INSTAT (Albanian National Institute of Statistics), UNSTAT COMTRADE (for international trade), FAOSTAT (for production and consumption) and EUROSTAT (for production and international trade), etc. In addition, a review of other relevant studies and reports was carried out. The constraint faced is that for some indicators (related to domestic production and trade) there are no available statistics, while for some others there are no recent statistics. However, regarding international trade, latest data are available and were analysed. When applicable, data from other countries or regions were collected for comparative analysis purposes. The focus of this value chain (VC) report is on wine and wine grape, but when applicable information is provided on table grape or grapes for Rakia production, too.

The primary data collection consisted of a structured survey in the agriculture sector including vineyard and wine value chain, targeting 2 different groups, and value chain actors and public extension services – implementation was carried out with the support of MARD (e.g. farmers, processors, traders, experts, etc.). Surveys were conducted with farmers and public extension specialists. The farmers were randomly selected by the list of vineyards and wine producers, in different districts of the country. In those districts, a different survey have been given to the extension service specialists.

Regarding data/information analysis, secondary and primary statistical data has been subject of standard descriptive analysis, including tables and graphs depicting statistic and historical trends.

TRENDS AND PROSPECTS OF THE IDENTIFIED VC

Production trends

Albania has an old tradition in vineyard cultivation and wine making. However, after the fall of the communist regime, the area of vineyards in Albania declined by about 75% between 1989 and 1994 as the complete collapse of the collective farming system caused a radical de-collectivization and fragmentation of Albanian agriculture. The productive performance of new vines planted in the first years of transition was characterized by several constraints such as small farm size and low efficiency in inputs use (FAO, (2014) Vineyards and Wine Value Chain Study; Skreli E., Imami D., (2019) Vineyard and wine sector study, Technical report prepared for EBRD AASF).

Since 2000, production of grapes has increased significantly – subsidies schemes in late 2000's gave a boost to increased cultivation and production. There was an attempt to promote the replacing of old double-purpose (both processing and table/fresh consumption) cultivars with specialized ones.

Table 1: Dynamics of grape production in Albania

Description	2000	2005	2010	2015	2018
Vineyard area (ha)	5,824	7,994	9,712	10,438	10,787
In production (ha)	4,613	6,637	8,630	9,891	10,179
Total production (000 ton) *	79	116	184,9	205.0	184.8

*Source: MARD (2017) *Note: this figure includes both vineyard production and pergola*

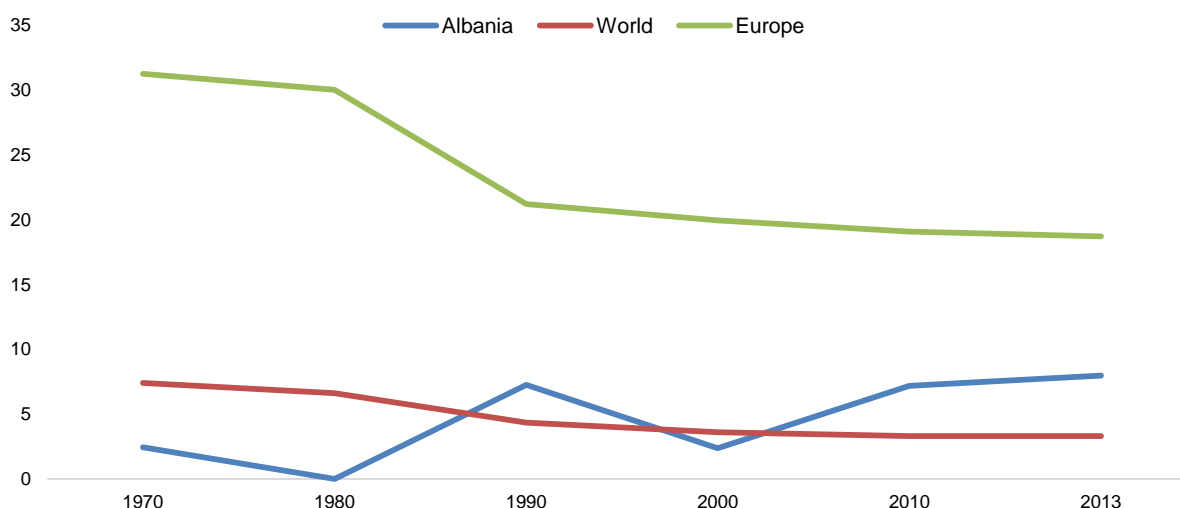
Albanian production reported levels of grapes exceed that of Serbia and Montenegro. However, it is still negligible as compared to European production – counting for less than 0.1% of European production. Wine production in Albania is relatively small compared to other countries of the region. In 2014 Albania's production of wine was only 18 million litres, which is only around 35% of Macedonian production, and only 10% of Serbia production, but production of wine at farm level mounts to ca 10 million litres, while that from agroindustry ca 2 million (FAO, (2014) Vineyards and Wine Value Chain Study) (although very likely under-reported).

