ANNALS OF AGRARIAN SCIENCE, vol. 13, no. 4, 2015
ИЗВЕСТИЯ АГРАРНОЙ НАУКИ, Том 13, Ном. 4, 2015

THE PROBLEMS OF ARMENIAN BRANDY MAKERS

S. A. Movsisyan
National Agrarian University of Armenia
74, Teryan Str., Yerevan, 009, Republic of Armenia; suren@movsisyan.dk
Received: 22.05.15; accepted: 12.08.15

This research aims at identifying the problems faced by Armenian brandy makers. This is a quantitative study based on a secondary data. The secondary data includes annual time-series data ranging from 1970 through 2014, which is obtained from the Central Statistical Department of the Soviet Republic of Armenia, National Statistical Service of the Republic of Armenia, Customs Service of the Republic of Armenia, United Nations Comtrade Database and reports. The first part of the research paper presents the history of the Armenian brandy production. The second part describes the type of the data and analysis methods. The third part presents the results of the comparison and assessment of the world brandy market, main economic indicators characterizing brandy industry in Armenia, including territory of productive vineyards and average yield of vineyards during Soviet Union (i.e. 1970-1988) and post-soviet times (i.e. 1995-2014), Armenian brandy production, consumption, import and export prior to financial crisis (i.e. 2004-2008) and following financial crisis (i.e. 2009-2013), export structure of the Armenian brandy, rum, gin, vodka, liqueur by country over the period 2013-2014. The fourth part of the paper summarizes the major problems of Armenian brandy makers in the process of raw material procurement, brandy manufacturing, quality management and standards, acquiring supplementary materials and packaging, marketing and distribution of brandy, international transportation and the objectives of brandy export-oriented policy of the Republic of Armenia. Finally, the paper proposes recommendations for Armenian brandy makers for entering new markets.

INTRODUCTION

The Armenian brandy production was founded in 1887. The unique flavour and the high quality of Armenian brandy (cognac) were obtained thanks to the years-long efforts by prominent specialists Mkrtich Musinyants, Kiril Sinchenko, Margar Sedrakyan, Academician Janpoladyan, and others. When the aged Prime Minister of Great Britain Sir Winston Churchill was asked “what is the secret of your longevity”, he answered: “Never be late for dinner, smoke Hawaiian cigar, drink Armenian cognac and you will always be healthy” [1].

During previous 75 years the irregular economy and natural disasters didn’t disrupt the development of viticulture and the brandy production on the basis of viticulture in Armenia. Over the period 1940-1988 there had been created technical varieties of grapes, which were well adapted to Armenia’s climatic conditions, meantime, the development of production contributed to the development of winemaking.

OBJECTIVES AND METHODS

The analysis included annual time-series data ranging from 1970 through 2014. The dataset encompassed information on territory and average yield of vineyards in Armenia, Armenian brandy production, consumption, import and export. The purpose of the study is to analyse the problems of Armenian brandy makers and propose recommendations on searching for new markets based on comparison and assessment of world brandy market, main economic indicators characterizing brandy industry in Armenia, including territory of productive vineyards and average yield of vineyards during Soviet Union (i.e. 1970-1988) and post-soviet times (i.e. 1995-2014), Armenian brandy production, consumption, import and export prior to financial crisis (i.e. 2004-2008) and following financial crisis (i.e. 2009-2013), export structure of the Armenian brandy, rum, gin, vodka, liqueur by country over the period 2013-2014.

The research was based on a secondary data. The secondary data is a type of data that has already been collected and analysed by someone else. The secondary data was obtained from reliable internet sources, i.e. Central Statistical Department of Soviet Republic of Armenia, National Statistical Service of the Republic of Armenia, Customs Service of the Republic of Armenia, United Nations Comtrade Database and reports.

RESULTS AND ANALYSIS

Over the period 1970-1984, on average, the territory of vineyards was 36,000 ha and the yield amounted to 71 cents/ha. Winemaking was on its pick in early 1980s, over this period, on average, the vineyards in Armenia covered a territory of 35,700 ha [1,2]. In 1985 the average yield totaled to 95.8 cents/ha, over the period 1986-1988 the same indicator amounted to 79.4 cents/ha. The wine production level sharply decreased as a result of the collapse of the Soviet Union [3]. Compared to 1970-1988, over the period 1995-2014, on average, the territory of productive vineyards decreased by 21,000 ha, but as a comparison the average yield increased by 40 cents/ha [4].

