

**Is there a need to support grape farmers in Moldova
and what are possible policy interventions?**

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1. Introduction

- Producers of wine grapes report that price for grapes is at 2.5 MDL/kg and thus very low
- They claim that such a low price does not allow to do necessary investments for next year
- Government needs to decide whether it should compensate grape farmers and if so, how it should be done

Goals of this briefing:

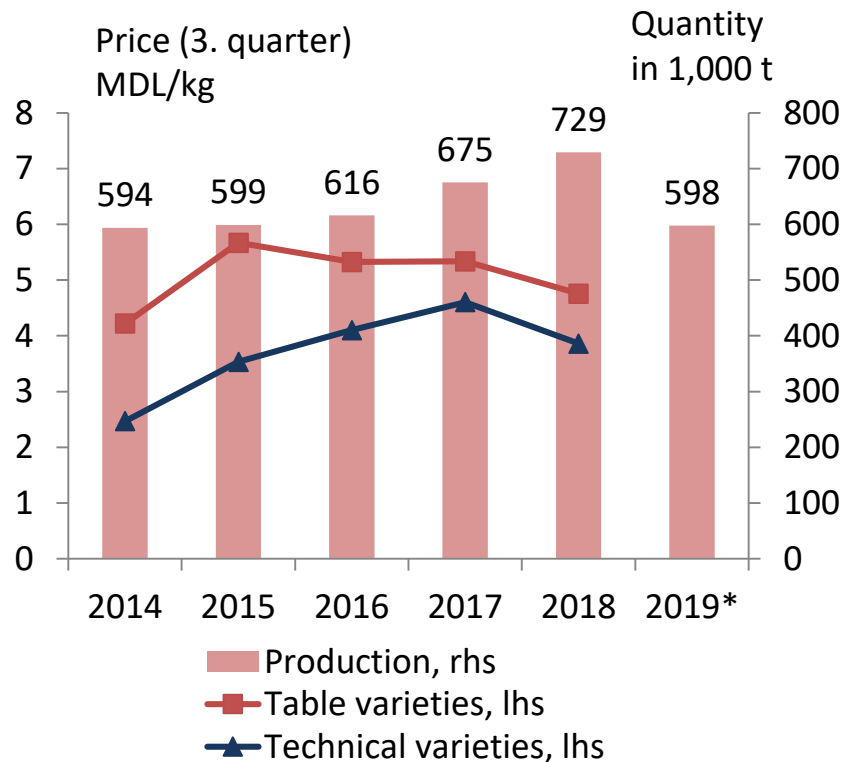
1. Find out whether there is need to support grape farmers
2. Discussing the pros and cons of possible policy interventions to support the producers of wine grapes

2. Requirements for policy interventions

- Policy interventions to support wine grape producers are only justified in case of
 - Extremely low harvests in certain regions or the whole country (e.g. due to weather events, diseases or pests)
 - Historical price drops (e. g. due to large harvests, trade restrictions, exchange rate changes or low world market prices)
- Otherwise the danger that producers will come to rely on state aid programmes nearly every year and policy interventions become similar to permanent subsidisation
- Data analysis is necessary to verify the price or harvest drop

3. Production and prices of grapes

Moldovan production and producer prices



Sources: National Bureau of Statistics;