Market

Albanian consumption of wine is dominated by the domestic production – imports make up for less than 10% of the domestic supply (Skreli, E., Imami, D. (2019). Vineyard and wine sector study, Technical report prepared for EBRD AASF). Consumption of wine has increased significantly since early transition. However, the average per capita supply is still far below the

European average. One reason might be the fact that in parts of Albania, local (homemade, thus not reflected in official statistics) production and consumption of Rakia has been traditionally the main alcoholic beverage (Zhllima, E., Imami, D., & Merkaj, E. (2012). Food consumer trends in post socialist countries: the case of Albania. *Economia agro-alimentare*).

Figure 2: Apparent consumption of wine in Albania and world (litter/capita)



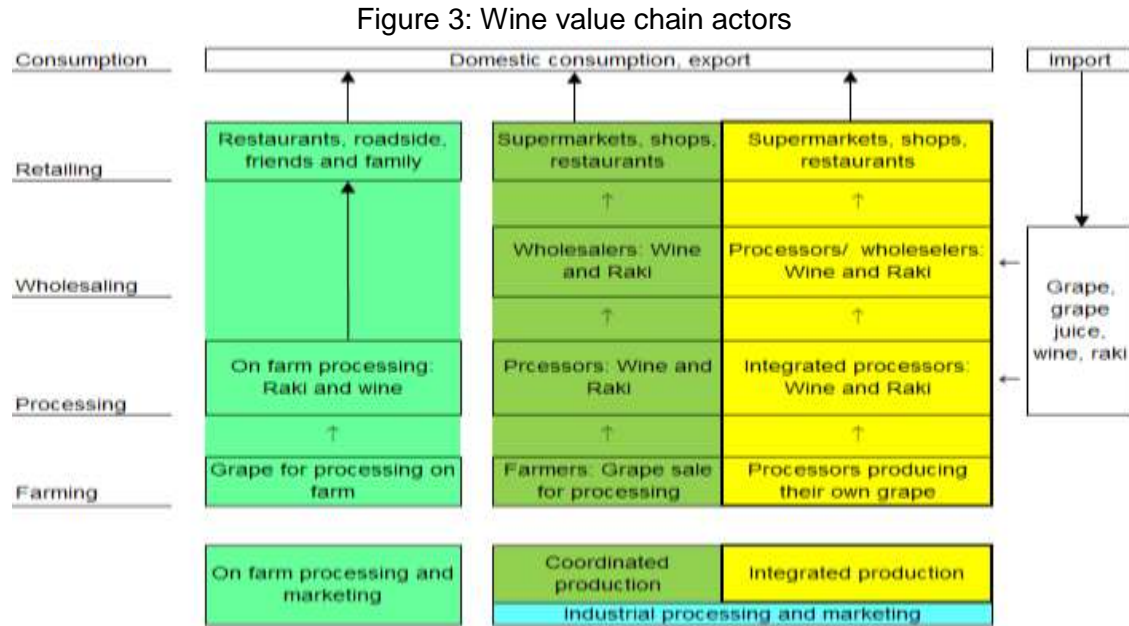
Source: FAOSTAT (2018)

It is common for Albanian consumers to buy wine and Rakia directly from producers (farmers). The origin of production (domestic versus imports) tends to be quite an important factor for most Albanian consumers, when choosing their products based on origin. Generally, there is a strong consumer preference for domestic food products (Imami, D., Skreli, E., Zhllima, E., Cela, A., & Sokoli, O. (2015). Consumer preferences for typical local products in Albania. *Economia agro-alimentare*).

In the case of wine, the preference for local wine is not as dominant compared to imported wine— EU, especially Italian wines have a strong presence in the country. Nevertheless, according to a previous consumer study (Zhllima, E., Chan-Halbrendt, C., Zhang, Q., Imami, D., Long, R., Leonetti, L., & Canavari, M. (2012). Latent class analysis of consumer preferences for wine in Tirana, Albania. *Journal of international food & agribusiness marketing*, 24(4), 321-338), there is a potential niche market for high quality Albanian local wine. The majority of respondents' state that they are willing to pay a premium for the preferred origin (Imami, D., Skreli, E., Zhllima, E., Cela, A., & Sokoli, O. (2015). Consumer preferences for typical local products in Albania. *Economia agro-alimentare*).

