

# WINE AS A WEAPON OF WAR

When Ukraine moved closer to the EU, Russia annexed Crimea, where much Ukrainian wine was produced. This action may open doors to EU wine imports and improve local wine quality. Panos Kakaviatos explains a complex situation.



**'For Paint': citizens request money so they can paint the road railings in Ukraine's national colours.**

It was a surreal August evening, dining at a restaurant in Kyiv just as rocket launchers, tanks and troop transport trucks rumbled along Bohdana Khmelnytskoho street, near the national opera house. Some vehicles were to be part of the country's Independence Day parade on 24 August, complete with military bands and troops. Others were on their way to conflict zones in the south-eastern part of the country.

Although most people in the Ukrainian capital – which accounts for about half of the country's wine sales – cheerfully went about their summer business, enjoying sunny strolls, dining out and buying wine, the conflict was on everyone's minds.

Citizens painted highway dividers, street railings and sidewalk grates in the blue and yellow colours of the national flag. At the cashiers of the city's large wine emporium, Good Wine/Good Food, customers dropped money into a donation box for Ukrainian soldiers fighting in the Donetsk and Luhansk regions.

Wine journalist Ievgeniia Rodionova said that the Maidan protest movement had inspired a grass roots campaign to fight corruption, which analysts claim is one of the leading impediments to importing wine. Just in front of the donation box, Rodionova explained how Bureau Wines, the store's parent importing company, recently posted a public

appeal on its website to explain why it could no longer follow government rules requiring importers to send excise stamps directly to producers.

The law obliges importers to send stamps to producers who then send the stamps to logistical platforms. Bureau Wines sent their stamps directly to logistical platforms and the authorities thought that the company was somehow cheating. "Often importers end up paying off the government to avoid trouble, but since Maidan, there is a feeling that we can protest corruption more openly," said Rodionova.

## *An agreement brings war*

At the end of 2013, hundreds of thousands of Ukrainians protested in Kyiv in what became known as the Euromaidan movement. They began after former President Viktor Yanukovich postponed the signing of the Ukraine-European Union Association Agreement under intense economic pressure from Russia, even though he had considered this agreement one of his key objectives.

When Yanukovich fled Kyiv in February, the Ukrainian parliament deposed him the next day, and the next week appointed an interim government. Although recognised by the US and the EU, Russia and a few other countries condemned the new government

as illegitimate. Shortly afterwards, Russian troops moved into Crimea.

Nevertheless, the EU association agreement was finally agreed in September 2014. It promises to give Ukraine access to the 28-nation bloc's 500m consumers, with binding provisions including a "gradual approximation" with EU trade norms, such as standards, intellectual property rights, trade facilitation, public procurement, and competition. But conflict rages on in the south-eastern part of Ukraine.

Moscow is treating Crimea as a showcase region, determined to prove that the Crimean incorporation will be beneficial for the region's economy. A new Crimean company called the Crimean Bureau of Grapes and Wine (Krymskoe buro vinograda i vina) created by Boris Titov, the owner of the Russian sparkling wine company Abrau-Durso, and Yanina Pavlenko who runs Novy Svet, will aim to grow and find growers for enough grapes to supply the Russian market.

But Russia's attempt to use wine as a weapon against EU wines could backfire. Scholars like Ewa Fischer and Jadwiga Rogoza of the Centre for Eastern Studies, an independent public research institution based in Poland, claim that "the decision to annex Crimea was taken off the cuff, with no calculation of the costs of integrating it with the Russian legal, political and socio-economic space." They explain that the expenses triggered by Crimea's integration will coincide with the deteriorating economic situation in Russia, aggravated by US and EU sanctions, and that this may force Russia to postpone or even give up some of its ambitious investments in the peninsula.

Indeed, a report in early October by Oil Price.com states that "oil prices are inflicting deeper economic pain on Russia's economy, which is already reeling from EU and U.S. sanctions" and "the Kremlin is planning for leaner times. With oil revenue accounting for around half of the country's budget, any dip in prices has a ripple effect."

## Unexpected win

But Ukraine's loss of Crimea, according to importers, may be their gain. About 35% of Ukrainian wine was produced in Crimea and importers want to plug that gap, provided exchange rates settle.

Donning a 'F\*\*k Putin' bracelet this past August, Christina Xinias, owner of Dolmart Wine - Ukraine's oldest fine wine importer, founded in 1993 - sees a potentially brighter future now that Crimea is no longer part of Ukraine and calls that "bigger news than the EU Agreement".

"If you look at total wine consumed in Ukraine, 95% is home grown and this is the figure that is going to drop this year - and it is mostly Ukrainian s\*\*t that we have to put up with," she said. "Thankfully we are not getting any more because it comes from Crimea, so this is the interesting point for us, because we can make more volumes and take more of the market share."

