

THE WINE SECTOR IN TURKEY: SURVEY ON 42 WINERIES

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Abstract

GUMUS, Sevtap GULER and Ahmet HAMDİ GUMUS, 2008. The wine sector in Turkey: survey on 42 wineries. *Bulg. J. Agric. Sci.*, 14: 549-556

The main purpose of the study is to determine the current situation of Turkey's wine sector, future trends and to analyze the situation as a whole.

This study is based on data collected by a survey of wine enterprises. The sample wineries in the survey were selected from a frame based on the Tobacco, Tobacco Products and Alcoholic Beverages Market Regulatory Authority register lists. Given the significant variation in the size of the wineries, responding enterprises have been placed into four groups according to their wine production volume. This study is composed of data obtained from face-to-face interviews with the owners and representatives of forty-two wine enterprises. The forty-two wineries which responded represent over 80% of the production volume of Turkish wine industry. In this study, which was carried out in provinces where wine production is concentrated, questionnaires were conducted, fifteen in Tekirdag, eight in Nevsehir, six in Izmir and Denizli, three in Ankara and Canakkale and one in Tokat. It can be stated that due to sampling method, this study is representative of whole Turkish wine industry (Figure 1).



Figure 1.
 Provinces of
 Turkey

Among 42 interviewed enterprises, thirty-six are family-owned wineries, thirty-two are own private vineyards and 23 of them supply fewer than 500000 litres to the wine market. Only three of these enterprises produce wine made exclusively from their privately-owned vineyards.

Thirty-seven enterprises claimed that consumption tax and the government's attitude towards the sector are the most significant problems. Fourteen wineries listed unregistered economy as a regular challenge, making it the second most frequent challenge of the sector. In addition, wineries listed lack of governmental attention to viticulture as; unfair competition, lack of state policy regarding the sector, lack of coordination between the governmental and civic institutions, inadequate inspection of the market, lack of qualified technical winery personel, marketing problems, most commonly cited as the demands of HORECA enterprises, scarcity of quality wine grapes and weak capital structures of the enterprises.

Key words: Wine sector in Turkey, Vineyards of Turkey, Winery of Turkey, Turkish wines, Turkish grapes for wine

Introduction

In the 1980's, along with the prohibition of imports, the incentives provided in the tourism sector and increase in the number of tourists that gave rise to a huge increase in domestic wine demand in Turkey. The increase in demand led the producers to renew their technologies such as update the production techniques and Modernise plant, increase their production capacities, improve their standards, and led many new firms to enter the market (Yalcin, 2003).

Turkey entered the 21st century with fundamental changes in alcoholic beverages sector. In 2001, the state monopoly in alcoholic beverages was abolished and private sector wine imports were liberalized.

After the decision to privatise the state alcohol monopoly, the so-called the Tobacco Products and Alcoholic Beverages Market Regulatory Authority (TAPDK), which was established in 2002, was authorized to regulate and inspect the market.

Another significant change in the sector is that the products supplied in the market after 19 June 2007 has been tax-labelled (Official Journal, 2007).

The purpose of this study is; to define the current situation of the wine industry in Turkey and its' problems at the start of European Union (EU) membership negotiations and to determine future trends of wine industry. By the year 2006, there were 70 firms which received production and sales license from TAPDK

and which supply wine to the market (SPO, 2006). In the recent years, important developments have been experienced in wine production in Turkey. In 2005 and 2006, more than twenty small-scale enterprises were established.

Viticulture and Wine Grape Production in Turkey

Geographically, Turkey is among the most suitable countries in the world for wine grape vineyards. With its 516000 hectares of vineyard, Turkey is the fourth largest grape growing country in the world. 2% of Turkey's agricultural lands are covered by vineyards. The yielded product value is around 30% of total fruit production (Turkstat, 2006).

It is estimated that approximately 40% of Turkey's grape production is set aside for raisin, 35% for consumption of fresh grapes and 3% for wine production; and the rest is used for the production of traditional products such as grapefruit pectin and dried fruit pulp. Wine grape production is concentrated in provinces such as; Manisa, Denizli, Izmir, Canakkale, Tekirdag, Ankara, Kirsehir, Nevsehir, Gaziantep, Elazig and Diyarbakir.