VALUE CHAIN STRUCTURE AND KEY ACTORS

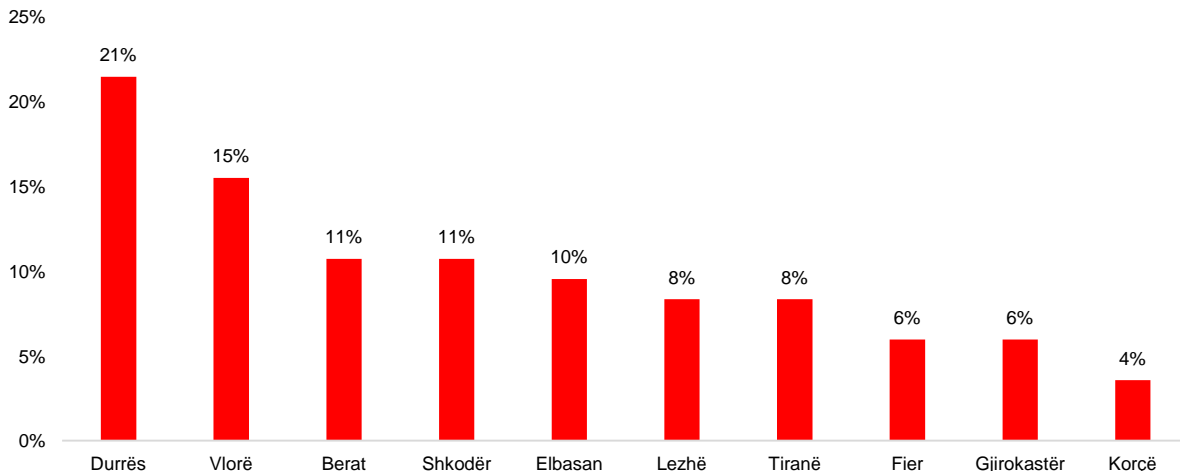
Figure 3 maps the wine value chain actors and the main channels through which grape flows from farmers to end use consumer. The three main actors in the wine value chain are grape producing farmers, wine processing farmers and processors. The latter may be categorized into two groups - integrated processors and coordinated processors.



Source: Authors' own design

Wineries: There are about 80 – 100 wineries in Albania (of course, excluding the small informal on-farm processors, described above). The highest concentration is in the region of Durrës, followed by Vlorë.

