



Impact of the Common Agricultural Policy on the development of viticulture in Bulgaria

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Abstract: Common Agricultural Policy /CAP/ of the European Union consists rules and mechanisms that regulate the production, marketing of agricultural products in the European Union and development of rural areas. Nowadays CAP is oriented to sustainable farming development, environmental benefits and landscape, quality and food safety.

The effects on vine from the implementation of the CAP in Bulgaria can be assessed as positive about 10% as the CAP for Arable Area Payments Scheme and market intervention has proved as ineffective for Bulgarian vine. It is not yet satisfactory the situation with the spending of funds from National Program for Support in the vine sector. Absorption of funds in the first of the measures “Restructuring and Conversion” is about 53%. The second measure “Crop Insurance” is used with great interest and has a high absorption of funds. There is a problem with the spending of funds in the third measure “Promotion in third countries”. For grape growers a new export opportunities mean that they should not abandon but to maintain and to improve their vineyards or invest in the creation of new vineyards. Unfortunately funds under this measure have not yet been implemented.

The future perspectives for development of vine and wine sector in Bulgaria depend mainly from the implementation of a more active policy to increase the trade with countries interested in our wines, such as Sweden, Finland, Denmark, Russia and some Asian countries. This will expand the market opportunities of the sector.

Key Words: Impact, Common Agricultural Policy, development, perspectives, viticulture, Bulgaria

Introduction

The object, which is placed in this paper is to determine the effect on vine from the implementation of the Common Agricultural Policy (CAP) in Bulgaria, to expose the reasons for the present state in which the sector is, to outline some guidelines for its future development, to make an assessment resulting from the primary objective of producers who realize the grape production of domestic and foreign markets, which is expressed in their desire to increase the income and profits from sales of grapes.

In wine grape production, taking account of the purpose of production and the need to stand the increasing competition in internal and foreign markets by a sharp increase in the production of competitive quality wines it is necessary to achieve sufficient volume and high quality of wine grapes, relatively low production costs and a suitable matching the market demand structure of varieties.

To achieve the high image of Bulgarian wines, to ensure survival, stabilize and improve of the positions of the grape growers it is necessary to improve the state of viticulture in the shortest time possible. This can be achieved by measures to support of Common Agricultural Policy of the European Union.

Agricultural Policy of the European Union

Common Agricultural Policy (CAP), created in 1962 when the countries founding the EU reimbursed their economies from a long period of food crisis is a group of rules and mechanisms that regulate the production, marketing and processing of agricultural products in the European Union, paying increased attention to rural development. CAP is one of the most important EU policies. This is due to its high share in the EU budget - almost 50%, and also the large number of people and vast territory directly affected by it. The importance of the CAP is determined by the fact that it is directly related to the Common Market and European Monetary Union, which are the two key elements of achieving European integration. Today, CAP is the subject of reforms for its market orientation and strengthening the implementation of sustainable farming methods, environmental benefits and landscape and to improve quality and food safety. Reforms transform CAP and lower level of support provided to European farmers. Grants for produced quantity of agricultural products are replaced almost entirely by direct payments to farmers, guaranteeing them a decent income if they fulfill certain requirements. Support for the production shifts as support for producers.

The main principles of the CAP are formulated as follows:

- free trade in the Community based on common prices;
- preferences for European production of the Community markets;
- total financial responsibility;

The main objectives of the CAP are:

- ensure an acceptable standard of living for farmers;
- providing quality food to consumers at a reasonable prices;
- preservation of European heritage in rural areas;
- environment protection.

The main instruments of the CAP are:

- direct payments and market support to farmers (first pillar of CAP);
- policy for rural areas development (second pillar of CAP).

Direct payments – as a result of CAP reform in 2003 is introduced a new system of direct payment, called the single payment that does not bind the aid with the type of production. The aim is to strengthen the market orientation of agriculture, in which investment

decisions should be guided not by differences in financial support for various sectors of agriculture, but by market demand and customer requirements.