Governmental regulations designated certain provinces as suitable for viticulture and determined the specifications of vineyards in terms of regional variety and registration (Official Journal, 2006).

Wine Production, Consumption and Foreign Trade in Turkey

Table 1 illustrates data regarding wine production, consumption and trade in Turkey. However, when considering total production capacity in the sector, capacity utilization rates and unregistered data, the production and consumption figures in the table are questionable. According to Wine Producers Association, it is estimated that in the last two years, the actual volume produced is more than 3 times the registered production amount.

Table 1 shows that wine exports are around 40-50 thousand hl. In Turkey, the government imported

rized to supply packaged goods is responsible for the produced wines

Taxes Imposed on Wine

Implementation of special consumption tax (SCT)¹ started to be applied in Turkey in 01 August 2002. At first, it was agreed that a tax rate of 48.7% would be imposed on fresh grape wine, and a tax with a rate of 212 % would be imposed on sparkling wine. Within the first three years of the implementation, the special consumption tax (SCT) rate has been changed for five times. Currently, there is a 63.3 % special consumption tax (SCT) for fresh grape wine and 275.6%

Table 1
Wine production, consumption and trade in Turkey (1000 hl)

	1999	2000	2001	2002	2003	2004	2005	2006
Production	257	230	266	260	229	315	292	225
Consumption	265	263	282	258	242	280	261	234
Export	43	45	37	83	48	41	43	27
Import	1.7	2.2	1.2	1.2	1.2	8.5	13.1	13.2

Source: -Turkstat, 2005, Statistical Yearbook 2005, Turkish Statistical Institute, Ankara-Turkey

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wine in restricted amounts in the past. The amendments in 2001 and TAPDK Directive on Domestic and Foreign Trade of Alcohol and Alcoholic Beverages from 6 June 2003, following the full liberalization of imports, the number of importing firms and imported products have increased rapidly. By 2006, it was found that fifty-four importing firms operate and supply 819 different products to the market in terms of brand and package but the number of firms increased to 91 at the end of the year and the range of the products increased to 1182. Three of these enterprises which have imported licences were big enterprises, produced wine in Turkey as well.

According to the regulation, the bulk wine trade is restricted. Only the enterprises which signed a contract with another firm with the authority to supply packaged goods in the market are allowed to carry out wine trade in bulk, and the firm which is autho-

special consumption tax (SCT) for sparkling wines and other wines as well as an 18 % Value-Added Tax. Wine enterprises also suffer from these high taxes, which increase the share of unregistered economy in wine sector. However, following the amendments, minimum fixed prices, which were not included at first, were determined. And it was stated that the value which would be determined according to announced rates can not be below 3.28 YTL/Lt (approximately 1.8 ^) for fresh grape wine, and 11 212 YTL/Lt (approximately 6.2 ^) for sparkling wine and others (Official Journal, 2005).

In other words, Turkey is among the countries which impose the highest taxes on wine sales in Europe. When considered in terms of GDP, Turkey has the highest taxes in Europe (CHP, 2005). The enterprises in Turkish wine sector state that the high tax systems are due to the political approach of the gov-

ernment and as for Value Added Tax, a general rate of 18 % is implemented.

In imports, 50% Customs Tax is imposed on the goods from the EU and EFTA. In accordance with free trade agreements between a number of countries, Turkey charges a predetermined tax according to the origin of wines to be imported. For example, they impose a tax of 50% for Croatia, Macedonia and Tunisia, 35% for Syria, 29% for Israel and 4% for Morocco based on the tariff quotas valued by the CIF. All other countries must pay a 70% customs tax to Turkey for imported wines.

Research Findings and Discussion

As in the end of 2006, there were seventy enterprises which have a wine production license from TAPDK. Three of these enterprises are not producers but bottlers. On the other hand, eight enterprises transfer their products to another enterprise in bulk, and do not supply retail products in the market. In addition, thirty enterprises which received a Plant Establishment License from TAPDK are expected to supply wine to the market in 2007.