Figure 4: Distribution of alcoholic/wine processing units



Source: Authors elaboration based on MARD data

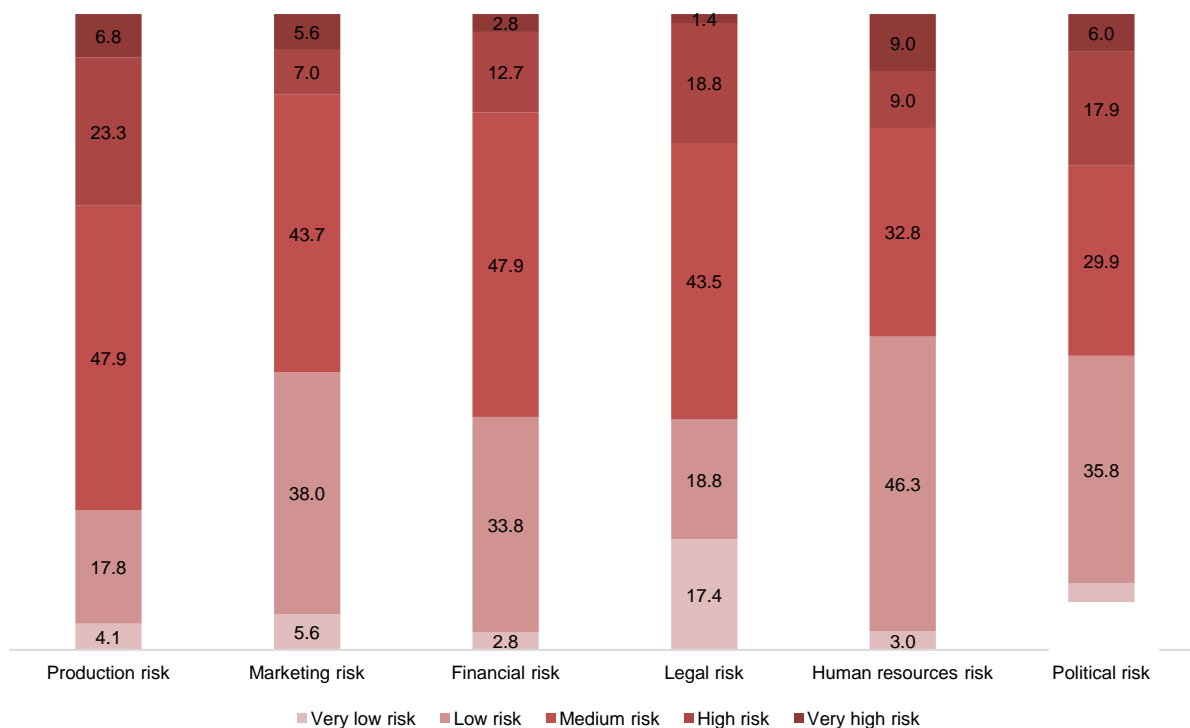
RISK ANALYSIS

Medium risk represents the modal value for four types of risk, namely production risk (47.9% of respondents), marketing and price risk (43.7% of respondents), financial risk (43.5% of respondents), and legal risk (43.3% of respondents) (Figure 5).

The respondents assess that the risk is high (and very high) for production risk (30.1%). On the other hand, the respondents assess that the risk is low (and very low) for human resources and management risk (49.3%), political risk (46.3%), and marketing and price risk (43.7%).

Quality of raw grape strongly influences the quality of wine respectively. Thereby, this value chain is highly exposed to effects of climate changes, especially impact on quality.

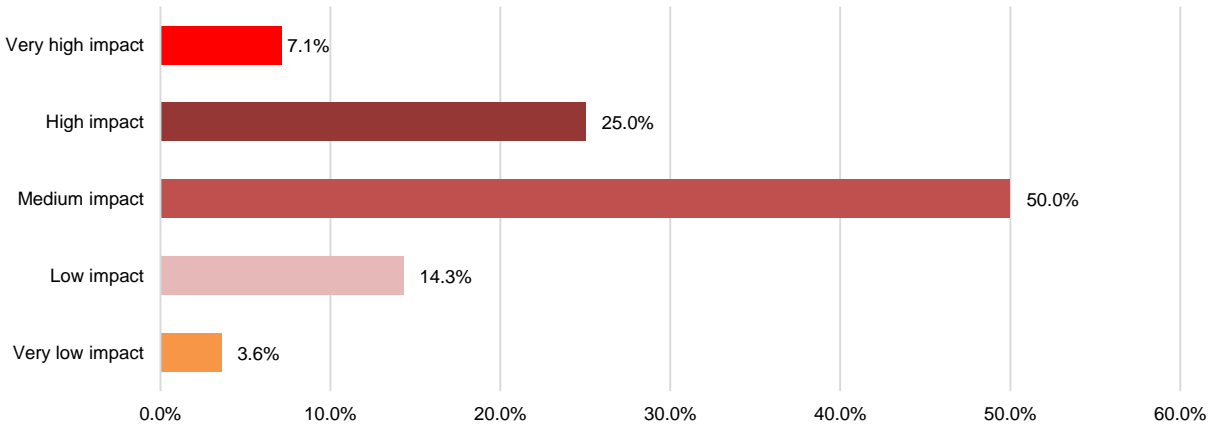
Figure 5: Risk evaluation in the vineyard sector (%)



Source: Skreli and Imami (2019)

There appears a “normal distribution” of the views on the impact of climate changes on production performance – about 1/3 perceive a high or very high impact and ½ medium impact. 57% of respondents view the impact as negative - very few (less than 10%) perceive a positive impact.