Market support - market support measures include intervention and private storage, system of import and export licenses, export grants, quality policy (protected designation of origin, protected geographical indications and foods with a traditional specific character), support for increasing consumption of certain products such as milk, promotional programs, sectoral regimes, etc.

The measures under the first pillar is financed by the European Agricultural Fund for Guarantee of Agriculture. Member States may supplement the funds for direct payment with funds from their national budgets as a national payments.

Policy for Rural Development - Policy for Rural Development is focused on increasing the competitiveness of agriculture and forestry sector, improving the environment and landscape state, improving the quality of life in rural areas and encouraging diversification of their economy.

The Policy for Rural Development is financed by the European Agricultural Fund for Rural Development supplemented by the budgets of Member States as national co-financing.

In 2008 held a review of the CAP ("Health check"), as a result of which measures had taken which aimed the simplification and rationalization of the policy, such as:

- generation of even greater share of payments for income support for farmers;
- assistance to sectors with special problems;
- introduction of additional "safety net", including the prevention of crisis situations such as price variation, natural disasters, the effects of climate change;
- technical and administrative simplification of the implementation of the CAP

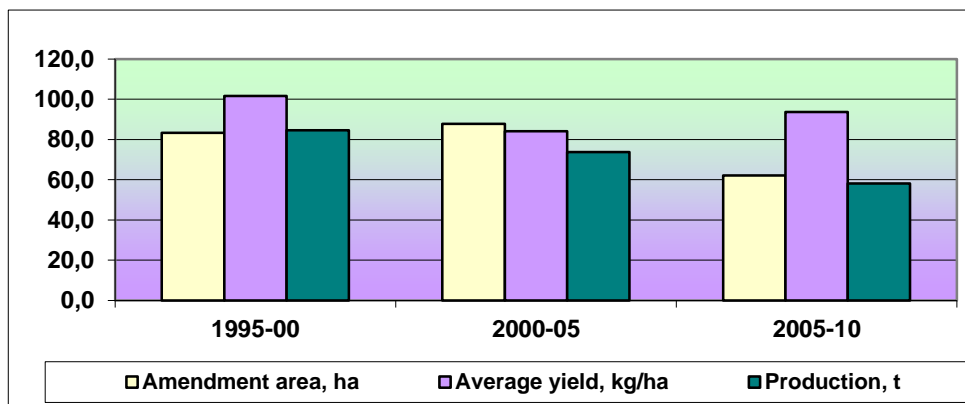
Since the implementation of the CAP in Bulgaria from 2007 to the present time the real positive impact on the Bulgarian agriculture have direct payments, particularly for wheat. Market measures affect to the farmers in a much lesser degree. As a result of direct payments begin to cultivate again areas that are not used in the last 10-15 years. Growing the interest of farmers to the land transactions and its use in accordance with legal procedures schedules. There is a use of bigger sized parcels (over 1 ha). The farm structure is changing - there is a consolidation and reduction of small semi-subsistence farms. There is some restructuring of dairy cattle breeding and the gradual consolidation of farms with milk cows. The number of farms that meet the standards for raw milk is increasing. The application of agri-environment measure increasing the number of endangered local breeds animals. The number of illegal property used decreases. Improves the status of permanent grassland and interest in organic growing. Market structures are dominated by dealers and resellers that dictate purchase prices and create imbalances in the marketing chain. Only one of the objectives of the Programme for Rural Development is achieved partially till now - improving the competitiveness of Bulgarian agriculture and mainly in connection with the modernization of machinery and equipment. No significant progress on other measures - income growth in agriculture, increasing knowledge and skills of farmers, reduce and stop the migration of rural population.

Development of viticulture for the period 1990 - 2010.