In general, until the 1970's the area of vineyards remained almost unchanged, the core attention was on reconstruction of old plantations, which enabled to obtain the record yield of 125.1 cents/ha in 1981. In 1972, 1973, 1974, 1980 and 1983 the low yield of grapes was conditioned by strict winters, when the vineyards were affected significantly, resulting in reduction of significant areas of vineyards during 1983-1984.

The major way of developing the winemaking in Armenia remains the intensive production and, on its basis, the development of high quality and stable varieties of grapes, the enhancement of its quality for satisfying the increasing demand of population and processing industry. It can be achieved by investing in new immune, frost-hardy, disease-resistant grape varieties of high nutritional value [2].

In the past period the Armenian brandy industry was developed and widely recognized. The brandy production in Armenia increased during 2004-2014 and the compound aggregated growth rate amounted to 9%. Another important indicator is that during 2009-2013 the annual average volume of brandy production increased by 4.3 mln litters or 39%, compared to the period of 2004-2008 (Fig. 1).

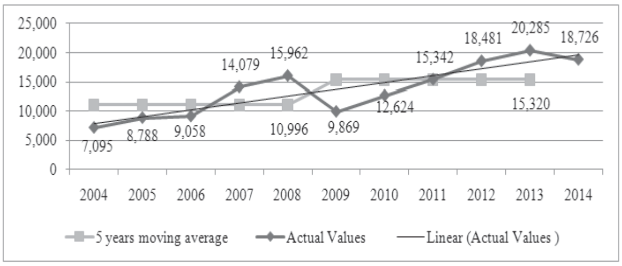

Fig. 1. *Brandy production (1000 litters) in Armenia during 2004-2014*

The increase in brandy production was conditioned by the following major factors:

1. Expansion of grape vineyards.
2. Growth of grape yield.
3. Growth of grape gross harvest.
4. Growth of grape commodity and commodity products (Table 1).

Over the period 2004-2014, the import and export of brandy experienced an increasing trend. Meantime, the compound aggregated growth rates of brandy import and export amounted to 38% and 10% respectively (Fig. 2). During the same period, the consumption of brandy increased and registered the compound aggregated growth rate (CAGR) of 2%.

Table 1. *Main economic indicators characterizing brandy industry in Armenia*

Indicators	Measurement units	2012	2013	2014	Growth rate, %
1. The area of vineyards	1000 ha	17.4	17.5	17.2	-0.4
1.1 Including productive	1000 ha	15.7	16.1	16.3	1.3
2. The average yield of 1 ha	Cents	151.3	149.8	157.7	1.4
3. The gross harvest of grapes	1000 tonnes	241.4	240.8	261.3	2.7
4. Commodity level of grapes	%	85.6	80.3	80.8	-1.9
5. The per capita production of grapes	Kg/year	80.5	80.3	87.1	2.7
6. The per capita actual consumption of grapes	Kg/year	5.9	4.9	5.1	-4.7
6. The production of brandy	1000 litters	18,481	20,285	18,726	0.4
7. The export of brandy (including brandy spirit)	Mln USD	165.9	187.6	164.9	-0.2
8. The import of brandy (including brandy spirit)	Mln USD	39.4	42.2	40.7	1.1
9. The consumption of brandy in RA	1000 litters	1,333	2,011	744	-17.7
10. The share of brandy in retail trade	%	6.7	6.5	6.1	-3.1

**Source: RA NSS Food security & poverty, 2014, pp. 38, 45, 72, 75, RA NSS Statistical Yearbook for 2014, pp. 303, 345, RA NSS Area under Agricultural Crops & Gross Harvest for 2014 (in Armenian), p. 8, Realization (Use) of Agricultural Product by Peasant Farms for 2013, 2014 (in Armenian), p. 4, RA NSS Socio-Economic Situation of RA for 2012, 2013, 2014 (In Armenian), pp. 252, 248, 249, Customs Service of RA The RA external trade by the EEA PL goods groups for 2012, 2013, 2014 (In Armenian), pp. 23, 48.*

In comparison with the period 2004-2008, over the period 2009-2013, the growth figure for average consumption volume of brandy increased by 895,000 litters or 133% (Fig. 3).