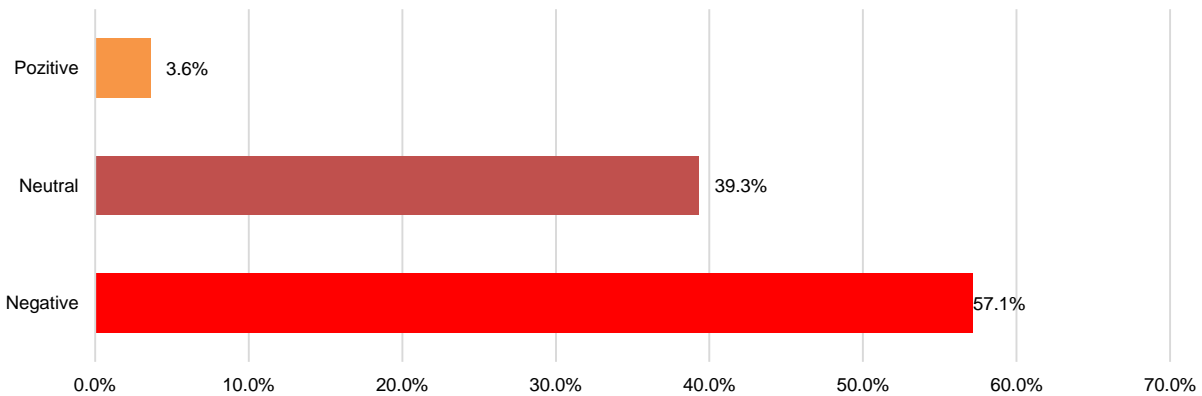
Figure 6: The perceived level of climate changes impact on vineyard sector



Source: Compiled by authors

Vineyards are adversely affected by heavy rains or hails during blossom period which can affect yields and cause diseases and reduced input efficacy.

Figure 7: The perceived nature of climate changes impact on vineyard sector



Source: Compiled by authors

Also variety plays a crucial role – old traditional varieties tend to resist better than some new imported varieties. Vineyards are usually planted in hills, where irrigation prospects are more limited. Furthermore, in the case grape used for high quality wine, irrigation is not preferred.

Investments

Establishment of new vineyard plantation has represented an important investment during recent years – area planted with vineyard has doubled since 2000 (as shown in Table 1). Incentives to new plantations have also been provided by Albanian government support schemes (e.g. subsidies for investment in new vineyards, which cover a large part of the initial plantation investment cost).

Significant investments have also been made in the wine processing industry. While there have been investments in production of ordinary table wine, often by informal operators, it is important to highlight that there has been high technology investment by former emigrants to produce rather high-quality wine. The emigrants have brought both, sources of funding and, most importantly, the know-how, particularly, in terms of wine technology. Many investor emigrants still maintain professional relationships with professionals in other European Union (EU) country, mainly Italy.

Quite often, one may observe investment in vineyard creation and wine processing technology. While this is quite common, for the high-quality wine producers this is almost a rule given that farmers quite often fail to meet the grape standards of wine industry.

SUBSIDIES SCHEMES SUPPORT IN THE VINEYARD SECTOR

There are two major support schemes for the Albanian Agriculture, the National Support Scheme (completely financed by the state budget), and EU IPARD II Programme (the instrument for pre-accession assistance for rural development, 75% EU funds and 25% state budget).

The IPARD II Programme has been launched by MARD only from December of 2018, and first investment contracts have been signed in the summer and in beginning of autumn 2019. Analysing the impact of this support, currently is impossible and for this reason the analysis will be concentrated to the National Support Scheme.

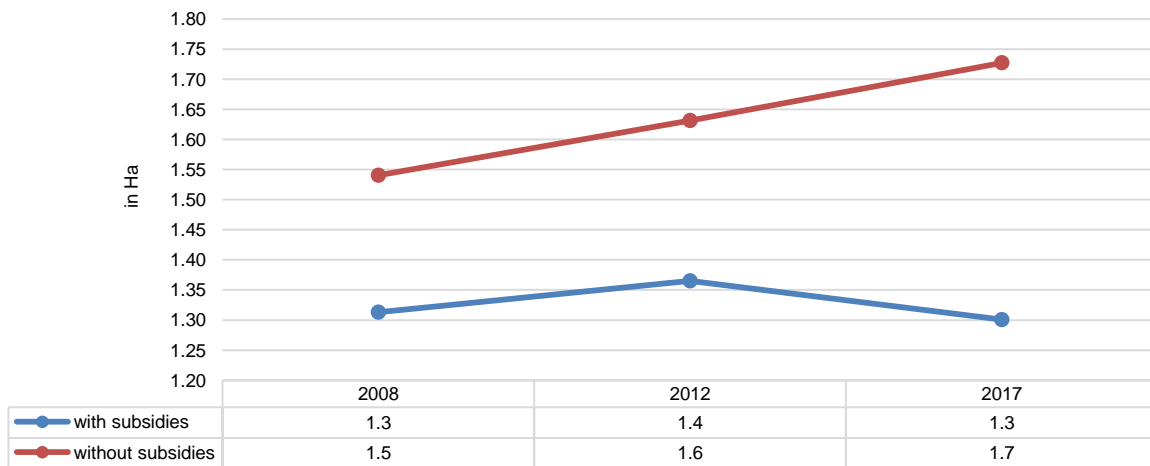
Since 2008, MARD has supported the Agriculture sector in Albania, and especially the vineyard sector, with subsidies by the National Support Scheme, aiming mostly at increasing production, but the impact of this effort was not very satisfying. A comparison was made between farms which have received subsidies since 2008 and those farms which received none. Farmers (same group of farmers for the same questions) were interviewed during three time periods (2008, 2012 and 2017).