Viticulture in Bulgaria is a traditional sector in agriculture of the country and from 60 to 80 years of last century had the largest share of the production and export of agriculture and food industry. During these years the total area of vineyards is more than 2 million ha. At that time, Bulgaria is in the top ten of Europe's area of vineyards and grape exports. At the end of the last century has seen a significant reduction in harvested area under vines and a decline in the production of grapes. The main reason for this serious decline in vineyards in Bulgaria can be found in the transition from centrally planned to market economy. In these years large areas of vines were abandoned, there is no investment to develop new vineyards.

Years of transition from centrally planned to market economy put the sector and the whole agriculture facing major difficulties and trials. Over the past two decades in the deep and long crisis and reforms in agriculture, Bulgarian viticulture suffered heavy losses, which are expressed in significantly reducing the total area of vineyards, a strong deterioration in agro-technical and sanitary condition of the plantation, deterioration of age and structure of varieties(fig.1).

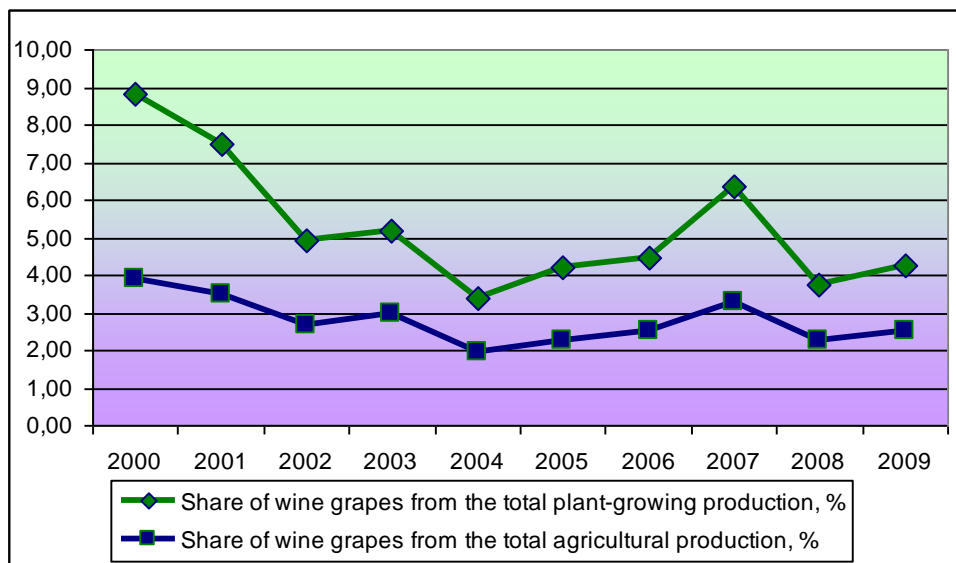
Figure 1. Amendment area, average yield and production of vineyards in Bulgaria, %



Source: MAF, "Agrostatistics"

There is a decrease in the share of wine grapes from the total plant-growing production under 4% in 2004 (Fig. 2). From 2004 to 2007, this share increased slightly but after 2007 decreased again and in 2010 is 4.27%. This downward trend is observed for the share of wine grapes from the total agricultural production as well.

Fig. 2. Share of wine grapes in the agricultural sector and sub-sector plant growing, %



Source: Eurostat

The reasons for the reduction of amendment areas, average yields and production of grapes in the country are:

- First is the increasing competition on the domestic market and partial displacement of the Bulgarian wines from the more competitive foreign wines preferred by Bulgarian consumers and imported from Italy, Spain, Argentina. In terms of financial crisis sharply decreased sales of Bulgarian wines even in countries where they have traditionally sold (Poland and Russia). Bulgaria has lost the already won promising western markets (UK and Germany)
- Second is the deterioration of the age and structure of varieties of vines. The largest group is aged 21-30, the next is the group aged over 31 and at least vines are aged 10 years.
- Thirdly is the fragmentation of the vineyards with a large number of owners, leading to uneven and uncoordinated achievement of plant events
- Fourth is the low purchase price of grapes. In vineyards the vines are mostly with a low purchase price. Varieties of the vineyard established in most efficiency and competitiveness of farms. Vineyards cultivated varieties with high market price, such as Mavrud, Muscat Ottonel, Cabernet Sauvignon etc. have a high return on investments. These varieties are with high quality and prominent personality.
- Fifth is low quality and not meeting the requested seed variety, which does not comply with soil and climatic conditions, supply and demand in a given area. Sixth reason is the use of pesticides with low quality. With the development and implementation of the Programme for Rural Development 2007-2013 and National Agro-Ecological