*Estimate based on Q3 2019

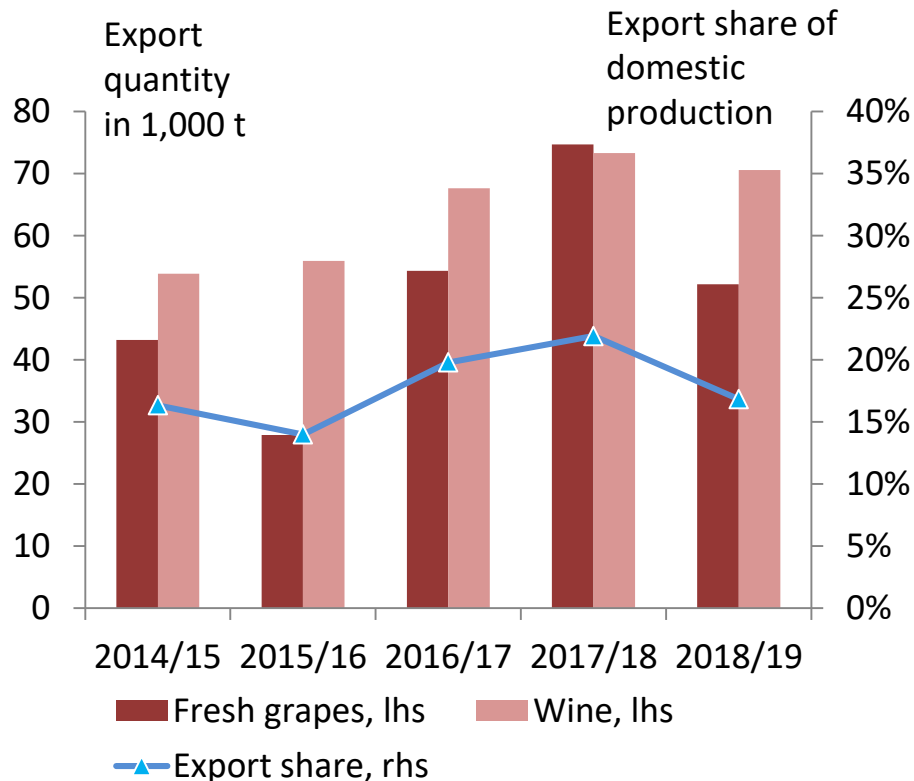
- Production quantity relatively constant around 600 thsd. t per year
- Very good harvests in 2017 and 2018
- Not an extreme harvest in 2019; comparable to other years
- Price data only available for two categories of grapes
 - Table varieties: 5.06 MDL/kg on average between 2014 and 2018
 - Technical varieties: 3.71 MDL/kg on average, but range from 2.47 MDL/kg to 4.61 MDL/kg
 - No data for 2019 so far

3. Production and prices of wine grapes

- If reported price of 2.5 MDL/kg is comparable to technical varieties in statistics, than current price is not historically low
- Same price was also observed in 2014; but it is about 32% below average (2014-2018)
- Interesting: rather no correlation between annual production quantities and domestic producer prices during the harvest time
 - Usual expectation: prices are low in cases of good harvests and vice versa
 - External reasons (i.e. trade and world market prices) might effect the price in Moldova
- Therefore closer look on exports of Moldova's fresh grapes and wine

4. Exports of fresh grapes and wine

Fresh grapes and wine exports



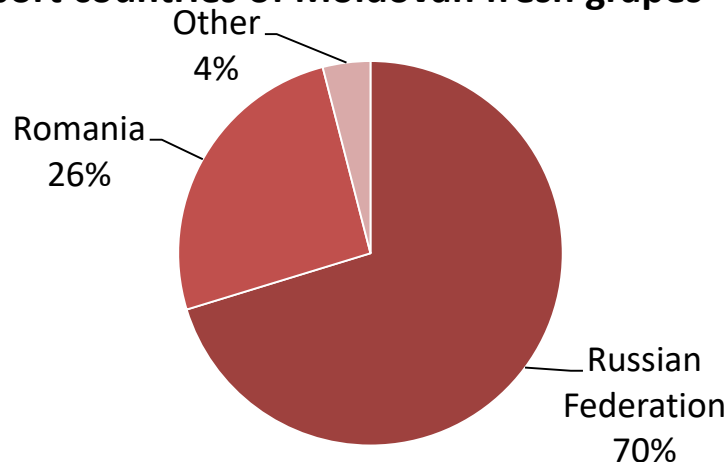
- Yearly exports (July-June) of fresh grapes and wine tend to increase over time, but exports of fresh grapes are much more volatile
- Share of exports (fresh grapes and wine) in total annual grape production has grown from 16.4% (2014/15) to 21.9% (2017/18), however decrease in 2018/19 mainly due to bumper harvest
- Therefore: domestic prices depend increasingly on world market prices