Increasing production capabilities

Data collected about farm size and the number shows that farms which did not receive subsidies increased their production capabilities compared to farms that received nothing.

Although land market is a significant issue in Albania, to increase farm size and consolidating agricultural land, farms that did not receive subsidies, were more active and managed to slightly increase their vineyard farm size through change in cultivation culture and by buying or renting other agricultural land.

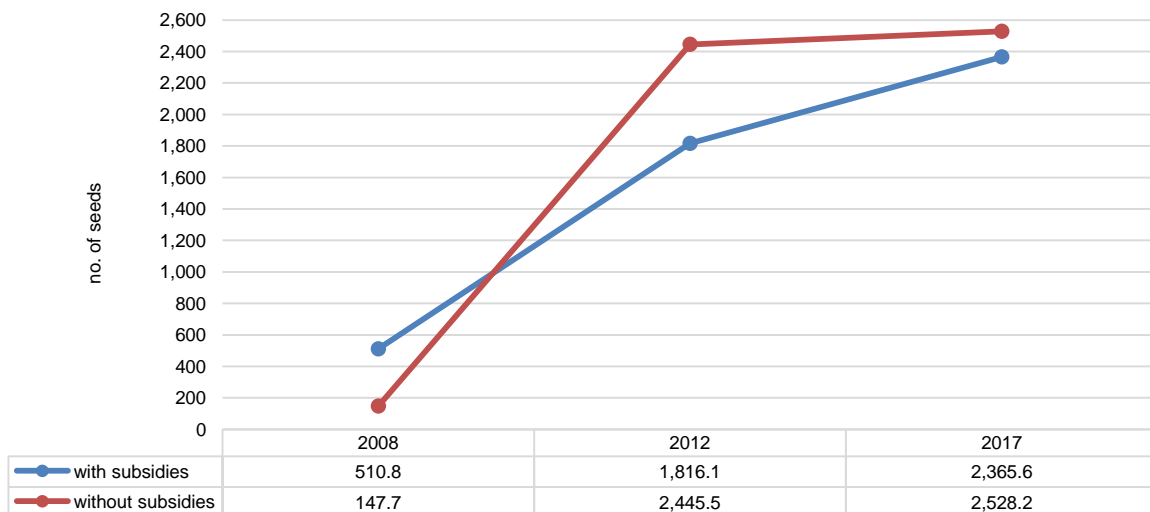
Figure 8: Average farm size change per farm (in Ha)



Source: Compiled by authors

Also, Figure 7 shows that farms that did not receive subsidies increased significantly the number of their seeds. Showing that the absence of subsidies was not a barrier for them to implement new investments in production.