Programme 2007-2013 there are special arrangements for the implementation of production methods that limit the use of plant protection products to maintain or improve environmental quality. These measures are related to the development of domestic and foreign market for organic products and relate to increasing the range and quantity of such products available in the market, developing distribution channels and the creation of producer groups, establishment of an effective system for inspection and certification, financial assistance to producers, national information campaigns for promotion among the population, support to the Bulgarian producers of organic seed and planting material in Bulgaria.

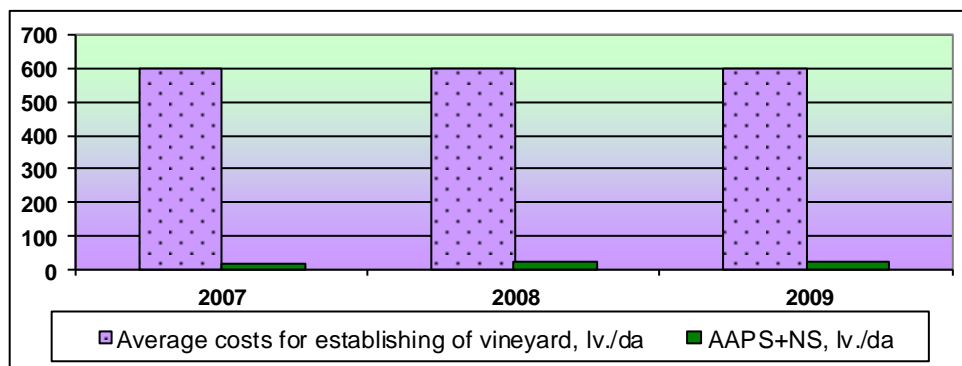
- Seventh reason is the lack of cooperation between wine factories and grape producers, especially in buying the grape production and making the purchase price of grapes. Usually the interests of grape producers who aim to produce more grapes to sell it in order to get income strongly clashed with the interests of wine factories that had unsold wine. As a result, the purchase price of grape fell to 0.25 to 0.30 BGL / kg and owners of vineyards were forced to sell their production almost without profit.
- Eighth reason is the low financial capacity of grape producers to purchase equipment and build facilities for drip irrigation. Grape producers can receive financial support under “Restructuring and conversion of vineyards” from the National Programme for Development of Vine Sector for the period 2009-2014 for construction of facilities for drip irrigation.
- Ninth reason is the low technical level of cultivation of vineyards, a shortage of skilled workers and professionals.
- Ten reasons is that the process of intensification of production is not done in order to ensure sustainable development of the vine sector.

Overcoming the reasons is crucial for the future development of viticulture in Bulgaria. This can be achieved by creating conditions for the consolidation of vineyards for easier cultivation, mechanization, application of plant protection activities, training of workers in the sector, implementation of innovations and scientific advances in viticulture. In the interest of the state is to encourage, stimulate, facilitate, to review the implementation of the high requirements on businesses in this sector in order to reach and to maintain a global technology standards, practices and norms. Achieving high image of Bulgarian vine in the world will create favorable conditions for recovery of the lost front positions among other vine countries. In this way the vine sector in Bulgaria will be able to confront the increasingly growing competition on the global and European market.

Effects of implementation of the CAP in viticulture

Direct payments per unit area have not the real positive impact in viticulture. As shown in Figure 3, at current costs of vineyards around 600 leva/ha, it is evident that the funds awarded by the Arable Area Payments Scheme (AAPS) and National Supplements (NS) to the direct payments are insufficient and can not alleviate the economic situation of producers in an sector requiring large financial resources. Support by AAPS and NS relative to the average cost for establishing of vineyard, is 2.42% for 2007, 3.40 percent for 2008 and 3.84 percent for 2009 compared to support in wheat, which is 25% for 2007 and will grow to 85-90% by 2013 (Fig. 3).