Source: ITC Trade Map, National Bureau of Statistics

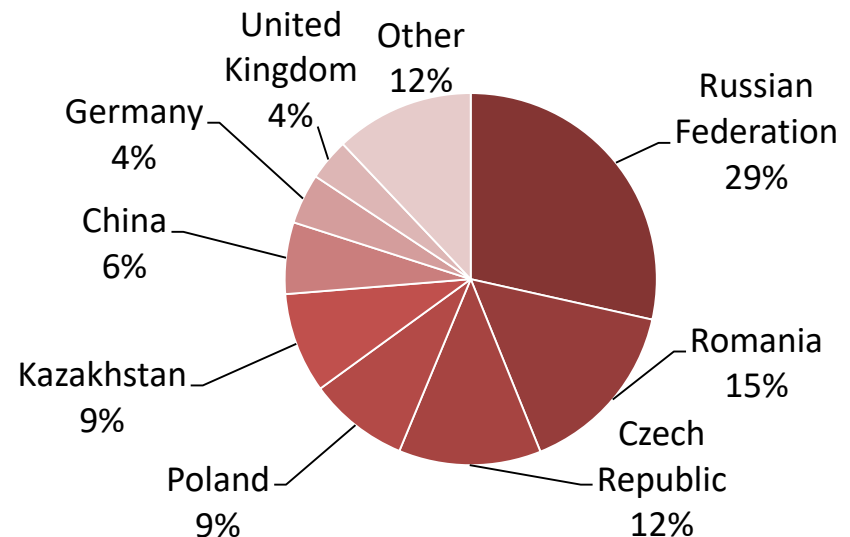
4. Exports of fresh grapes and wine

- Fresh grapes are exported mainly to Russia (70%) and Romania (26%) on average between 2014/15 and 2018/19
- Moldovan wine is exported to many more countries, however nearly half of the total wine exports are traded with Russia (29%) and Romania (15%)
- Export prices and export quantities to Russia determine Moldova's market for grapes

Export countries of Moldovan fresh grapes



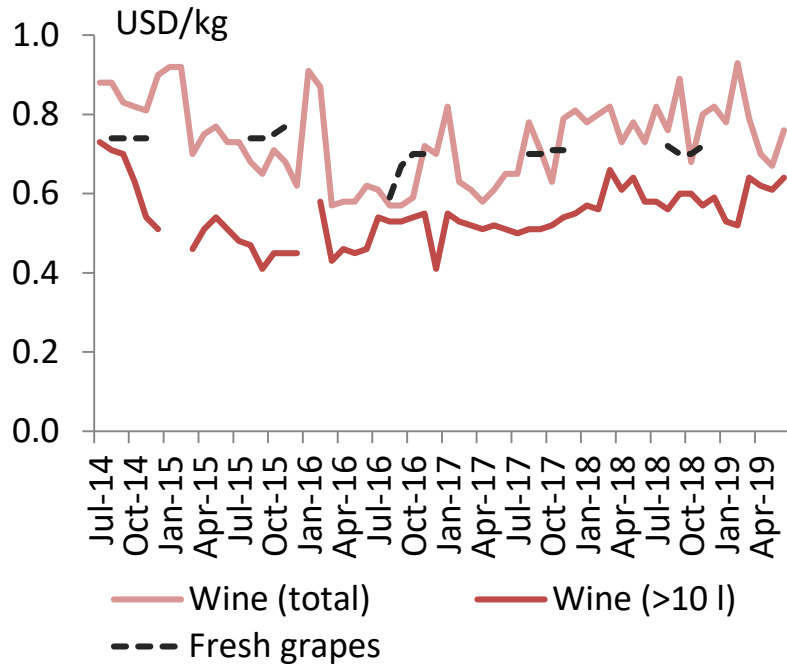
Export countries of Moldovan wine



Sources: ITC Trade Map

4. Exports of fresh grapes and wine

Prices of exports of fresh grapes and wine to Russia



- Unit values of Moldova's fresh grapes and wine exports to Russia are relatively constant, after slight decrease from 2014 to 2016, prices show an increasing trend until June 2019
- Neither national, nor Russian (or other international) statistics seem to indicate a historic price drop
- However, recent disaggregated national data is needed to answer that question definitely

Sources: ITC Trade Map

5. Results of price and export analysis

- Official statistics do not show a historically low grape production Moldova in 2019
 - Assumed producer prices of 2.5 MDL/kg for technical varieties of wine grapes in 2019 would be relatively low, but similar to 2014, therefore not historically low
 - Export prices for fresh grapes and wine are relatively constant with slightly increasing trend during the last two years, there is no indication of international price drops
- However, no official price data for 2019 available; we cannot answer for sure whether policy interventions are justified based on currently available data
- Recommendation: Intensify data collection (monthly frequency, more than only two price series for different qualities/varieties), which is necessary for an effective economic policy
- For accurate policy interventions it is necessary to figure out the exact reason why domestic prices are reported so low when the export market looks stable:
 - Is there a bumper harvest this year, so that much more output has to be sold domestically?
 - Or is there perhaps a problem in the chain, e.g. traders and processors are pushing down domestic prices to increase their margins?