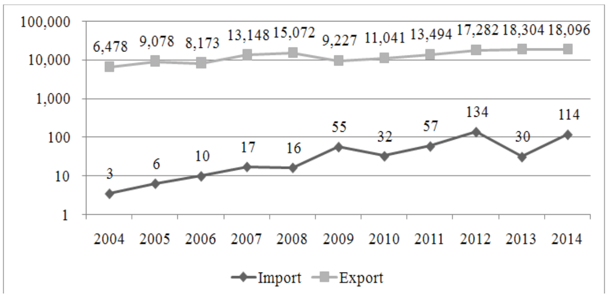

Fig. 2. *Brandy import & export (1000 litters) in Armenia during 2004-2014*

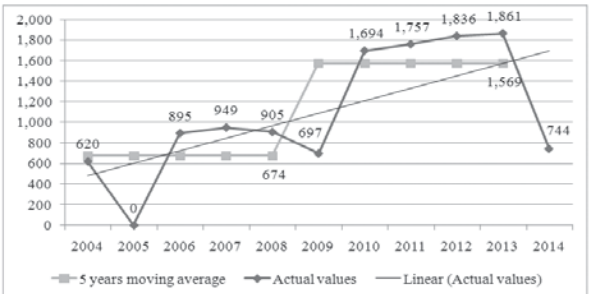

Fig. 3. *Brandy consumption (1000 litters) in Armenia during 2004-2014*

Figure 4 illustrates the export structure of the Armenian brandy, rum, gin, vodka, liqueur by country from 2013 to 2014. The largest importer of the Armenian brandy, rum, gin, vodka and liqueur was Russian Federation.

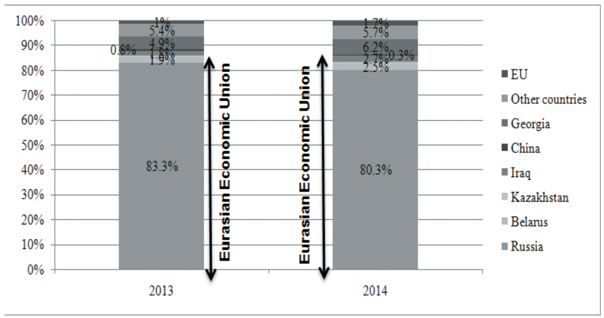

Fig. 4. *Export structure of the Armenian brandy, rum, gin, vodka, liqueur by country*

*Source: United Nations Comtrade Database

In 2013 the third largest importer of the Armenian brandy, rum, gin, vodka, liqueur was Belarus (1.9% contribution to total), which conceded its leading position to Iraq (2.7% in 2014).

Table 2. *World brandy market overview in 2010**

Region		External trade, mln USD				External trade per capita
	Including				Including	
	Import		Export		Import	Export
Northern America and Caribbean	Mln USD	%	Mln USD	%	Mln USD	Mln USD
	768	21.2	83	2.0	1.99	0.22 [5]
Europe	1,200	33.1	3,000	70,8	1.65	4.06 [5]
Latin America	99	2.7	19	0.4	0.18	0.03 [5]
Africa	20	0.6	11	0.3	0.02	0.01 [5]
Asia	1,500	41.4	1,000	23.6	0.36	0.24 [5]
Middle East	10	0.3	106	2.5	0.02	0.33 [6]
Oceania	29	0.8	18	0.4	0.78	0.49 [5]

**Source: Brandy manufacturing sector strategy 2011-2020 of the Government of the Republic of Armenia*

The remaining largest importers were EU (1%, 1.7%), Kazakhstan (0.9%, 0.6%) and China (0.8%, 0.3%). Over the period 2013-2014, the percentage contribution to total export of the Armenian brandy, rum, gin, vodka, liqueur by Eurasian Economic Union amounted to 86.1% and 83.4% accordingly. Asian and Chinese markets are especially attractive for Armenian brandy [5,6].