Fig. 3. Share of support to the AAPS and NS to the average cost for establishing of vineyard, %



Source: Eurostat

Effects on vine from the implementation of the CAP in Bulgaria from 2007 to present time can be assessed as positive about 10% as the CAP for AAPS and market intervention has proved as ineffective for Bulgarian vine. Amendment areas, average yields and production of grapes in the country and wine export declined from 2007 to present time. To be competitive Bulgarian grapes and wines should have appropriate balance between support schemes and balancing the amount of aids across countries and regions.

It is not yet satisfactory the situation with the spending of funds from National Program for Support in the wine sector. Absorption of funds in the first of the measures to which the owners of vineyards have shown great interest towards the end of 2010 is about 53%. Banks do not want to grant loans to grape growers and the latter do not have the necessary own funds to be accepted for aids under the program. In the application form of the first measure "Restructuring and Conversion" requires the own funds up to 50% from the value of the investment. There is a problem with the spending of funds in the third measure "Promotion in third countries". Its use would contribute to create a new prospects for the sector. For grape growers a new export opportunities mean that they should not abandon but to maintain and to improve their vineyards or invest in the creation of new vineyards. Unfortunately funds under this measure have not yet been implemented.

Until now there are still no benefits for grape growers who have a small area of vines and want to participate for eradication of vineyards, in which the EU provides funds if the condition land to be maintained in good agricultural and environmental state is met. According to experts in the sector the allocated funds under this measure per unit area is too small to cover necessary expenses in this business for growers. Due to the incorrect organization, administrative and other obstacles this measure was not implemented properly, has no effect on the grape growers and there is minimal chance of being used as terms of its application expire till the end of 2011.

As a negative moment in the implementation of the SAPARD program recognizes the difficult access to participate in it in a small grape producers mostly because of requirement 50% of funds from the proposed project to be individual. Due to the high levels of financial

security, problems in demand for credits and problems in the approval of the projects great part of producers could not take advantage of funds under this program.

Several years as a result of global crisis and because of increased imports in Bulgaria after the opening of internal market for the EU production, the purchase of grape is refused or is offered in a lower price. For the owners of wine factories the offered grape is unnecessary because they have accumulated stocks of unsold wine. Economic logic dictates grape growers to seek other way out - they sell their grapes to the retail markets for better prices, offered it for home winemaking. Subsequently, this wine naturally seeks implementation of internal market – for sale in hotels, restaurants and others. Then the owners of wine factories have suffered from unfair competition, undercutting the prices of industrial wine, damaging the image of Bulgarian wine. The main reason for these negative tendencies is improper conduct of public policy in the sector, such as the elimination of grape growers to participate in the privatization of wine factories. Lack of closer integration between grape growers and winemakers in making a number of important laws for the sector also is not good for the future vine development.

In 2010 purchasing campaign there is observed another phenomenon – the grape growers have not a desire to sell their grape production to the owners of wine factories. Too low prices for grapes is only one reason, the other is that at sale of their income is deducted advance income tax. When the owners of wine factories make payments for grape the set off the tax from amounts paid to growers and imported into the state treasury. This, combined with low purchase prices further discourages growers to sell their grape crops to the wine factories and they prefer to sell their production to retail markets, for homemade wine or otherwise.

Although the investments made to improve material base, technical and technological level of wine factories there has not yet achieved the intended effect - a sharp increase in the quantity and share of quality wines. In recent years even at collapsed total volume of wine production the share of high quality wines has not increased. It is obvious that the crisis and damages from it for vine sector are very significant /vineyard areas are reduced almost in half/ and improvements made in recent years are not sufficient to achieve high goals. Now the main component of the state policy in the vine sector is to stimulate and support the improvement of varieties, cultivation and management of vineyards.