6. Possible policy interventions – pros and cons

- Different types of measures are possible if policy interventions are justified:
 - Payments to producers
 - Direct support (compensation for income losses, per area or per quantity)
 - Indirect support (subsidisation of social insurance system or reduced taxes)
 - Market interventions
 - Private storage aid
 - Public storage
 - Medium-term and long-run measures
 - Support of planting grapevine varieties for high-quality wine
 - Grubbing-up premium for old vineyards
 - Export promotion

6. Possible policy interventions – pros and cons

- **Direct support** (compensation for income losses, per area or per quantity), producers receive direct payments to compensate income losses
- Exemplary calculation of area-based payments (full compensation):
 - Price difference: **1.21 MDL/kg** (average 2014-2018 of 3.71 MDL/kg minus current market price of 2.5 MDL/kg)
 - Average yield per hectare: **4,964 kg/hectare** (average 2014-2018: harvest quantity of 642,600 tonnes divided by area of 129,460 hectare)
 - Direct payment: **6,006 MDL/hectare** (1.21 MDL/kg * 4,964 kg/hectare)
 - Total amount: **777,563,760 MDL** (6,006 MDL/hectare * 129,460 hectare)
- Instead of full compensation it is also possible to partly compensate (i.e. 50%) because prices are above or below average every year, so compensation is only needed for the price gap between the actual price and typical low-price years
- Modifications to ensure that very large producers do not get too much of the total assistance provided (if distributional issues are important/sensitive) are optional

6. Possible policy interventions – pros and cons

- **Direct support** (compensation for income losses, per area or per quantity), producers receive direct payments to compensate income losses
- Problems of area-based payments
 - Financial assistance every year not possible without getting into difficulties (the fiscal cost, and the WTO), therefore measure only suitable for an exceptional situation
 - With satellite pictures it is probably relatively easy to get an idea of who has how much grapes and where, and use that as a basis for making payments, but it could be an administrative challenge the first time
 - All grape producers receive payments, not only those producing technical varieties

6. Possible policy interventions – pros and cons

- **Direct support** (compensation for income losses, per area or per quantity), producers receive direct payments to compensate income losses due to price drops
- Possible approach for quantity-based payments:
 - Government determines target price for grapes, e.g. 3.71 MDL/kg (average 2014-2018) or 80% of average
 - If the market price is lower than the target price, farmers hand in invoices to document the quantity sold and the market price
 - The price gap (target price minus market price) is paid as producer subsidy by the state
- Advantage compared to area-based payments: Only farmers producing technical varieties receive payments, producers of table grapes (market price > target price) cannot apply for subsidies
- Major problem of this approach is reliability of the documents, with falsified documents (higher quantities and/or lower market prices) farmers could apply for higher subsidies, but authenticity control is hardly not possible for administration

6. Possible policy interventions – pros and cons

- **Indirect support** (subsidisation of social insurance system or reduced taxes)
- Income support of grape producers is also possible by individual tax deferments or tax reductions if concernment of low producer prices for grapes is verified
- Indirect support could be applied on costs like employer labor taxes and social security contributions, which could be fully or partly subsidised by the state:
 - Implementation of application rules and procedures necessary
 - Individual applications must be checked by administration
 - Financial need (income loss by low grape prices) must also be checked individually
 - Administrative expense might be relatively high
 - However, fairer from the distributional perspective, because each eligible producer (not depending whether large or small) receives a subsidy not exceeding the financial need
- Indirect support could also be applied to other costs like property tax, fuel excises etc.