In this section, the data for wine have been compiled through the survey conducted at wine enterprises. Twenty-nine of the interviewed forty-two enterprises produce only wine. Apart from wine production, thirteen enterprises also produce vinegar, fruit wine, grape juice and grapefruit pectin. On the other hand, it was found that only two of the enterprises produce organic wine. Eight enterprises produce aer-

ated sparkling wine. Only one large enterprise produces natural sparkling wine apart from other products. It was also found that sparkling wine production is rather low (Table 2).

Table 3 illustrates the distribution of enterprises in terms of production capacity. Forty-five of seventy enterprises that supply wines to the market have an installed capacity below 500000 liters as do twenty-six of thirty enterprises at the stage of establishment. In 2007, 70% of wine producing enterprises will have a capacity below 500000 litres. And the capacity share of five enterprises which have a capacity more than 5 million litres is above 50% (Table 3).

It was found that among the interviewed enterprises, 41.7% of wineries store wine in steel tanks, 37.5% in concrete reservoirs, 12.5% in rock-cuvee and 8.3% in polyethylene tanks. Nine enterprises aged wine in barrels during production process. However, few wineries utilize this aging process.

Another important impact on wine production capacity is; the number of employees per site. It was found that one enterprise did not employ any paid workers; three enterprises employed only one worker and only one enterprise employed over 100 workers. Table 4 indicates that more than half of the enterprises employ between two and ten workers. The total number of workers in forty-two interviewed enterprises is 651. During campaign periods or bottling seasons, wineries employ temporary or daily wage workers to supply the workforce. Total number of workers employed during the wine production process. Generally the number of employees in market-

Table 2
Distribution of wine enterprises in terms of their activity periods

	Experience of the Enterprises (Year)						Total
	1-5	6-10	11-25	26-50	51-75	76 +	
Interviewed enterprises*	9	6	2	10	8	7	42
All enterprises**	27	7	5	12	11	8	70

Source: * The data have been compiled through the survey conducted wine enterprises

** http://www.tapdk.gov.tr/alkol/aispd_sector_fmalarina_yonelik_bilgiler.htm

Table 3
Distribution of enterprises which supply wine in the market in terms of capacity

Installed capacity (thousand liter)	Interviewed Enterprises*	All Enterprises**	Enterprises of Construction Stage
500 and less	23	45	26
Between 501-1000	4	6	3
Between 1001-5000	11	14	1
5001 and more	4	5	-
Total	42	70	30

Source: * The data have been compiled through the survey conducted wine enterprises

** http://www.tapdk.gov.tr/alkol/aispd_sector_fmalarina_yonelik_bilgiler.htm

Table 4
Distribution of the interviewed enterprises in terms of workers

Number of workers (person)	None*	1	2-5	6-10	11-20	21-50	51-100	101 +
Number of enterprises	1	3	12	12	7	5	1	1

* One enterprise did not employ any paid worker; production depends on family work power.

Source: The data have been compiled through the survey conducted wine enterprises

ing was more than the number involved in the production process (Table 4). Seven of the interviewed enterprises stated that they received support from foreign advisers in the wine production process and vineyard investments, and only two enterprises noted that they worked with domestic advisers.

According to the surveys, Bogazkere, Cabernet Sauvignon, Kalecik Karasi, Okuzgozu, Cal Karasi, Syrah, Merlot are the most widely used red wine grape varieties by the enterprises. It was found that sixteen domestic and thirteen foreign, totally twenty-nine different red wine grape varieties were used by the enterprises. However, ten of them were only used by one enterprise. And for white wine grape, Sultaniye is the most widespread variety. Semillion, Emir and Narince grapes follow Sultaniye in white wine grapes. It was observed that for white wine production four foreign, twelve domestic, totally sixteen grape varieties were used. And seven of them were varieties that were preferred by only one enterprise.