Another important thing in the development of the sector is the effectiveness of the investments. I mean the creation of multiple, new small wineries which process still continue. On one hand this is good because another model of organization of production is established. The close link between two production units is obtained - linking wine with place of origin of grape. The final product becomes more prominent as the product with individual unique qualities, reflecting the specific climate of an area and soil where the grape is grown. Such production is more expensive but can be sold for a higher price. On the other hand the passion to create new capacities in a small market makes difficult the placement and retention of new entrants in a market with limited absorption. Unnecessary capacity appears which leads to the dissipation of capital resources and benefits.

In the old wineries capacities are also extended. In the current market situation the increased capacities are loaded less, thus not only affects negatively to the costs and competitiveness, but in the country it means a loss of resources. Thus, trusting of a market forces can continue to lose millions. When they are moved in other directions it can be

expected better, even multiplying effects. For example, if some of these funds are invested in the development of tourism infrastructure, it would provide opportunities for expanded sales of Bulgarian grape and wine in the country. With a view to attaining the goals and current perspectives in vine development it should be focused primarily on investments to improve existing facilities and equipment, not to invest in expansion.

In vine sector is observed as well several positive effects from the use of funds for support such as:

- reduction of areas with abandoned and not cultivated vineyards in recent years;
- increase in areas with dessert vines which shows greater interest to dessert grape;
- greater investment interest and investments for creation of vines, greater interest of foreign investors to purchase land and create vineyards, investment funds were established specifically to buy and consolidate land into larger areas with an interest to buy and restore even the old vines;
- creating of own vineyards from wine factories, reaching a share of about 20% of the total area in viticulture which changes the previous dependence of the factories from external suppliers and decided the existing before problem for lack of quality grapes;
- creating of many small high technology wineries, greater interest in projects for the creation of such wineries producing small series of high quality wines;
- began and deepen the integration process, which according to the local available resources, capacities, capital and with the use of program funds realizes to a downward and upward line /in the first case, the existing wineries actively invest and expand their vineyards, in the second case – invest capitals for establishing a vineyard and building a winery together/; there is another kind of integration process, another possible way of integration, which occurs naturally, his election at this stage would help small vineyards to solve the main problem for them - better realization of their grapes production and this is a process of cooperation or association of vineyard owners and the subsequent creation of their own wine factory; under the existing features of the economic, social and legal situation related to the ownership of land in Bulgaria, this process is very complicated and difficult and is almost freeze;
- creating of the first regional clusters /Plovdiv region/ for project development and focus on activities linked to resource provision of the objectives of these projects in which the development of wine business is a main economic activity in the region;
- creating the public-private partnerships in which participation of the local government institutions, business and scientific institutes is very significant;
- improving the management, technological care, qualitative structural changes give a result of increased average yields of wine and dessert grapes;

Strengthening of the economic motivation and the emergence of positive results in the development of the sector is a logical consequence of the applied state policy and measures used to support and promote the sector and EU grants. It is also a response to positive economic outlook and expectations of businesses in relation to EU accession. Below are presented several specific financial instruments, which contributed the development in a positive direction.

- Grants from fund “Agriculture” of Ministry of Agriculture and Food for the creation and renovation of vines;
- Projects financing for grape growers and wine producers in the field of viticulture in pre-accession program SAPARD. For seven years of operation of this program there are grant funds for about 32.2 thousand acres for new and improved vineyards - total in both directions for 70 thousand acres vineyards. Nearly 15% of program funds have been used by wine producers and nearly 25% of the companies in vine sector have been supported;
- Participation of registered vineyards, meeting the requirements for minimum area to receive grants under the Arable Area Payments Scheme;
- Adoption of a National Program for Support in vine and wine sector - financial resources for 166 million euro have been granted to Bulgaria. The absorption of funds in this national package starts in three types of measures selected by the Bulgarian producers in the sector;
 - “Restructuring and Conversion” of vineyard potential /70% of the financial package/ which still absorbed slowly;
 - “Crop Insurance” /10% of the resources/ which is used with great interest and has a high absorption of funds;
 - “Promotion and Popularization” of Bulgarian wines in third countries markets /20% of the financial package/ which is not yet absorbed;