6. Possible policy interventions – pros and cons

- **Market interventions**
- Private storage aid
 - Private owners of warehouses receive subsidies for storing bulk wine over a fixed period of time (e.g. 6 months)
 - In the short term reduction of supply pressure due to storage (stabilisation of market prices of wine and grapes), but after the mandatory period for private storage aid the supply increases again and market prices decreases
 - Only possible for storable goods, private storage aid should compensate for additional storage costs, reasonable instrument only in case of short-run market turbulences, but not effective in case of long-run oversupply
 - Administration relatively simple: call for tender, accept applications from relatively few warehouse owners (compared to the number of grape producers), stored bulk wine must be sealed to check the mandatory store period

6. Possible policy interventions – pros and cons

- **Market interventions**
- **Public storage**
 - The same principle of market intervention, but the state is the store keeper, i.e. the state itself buys products for storage in phases of low prices and sells these products later in phases of higher prices
 - More flexible approach to adjust the storage quantity and the degree of market intervention (compared to private storage aid), but the state has to coordinate its own warehouses (costs for buildings and staff), risk of losses due to perishability, costly instrument if the market price decreases during the time of storage

6. Possible policy interventions – pros and cons

- **Medium-term and long-run measures**
- Support of planting grapevine varieties for high-quality wine
 - If currently low market prices are mainly caused by the quality of grapes (and not by the quantity), financial support for grubbing-up old vineyards and planting modern varieties for high-quality wine production is possible
 - Enables producers to invest in grape varieties of high quality instead of harvesting the old and less productive grapevines as long as possible
 - Quantity of bulk wine decreases while quantity of high-quality bottled wine increases
 - Added value of national wine production will raise if additional quantity of bottled wine can be sold internationally without any price changes

6. Possible policy interventions – pros and cons

- **Medium-term and long-run measures**
- Grubbing-up premium for old vineyards
 - Owners of less productive vineyards (low quantity and quality) can apply for grubbing-up premiums if they also commit not to plant grapes again
 - Reduction of production quantities (especially of low quality grapes for bulk wine), market prices stabilisation, decreased quantity of bulk wine exports, less dependence on international bulk wine prices
- Export promotion
 - Moldova's wine exports are concentrated only on few countries (>50% of Moldova's wine exports go to Russia, Romania and Czech Republic), Moldova's dependency on those countries' import demand is relatively high
 - Export promotion can open the doors to new export markets, reduce the dependency on few customers and stabilise domestic market prices
 - Especially necessary in case of increasing production of bottled wine and its need to export

7. Conclusions

- Decision on the policy intervention depends on the detailed analyse of the problem
- So far it is not really clear why current prices of grapes for wine production (technical varieties) are reported to be so low
- If grape producers really need financial support, area-based payments are preferable or indirect support (subsidisation of social insurance system or reduced taxes)
- Market interventions to stabilise domestic prices for grapes by short-run storage (private storage aid or public storage) are only expedient if the problems for the price drop are identifiable and shortly solvable
- Medium-term and long-run measures might help to solve the structural problem of Moldova's grape production, old vineyards with unknown varieties (oftentimes low quantities and qualities) should be grubbed up, subsidies for investments in modern varieties can improve the quality of wine produced in Moldova

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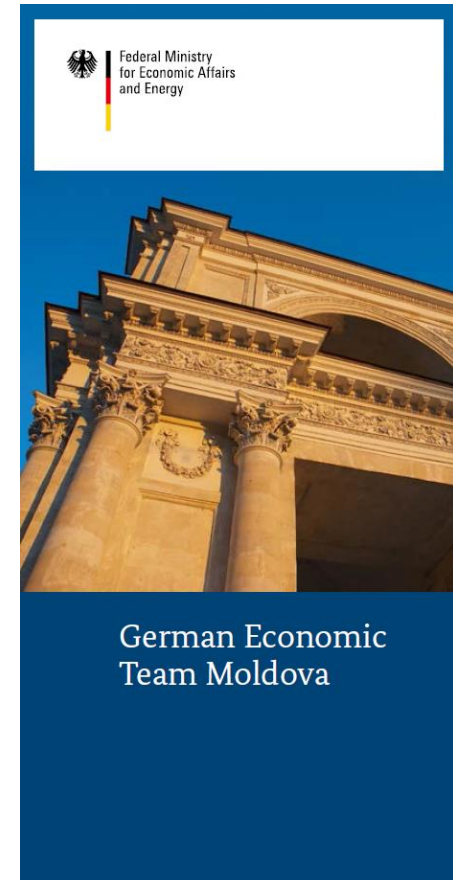
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