Statistics indicate that the share of imported wines is still a distinct minority, but numbers are growing, according to International Wine & Spirit Research (IWSR). In 2004, Ukrainians consumed nearly 1.85m 12-bottle cases of imported wines, mainly from Moldova and Georgia. By 2009, total imported wine consumed amounted to just under 2.47m cases. Furthermore, the percentages of EU imports are rising, while those from Moldova and Georgia are decreasing.

And while overall wine consumption fell from its 2010 peak of over 34.6m cases to just under 21m in 2013, consumption of imported wine increased even in the troubled year of 2013, reaching almost 3.7m cases across all categories, from still to sparkling wines. Although unreliable given the political situation, forecasts for 2014 indicate a further drop in total wine consumption; imports are expected to remain at about the same level as for 2013.

However, as much as the prospects for EU wine imports seem good, the continued conflict in south-eastern Ukraine has led to devastatingly unfavourable exchange rates. Igor Zorya sells Italian wines to

Ukraine, Russia and Kazakhstan. Ten years ago, one euro equalled 6.8 UAH or hryvnia. In 2009, the rate grew to about 11 per euro. In August 2014, the exchange rate was nearly 18 per euro. "That is really hurting us," Zorya said.

Despite this, and the war, Ukrainians have been buying more wine - with imports growing steadily through 2013, if only remaining a very small part of the pie. In 1993, for example, Ukrainians drank about half a litre per capita per annum, with vodka about 40 litres per annum. By 2012, wine consumption rose to 7.5 L per capita, according to Jenia Nikolaichuk, an independent wine consultant who used to work with Xinias.

Market observers point to the success of Italian wines in recent years. Brussels-based market researcher Andriy Boytsun echoes other market analysts in saying that Italian wines are the "most popular dry wines" from the EU, after he studied the Ukrainian wine market recently. He stresses that travel by younger Ukrainians has led to an interest in EU wines, and credits Italian wines for being both competitively priced and engendering an appeal for Italy as a travel destination.

Several Kyiv department stores feature a wide range of price points and increasingly international wine selections, from Israel and Argentina to Italy and Germany. Take Fourchette Gourmande, an upscale food shopping centre with a wine section that included humble Chilean Cabernets for 50 UAH (\$3.85) a bottle to Mouton Rothschild 1998 for 14,000 (\$1,080.00).

Nikolaichuk - who holds a WSET level 3 and has invented a Ukrainian wine game similar to Trivial Pursuit - says that the average price of wine purchased is about 60 UAH and includes wines like Italian Primitivo and Chilean Cabernet as well as what were until recently home-grown wines from Crimea.

European exporters agree that Ukraine is still a "novice market", explained Peer Pfeiffer of Bordeaux negociant Borie-Manoux, who travels regularly to the Russian Federation and Ukraine to sell wines from the negociant portfolio, which include classified growths Château Bataille (5th growth) in Pauillac and Château Trotte Vieille

(Premier Grand Cru Classé B) in Saint-Émilion, as well as less expensive cru bourgeois-level wines.

Pfeiffer is nonetheless optimistic about prospects for the Ukrainian market because "the people I have met in Kyiv are very westward-oriented and they appreciate wine more and more."

## Export possibilities

But while the conflict may have cleared the market of Crimean wines, it's also meant that Ukrainian producers have lost access to their Russian market, and will need to export to the West to make up the shortfall. This means Ukrainian wine producers will have to raise standards considerably.

Many of Ukraine's 52 wine producers are outside of Crimea and these need to improve quality to sell in the EU, said Igor Nykolyn, president of the association of Ukrainian wine producers. "If you look at our vineyards, most are huge and date from the Soviet era, each with more than 1,000 hectares per producer making what I would call industrial wines that would not meet European standards," he said.

Needed improvements include a better system of quality control that includes "matching proper grape varieties to terroirs, creating and respecting origins of wine production such as geographical names and using modern technologies so that we can meet European standards to export our wines," explained Nykolyn. He also said that current Ukrainian legislation allows hybrid varieties that are prohibited in the EU.

The EU agreement will take time to take effect, experts say. For example, the agreement gives Ukrainian producers 10 more years to use protected EU product names for alcohol such as Champagne and Cognac.

Although many of the developments sound optimistic, the reality is that the continued war, that has so far killed nearly 3,700 people and wounded some 9,000 more, pushes positive prospects further into the future. On the last day of the Mundus Vini summer tastings in late August this year, assembled judges from around the world heard that Rodionova could not attend because of the continued conflict. She said that she needs to find work because wine magazines have no advertisers. The text message that she sent said: "I could not come, as my family is worried about the war." ■



Jenia Nikolaichuk