Among the interviewed forty-two enterprises, only fifteen of them exported their products. When the share of export in production of the enterprises was analyzed, it was found that seven enterprises exported less than 5% of its production, three enterprises exported 6-10% of their production, three enterprises exported 11-25% of their production and one enterprise exported 50% of its' production. Another enterprise exported more than 80% of its production. Four of these exporting enterprises exported for the first time in 2006. And the number of enterprises which has been exporting regularly for more than 10 years was three.

It was found that thirty-two of forty-two enterprises have their own vineyards. Eleven privately-owned vineyards have not yet begun production due to their recent establishment; vineyards of ten enterprises have begun partial production and vineyards of only eleven enterprises went into full production. In terms of vineyard size, thirteen enterprises occupied

fewer than 10 hectares, while only two enterprises were larger than 100 hectares. Two enterprises had a vineyard of 50-100 hectares and the remaining twenty-seven had vineyards smaller than 50 hectares.

Only three enterprises produce their wines from the grapes which are grown in their own vineyards and two enterprises use their vineyards for more than half of their wine production. On the opposite side of the spectrum, eleven enterprises use their vineyards for less than 10% of their production.

Like the rate of domestic white wine grape consumption, its share in vineyards is also low. Emir is the white wine grape variety that is mostly cultivated by enterprises and Chardonnay, Sauvignon Blanc, Semillion, Vasilaki, Narince and Bornova Misketi are the second mostly cultivated varieties. Although Sultaniye is the white wine grape variety used by most enterprises, it was found that it was not the most cultivated variety by the enterprises. It was only cultivated in vineyards of two enterprises.

Five of the enterprises stated that they had plans for future capital and resource investments. While twelve enterprises were planning to invest by the end of 2007, nine enterprises postponed investments due to the frequent changes of the special consumption tax. Sixteen enterprises stated that currently they did not plan to invest due to the recent developments in the wine markets. Examples of these wineries' potential investments are cooling systems, new bottling units, the introduction of grape juice and grapefruit pectin production, barrel aging processes, wine cellar construction, new steel storage tanks, purchasing balloon presses, acquisition of new vineyards and vineyard diversification with vaccines. Commonly postponed investments include increasing the capacity of the enterprises and establishing new production facilities.

The most important problems of the enterprises sector were also recorded. Thirty-seven enterprises claimed; special consumption tax (SCT) and government attitude towards the sector as the most significant problem. Fourteen enterprises pointed out that the second most important problem of the sector was the unregistered economy. In addition, wineries listed lack of governmental attention to viticulture, unfair

competition, lack of state policy regarding the sector, lack of coordination between the governmental and civic institutions, inadequate inspection of the market, lack of qualified technical winery personel, marketing problems, and scarcity of quality wine grapes and weak capital structures of the enterprises.

The most expressed suggestion for solution of problems (27 enterprises) was to decrease the amount of special consumption tax (SCT) imposed on wine. Other suggestions for the solution of the problems include implementation of origin-control, tax-labelling, keeping politics away from the sector, supporting wine producers and export efforts of the enterprises, stiffer penalties for unregistered producers and people who hinder the functioning of the sector.

The hotels, restaurants and catering (HORECA) sector is very important for wine distribution in Turkey due to the fact that Turkish people mostly entertain outside of the home and the sector also caters for the 20-25 million tourists that visit Turkey each year. The vast majority of hotels and restaurants buy through specialist distributors, although smaller enterprises buy from wholesalers and traditional retail channels such as supermarkets. Currently more restaurants and hotels list one or two brands, as the taste trends are changing there is greater demand for new or different wines. Among the difficulties of marketing wine that enterprises faced, the demands of HORECA enterprises was perceived as the most common marketing problem. In addition, the demands of chain store and the fact that some firms supplied unregistered products in the markets are also among the most important marketing problems. On the other hand, since the brand recognition of two big firms in the market was quite high, especially middle-sized enterprises stated that they had to keep the prices of their wine of the same quality lower than the price of these firms. Five enterprises stated that no marketing problem existed and the most important problem of the sector was special consumption tax (SCT) and government policies. It was interesting that the production of these five enterprises was based on table wine.