Over the period 2013-2014, the percentage contribution to total export of alcoholic beverages by Russian Federation amounted to 83.3% and 80.3% accordingly.

The second largest importer of the Armenian brandy, rum, gin, vodka and liqueur was Georgia by 4.9% and 6.2% shares respectively.

Table 3. *World brandy m arket access constraints and opportunities**

Region	Access constraints	Access opportunities
Northern America and Caribbean	High marketing costs.	Ethnic segments (Armenians and Russians).
Europe	Strong local manufacturing, saturated markets.	Ethnic segments (e.g. Russians in Germany).
Latin America	Large-scale local manufacturing.	The absence of strict inspection of beer production, increasing disposable income, rapid urbanization, increasing health concerns among consumers, increasing availability and consumption of beer, conditioned by favorable climatic conditions [7].
Africa	South Africa may be the ninth largest producer of brandy in the world, but brandy has so far been very much a locally-consumed product, with a mere 8% being exported elsewhere [8].	The beer manufacturing sector is characterised by seasonality, tax rates and duties, climatic conditions, demographics, government policies, health effects, consumption of various substitute products and high investments in beer market and supply chain infrastructures [9].
Asia	Strong competition between many local manufacturers and advanced companies of the world.	Expansion of the middle segment, new markets and new consumption culture (the preference of a sweeter brandy).
Middle East	With growing disposable incomes, Emirati consumers are seeking products that offer convenience [10]. Internationally known brand names and products continued to expand their already favourable positions within alcoholic drinks in the United Arab Emirates in 2013, attracting mainly young western expatriates and tourists who enjoy Dubai's nightlife. Nevertheless, expatriate consumers in the United Arab Emirates often purchase brands with which they are familiar from their home countries, such as Indian brand Kingfisher which witnessed broad success in UAE [11].	Increasing disposable income, rapid urbanization, increasing health concerns among consumers, increasing availability and consumption of beer, conditioned by favorable climatic conditions [7].

**Source: Brandy manufacturing sector strategy 2011-2020 of the Government of the Republic of Armenia*

CONCLUSION

The major problems facing Armenian brandy makers are as follows:

1. Pricing policy.
2. Discordance between interests of processors and households.
3. Absence of long-term contracting relationships.

In the process of raw procurement there are problems related to lack of large-scale farms, insufficient level of clear-cut and effective raw procurement mechanisms, the absence of price gradation for different types and quality of grape. The problems related to brandy manufacturing are low level of quality human capital availability, the absence of basic industrial technologies. Universities and faculties, providing specialists to the industry, have low-quality; therefore, companies have to make significant investments in staff training. In the field of quality management and standards there are issues related to large number of falsifications in the sector, malfunctioning system of inspection of authencity, wide use of imported grape spirit or other spirits for the production of "Armenian brandy", legislative problems associated with the use of "Armenian cognac" category name.

The problems related to acquiring the supplementary materials and packaging are conditioned by the challenges of the local production of glass bottles in Armenia, most specifically, the quality of production is insufficient to meet the requirements of the premium brandy manufacturers, which acquire the packaging from world leading glass manufacturers, mainly from France and Italy.

The challenges of marketing and distribution of brandy are conditioned by threats to maintaining the brand/reputation of the brand Armenian cognac, international transportation issues, which result in inconsistency of international distribution and uncompetitive pricing of distribution for local producers, insufficient information on new markets and limited marketing capacity [5]. For the development of brandy industry in Armenia, the Government shall make investments in the following areas:

- ✓ Quality assurance,
- ✓ Access to new markets,
- ✓ Brandy production expansion,

Development of transport infrastructures and supply chain.

The establishment of international quality assurance system will contribute to pure flavor of brandy, brandy compliance to grape varieties, exclusion of extraneous aroma. Consequently the brandy flavor would become clean, light, refreshing and have low extraction, in addition, the use of mold, acetic, is abelle, muscat and other extraneous aroma, which are not specific to grape varieties used in the production of brandy, would be excluded. It is necessary to properly develop and implement a clear mapping of the export of alcoholic beverages, which would clearly indicate the most effective and resource-conserving export routes to target countries.