Figure 9: Average number of seeds planted per farm



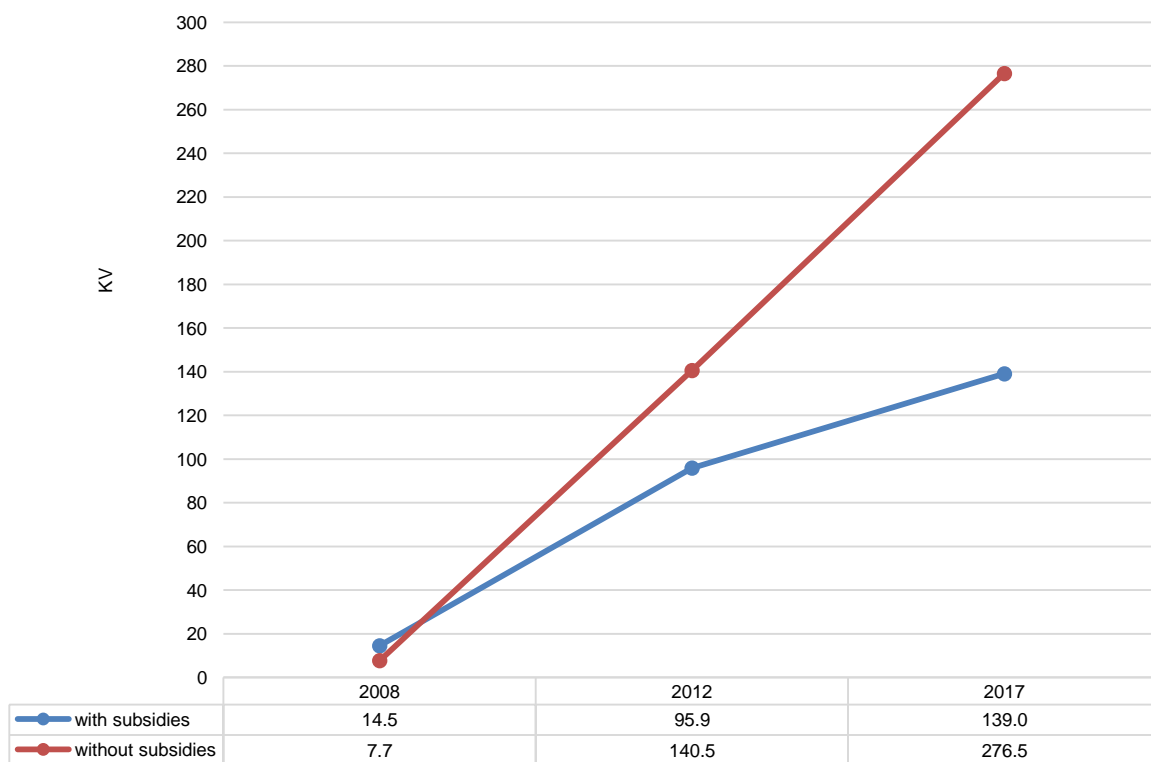
Source: Compiled by authors

Figure 7, shows also that the vineyard sector has been very attractive for Albanian farmers despite of support, through subsidies, by MARD.

Performance in production

Not supported farms managed to benefit from a greater performance by their investments. In the period between years 2008-2017 they increased the volume of production by 35 times, meanwhile the subsidized farms increased their production by only 9 times.

Figure 10: Average production per farm (in KV)



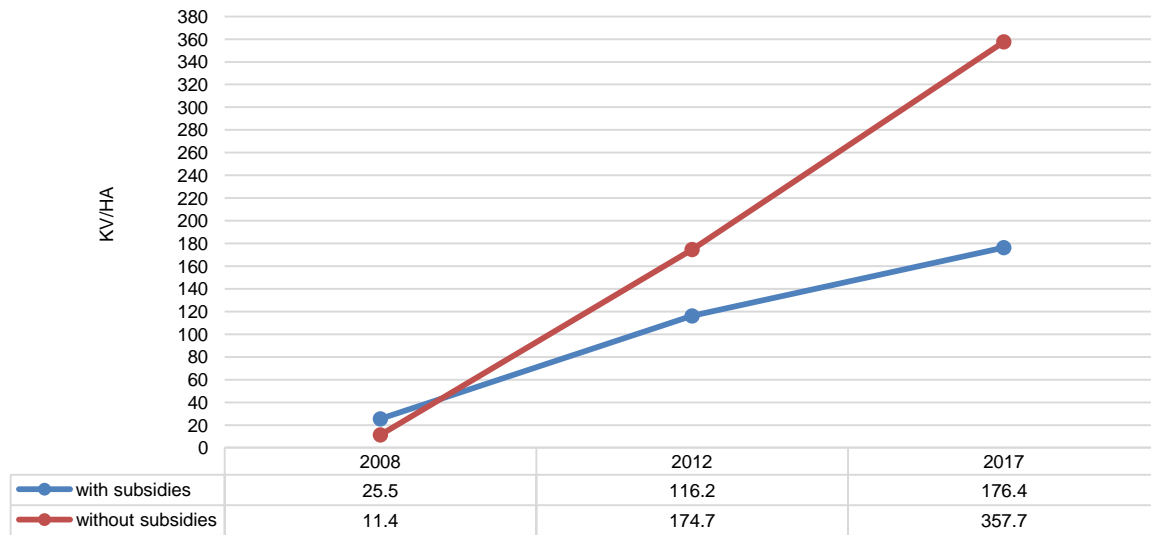
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Data at Figure 8 shows that subsidies had no important impact on increasing vineyards production in Albania.

The reason for the huge difference in production levels improvement, between 2 groups of farms, is shown at Figure 9.

Yields per hectare increased significantly in both groups of farms, evidencing the importance in investments made in the last decade, but also evidence the greater efficiency shown by the farms that did not receive subsidies.