From the EC report on the implementation of national programs for wine and vine sector assistance in the 2008/2009 the implementation of annual program budget for the first year of operation for EU is 94%. Bulgaria achieved 53% absorption, this is the lowest level, compared to Hungary and Romania which reached 100% absorption. The first measure for “Restructuring and Conversion” of vineyard potential in the EU are generally spent 326 million euros, Bulgaria has absorbed 7.7 million or 2.36% of them compared to Hungary which is absorbed twice as much, and Romania - 6 times more money. As a measure of “Crop Insurance” Bulgarian growers have shown great interest and budget of this measure is utilized about 90%. The third measure “Promotion and Popularization” of Bulgarian wines in third countries markets any money are not yet absorbed.

- Authorized by the European Commission national payments under the National Supplements to the direct payments for dessert grape which is a real motive to continue the restoration of this production;
- Opportunities to apply for grants for production of organic grapes;
- Strong motive to continue operating in the sector arises from the opportunity provided by the state to farmers for direct sales of their products. Sales in the retail markets both wines and dessert grapes has significantly better income for producers. This measure, combined with restrictions for import of such products, ensure greater security for obtaining higher profits with which to cover production costs;
- For producers and processors of wine grapes is appropriate the Program for Rural Areas Development as well. Individual measures of this program make possible to use aids to build new wineries and modernization of existing ones. In areas where regular remain surpluses of unsold grapes could build plants to produce grape juice or to use free

capacity of preserving factories. Moreover that a similar product is no longer available in local market and there are no imports too. Demand for grape juice will emerge because this is an extremely useful and healthy product. Now at the production of juices in Bulgaria is widely used foreign materials /mainly concentrates/ but in fact the country has its own grapes material to produce grape juice.

Conclusion

A future perspective for development of grape vine is limited by the downward trend in consumption of wine, by visual overload in the markets for wine and increasingly growing competition. Therefore, future prospects depend mainly from the implementation of a more active policy to increase the trade with countries interested in our wines, such as Sweden, Finland, Denmark and especially Russia. This will expand the market opportunities and help to give back our positions where they were lost. These countries have indicated their willingness to buy our wines, but their attention is directed particularly to better ones. In recent years it is not possible to utilize the whole contracted with the European Commission vineyard potential and because lack of funds for investments it is better to improve the existing vineyard. Because of possible enlargement of the market the harvested areas could be expanded about 10-20%. For this purpose, it can recover a part of abandoned vineyards, can increase the grape production by better management of existing vineyards. Thus the average yields will increase. Another reserve is to increase the share of grapes bought from grape growers for processing. In some balanced economic relations between grape growers and winemakers and when grape growers stopped producing wine at home then the industrially produced wine will increase sufficiently.

The main direction for future action in vine sector must be qualitative improvement of the vineyards for full adjustment to market requirements by paying a particular attention to Bulgarian local varieties. This corresponds to the activities performed in the EU policy reform in the vine sector, but due to the limited amount of funds allocated to Bulgaria, it is necessary to strengthen the support for the sector from the state as well. Presentation, advertising, building of strong distribution channels in order to earn positions in international markets are needed by special efforts and support. In the international markets have to increase the supply of quality wines and to keep the image of Bulgarian wines. In large prestigious international exhibitions such as in Paris this year Bulgarian wines have already recognition and appreciation.

In his long historical path of development, Bulgaria has managed to preserve its rich traditions in the production of quality grapes and quality wines. In the ever-increasing interest to healthy feed of the population with higher quality and more environmentally clean products our country has good opportunities to take place as a producer and exporter of wines and grapes with good taste.

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