For brandy production expansion, RA Government and specialized research centers should conduct the comprehensive analysis of target markets, taking into account the brandy-importing countries' consumers' perceptions, purchasing power, etc.

RA Government is planning to substantially increase the brandy export volume up to 150-180 mln USD and 250-300 mln USD in 2015 and 2020 accordingly. There is some skepticism about these projects, because the planned increase is not secured by proper base of raw materials. Nevertheless, the Government is taking some actions to diversify the brandy export. The project also assumes the reduction of Russian share in Armenian brandy export structure (in 2020 the Russian percentage contribution to Armenian brandy export will decrease from current 90% to 65%). For development of transport infrastructures and supply chain, the implementation of joint projects (i.e. the construction of North-South Road Corridor, Armenia-Iran railroad (China's involvement in this process)) between RA Government and interested, international donor organizations is of high importance.

REFERENCES

1. *Avetisyan S.S.* Agriculture and Food Processing in Armenia // Limush Publishing House, Yerevan, 135, 2010, pp. 60-61 (in Armenian).

2. Central Statistical Office of Soviet Republic of Armenia. The Results of the Census of Fruits and Berries and Vineyards in the Armenian SSR // Yerevan, 1985, pp. 400-401, 408 (in Russian).

3. Economy of the Armenian SSR in 1988. Statistical Yearbook // Yerevan, 1989, 196 pp. (in Russian).

4. Government of the Republic of Armenia. Brandy Manufacturing Sector Strategy 2011-2020 // Yerevan, 2010, pp. 20- 30 (in Armenian).

5. Population Reference Bureau. World Population Data Sheet // Washington, 2010, pp. 6-9.

6. Pew Research Centre. Region. Middle East-North America // Washington, 2011, 140 pp.

7. Transparency Market Research. Beer Market – Latin America and Middle-East Industry Analysis, Size, Share, Growth, Trends and Forecast 2015-2021 // New York, 2015, 69 pp.

8, International Business Times. South African Adventure: Wine is Fine but Brandy is Dandy // New York, 2014 150 pp.

9. Transparency Market Research. Beer Market Research Report // New York, 2013, 236 pp.

10. Agriculture and Agri-Food Canada. Market Access Secretariat, Global Analysis Report: Market Overview, United Arab Emirates // Ottawa, 2014, pp. 5-9.

11. WooEB Community. UAE Alcoholic Drinks Market Report Internationally Known Brand Names and Products Expanding Their Market Share in 2013 // London, 2014, 55 pp.

ПРОБЛЕМЫ АРМЯНСКИХ ПРОИЗВОДИТЕЛЕЙ КОНЬЯКОВ

С. А. Мовсисян

Исследование направлено на выявление проблем армянских производителей коньяка. Исследование основано на вторичных данных. Последние включают ежегодные данные временных рядов, начиная с 1970 по 2014, которые были получены от Центрального статистического управления Советской Республики Армении, Национальной статистической службы Республики Армении, таможенной службы Республики Армении, "Комтрэйд" базы данных Организации Объединенных Наций и отчеты. В статье анализируется история производства армянского коньяка, описывается тип данных и методов проведения анализа, даны результаты сравнения и оценки мирового рынка коньяка. Кроме того, даны основные экономические показатели характеризующих коньячную отрасль Армении, в том числе территории виноградников и средней урожайности виноградников во время Советского Союза (т.е. 1970-1988) и в постсоветское время (т.е. 1995-2014), производство армянского коньяка, потребление, импорт и экспорт до финансового кризиса (т.е. 2004-2008) и после (т.е. 2009-2013), структуру экспорта армянского коньяка, рома, джина, водки, ликера по странам за период 2013-2014 гг. В статье обобщены основные проблемы армянских производителей коньяка в процессе закупок сырья, коньячного производства, управления качеством и стандартами, приобретения дополнительных материалов и упаковок, маркетинга и распределения коньяка, международных перевозок и цели государственной политики ориентированной на экспорт коньяка. Предлагаются рекомендации по поиску новых рынков.