Figure 11: Average production yields per farm (in KV/HA)

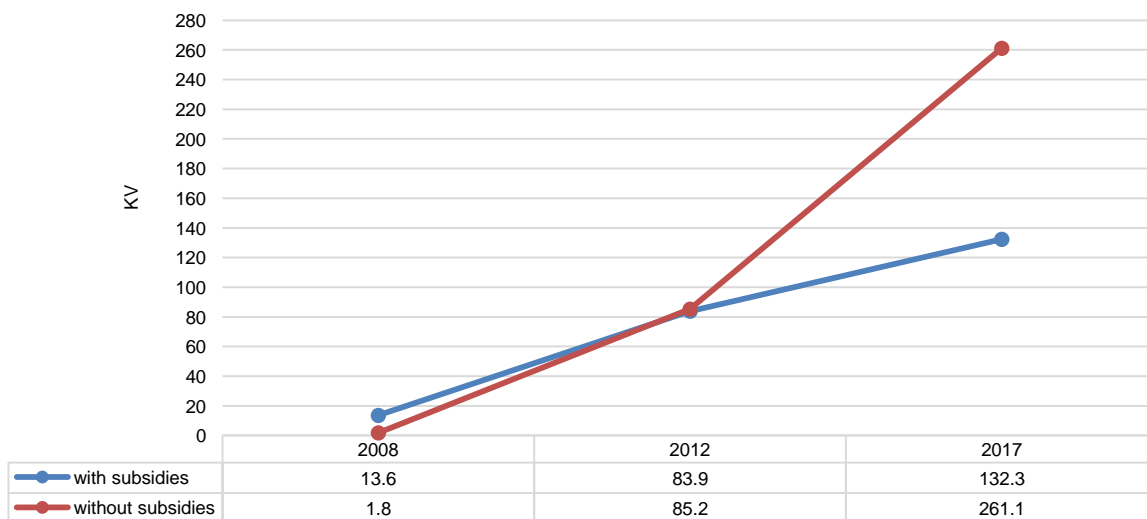


Source: Compiled by authors

Impact on sales

The impact on sales, between the two groups of farms is significantly important, although, both groups faced an increase in their volume of soled grapes, the subsidized farms improved it by almost 10 time and the not supported farms improved it by more than 140 times (Figure 10). Showing that farms that invested in vineyards without subsidies were more market oriented than their similar that cover the investments through public support.

Figure 12: Average volume sold on farms (in KV)



1. Source: Compiled by authors

Analysing the subsidies impact

The vineyard sector has known an impressive growth during the last decade, in terms of production and sales. MARD supported heavily the vineyard sector, through subsidies, by concentrating almost 10% (MARD 2019) of its budget to this cultivating culture. But, as shows in previous sections (8.1, 8.2 and 8.3) investments in vineyards were not driven only by the state subsidies but mostly through private capital investments. As shown, the performance of the investments by farms that did not benefit from subsidies was greater in terms of:

- (i) production capabilities,
- (ii) production yields,
- (iii) sales volume.

The greater performance by the not supported farms can be explained by the increasing demand (domestic and overseas) for grapes and processing products such as wine and Rakia.

CONCLUSIONS

Between the years 2007 production of grapes in Albania has more than doubled, due to increased demand for grape and wine and also due to support from the government. Despite the recent trends, the wine production in Albania is still low compared to other countries in the region. The production faces a number of risks and is exposed to climate changes.

The key issue for the development of the value chain has been the lack of connection between growers and processors. This business orientation led some professional wineries to invest in their own vineyards. However, the increase of production and investments in larger vineyards is stimulating the conditions for applying contract farming. There have been observed cases of quality wine producers engaging in contracting relations with farmers.

MARD has been support the sector growth, by providing subsidies, regularly, but since 2018 the support may be combined with the IPARD II Programme, and the Banks loan support. A large part of wine producers uses basic wine producing technology and are short sighted. Wine sector is very susceptible to production risk and marketing risk which also lead to farmers' financial stress. Available knowledge/skills on financial and technology issues and related service available may also be considered as a (human resource and management) risk mitigation mechanism.

Time has come for the government, on the other hand, to design a market stability policy which may include the resolution of land titles, agricultural insurance and farmers' compensation in case of natural disasters, modernizing extension service to address farmers both financial

and technology needs in addition to designing a long terms more consistent public support by updating the regionalization map and using the trade policy in favour of market stabilization. Wine sector is considered a priority sector for Albanian government - the sector has been included in all public financial support schemes, including recent National Support Scheme.

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