Considering in terms of points of sale, shops and kiosks selling alcoholic beverages were the most pre-

ferred points of sale, preferred by thirty-five enterprises. Chain stores are the second most preferred points of sale, preferred by twenty enterprises. As points of sale, HORECA enterprises were preferred by nineteen enterprises, fifteen wineries sold wines within their local production area and twelve distributed some products through wine boutiques.

As for the wine distribution regions, it was found that nine enterprises distributed their products in a single region where their production facilities were located, while eight enterprises distributed their products all over the country. It was found that Eastern Anatolia, Southeast Anatolia and Black Sea regions were the least preferred regions by the enterprises for distribution of their products.

Additionally, there is a 63.3 percent special special consumption tax (SCT) for all wines as well as an 18 percent Value-Added Tax in Turkey. The enterprises mostly complained about special special consumption tax (SCT) increases. When the impact of special consumption tax (SCT) increase on wine sales were analyzed, it was found that thirty-two enterprises stated that their sales were reduced, seven enterprises stated that their sales were not affected, and three enterprises recovered from sales-reducing effects by engaging in unregistered sales.

The interviewed enterprises were asked if they were ready for EU membership process and the subsequent period. Twelve enterprises stated that they were ready for competition. However, it was found that thirty enterprises were not ready for competition with EU countries and needed some new investments such as vineyard planting, facility and machine renewal. While twenty-one of the interviewed enterprises stated that the developments in EU membership process and a possible EU membership would adversely affect the sector, eleven enterprises stated that this effect would be positive. Seven enterprises chose not to make an assumption on this issue, two enterprises stated that this process would not affect the sector and one enterprise stated that the adverse effect would be limited to table wine.

The enterprises were asked to analyze the impact origin-controlled wine production would have on the

wine sector and gave varied responses. Fifteen enterprises stated that they did not have enough information to form an opinion about origin control. Fourteen enterprises strongly supported the practice of grape origin control. In contrast, eight enterprises stated that origin control could not be practiced in Turkey and five enterprises stated that it would be rather difficult to practice it.

In a separate question, the enterprises were asked to name the factors that curb the improvement of wine sector. Thirty-three of the enterprises stated that the biggest obstacle in front of the sector was special consumption tax. After special consumption tax, seventeen enterprises stated that religious reasons were the second biggest obstacle in front of the development of the wine sector in Turkey. Other factors included the widespread and dominant *rakı* culture, the attitude of the bureaucracy towards the sector and the lack of state policy, social traditions, food culture, and the low purchasing power of consumers.

Wine Enterprises were asked about their future expectations. It was found that eighteen enterprises were hopeful about the future of the sector. However, eighteen enterprises stated that they were pessimistic about the future due to the sector's reliance on political developments and the 2007 general election results. Six enterprises thought that the future of the sector would certainly be bleak.

Conclusion

Although Turkey is located in the most suitable climate belt for viticulture, the country is the fourth largest grower of grapes in the world and has many wine grape varieties, the wine sector is not well developed in Turkey.

Wineries struggle significantly with unregistered economy leading to a lagging development of the sector. It is expected that with the start of tax-labelling and inspection mechanism improvements, the interest in quality wines will grow and the increased sales of lower-priced wines will lead to a decrease of the inflated special consumption tax. In order to compete, it is imperative for the enterprises to produce only table

wine to invest in new resources and capital and to improve their product quality.

It can be inferred from the data obtained from enterprises and the market developments that the share of foreign wines will continue to rise and some enterprises producing poor quality products may have to withdraw from the market. Some customers may tend to consume other alcoholic beverages and some decrease in consumption may occur due to price increases in low-price wines.

On the other hand, when the vineyards planted with certified saplings of wine grape varieties are grown, the quantity of wine grapes in the markets will increase. However, due to wine demand which is expected to continue increasing, the scarcity in grape supply will continue. In addition, modern wine productions facilities have established in recent years and distributed in various parts of Turkey are expected to contribute to the continuing development of the sector.

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Received October, 1, 2008; accepted for printing November, 12, 2008.