

CONSEQUENCES OF UNITED KINGDOM'S WITHDRAWAL FROM THE EUROPEAN UNION ON THE ROMANIAN WINE EXPORT

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Abstract: *Although in the recent years the Romanian wine producers have been more oriented towards the domestic market, which has been steadily increasing, they are aware that the export, even relatively small as a share of the total turnover, brings stability to the company especially in the moments of decline of the internal market. Considering that about 20% of the volume of wine exported by Romania is sold in the United Kingdom, it is understandable the concern of the Romanian producers about the implications of the UK's withdrawal from the European Union. The multiple effects of Brexit will also shake the imports of this country, affecting the market of many products, including wine. The paper aims to highlight the opinions of the managers of wine producing companies in Romania regarding the consequences of Brexit on the export of Romanian wine. The conclusions of the qualitative research show that the Romanian wine producers do not have a strategy to offset a possible decline in export sales.*

Keywords: *export, Brexit, trading agreements, wine price, wine market*

1. Introduction

The Romanian wine market is limited. Although there has been a significant increase in recent years, wine demand on the domestic market is growing much slower than supply. The emergence of more and more producers generates increased competition and automatically reduces wine prices, which will affect producers' profits by lowering profit margins. Romanian producers have begun to realize that export is the only viable, long-term solution for profit growth.

According to the APEV data (Wine Exporters and Producers Association), the first of the top ten wine-importing countries from Romania is the United Kingdom, followed by Germany, China, the Netherlands, Italy, Spain, the USA, Slovakia, Estonia and Canada. These countries buy 88% of the wine exported by Romania.

The United Kingdom is a key player in wine-trade circle, as it has always accounted for

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a major share of the world's wine imports (Anderson, Wittwer, 2017).

This fact justified the concerns of all actors involved in the wine world, such as producers, distributors, traders, retailers and even consumers, about the evolution of this market after March 2019.

According to Veseth (2017), Brexit will slow Britain's economic growth and lead to the depreciation of the pound. These two phenomena will directly influence the import of wine in this country.

Based on these perspectives, a recent study (Anderson, Wittwer, 2017) stresses that by 2025, the price of wine will be 22% higher for British consumers (20% because of the depreciation of the currency, 4% due to potential new tariffs for European wines and -2% due to negative growth in revenues) while consumption will drop by about 28% as a volume (16% due to the slowdown in economic growth, 7% due to depreciation of the pound and 5% due to new taxes) and 27% fall in the value of UK imports.

Some of the major producers to increase their competitiveness in the market have set their own strategies that ensure both quality standards imposed by law, and on the external market (Neacşu N.A., 2017).

2. Romania's Position on the Map of World Wine Exporters

Despite the fact that Romania is the sixth largest producer of wine in the EU, after Italy, France, Spain, Germany and Portugal, and the 13th largest producer in the world, in terms of exports is at the end of the ranking, occupying 37th place. We are basically the country with the lowest production / exports ratio in traditional wine producing countries.

Neighbors in the East (Republic of Moldova) export 4.5 times more than we do. Neighbors from the west (Hungary) export 3.7 times more like us, at a much smaller production than ours, while the southern neighbors (Bulgaria) and the ones from the east (Ukraine) export more than we do. As far as exports are concerned, Romania is behind countries that do not have a great wine tradition, such as Sweden, Macao, Malaysia, Denmark, Lithuania, Ukraine, Estonia, Thailand.

However, the change in consumer demand on the main export destination market of Romanian wine, is not negligible.

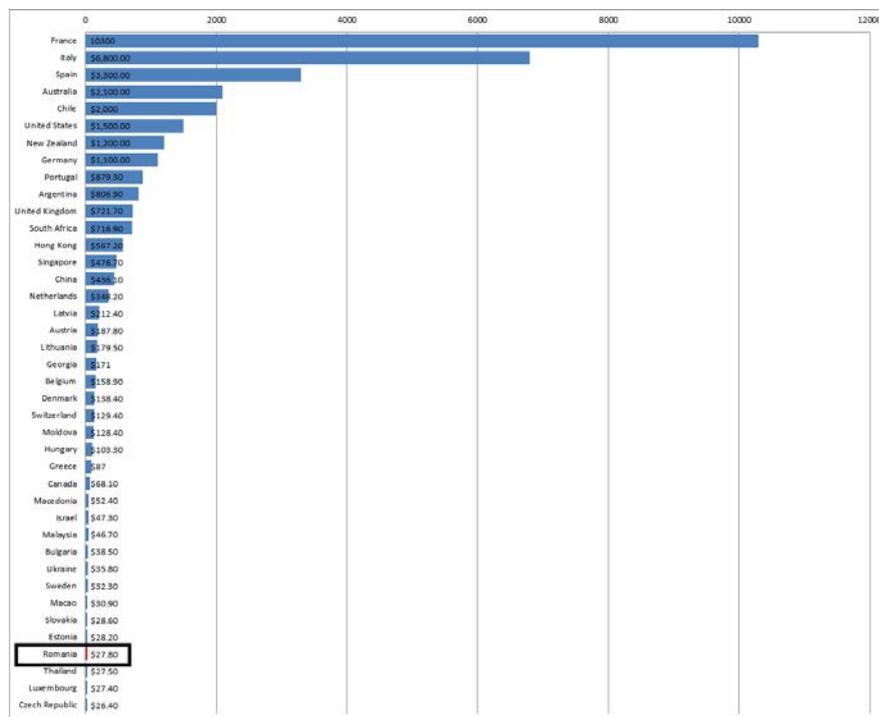


Fig. 1. *Ranking of world wine exporters*

Sursa: <http://www.provin.ro/wp-content/uploads/2018/08/export-vin-romanesc.bmp>

3. The Evolution of Romanian wine exports during the period 2015-2018

Last year, Romania sent 12.8 million liters of wine to foreign markets, representing 22.6 million euros, down 8% in volume and 6% in value, thus registering the first decline in the last five years. The market decline comes after record exports of over € 24 million in 2015.

Great Britain was the main destination market for Romanian wines last year, so 19% of local wine production arrived to this country (APEV). The analysis took into account the volume of exports. The UK is followed by Germany and Spain. These three countries account for about half of the quantity of wine exported by Romania. China is ranked fourth, a good position in a ranking dominated by European countries. The ranking also includes the US, the world's largest consumer of wine. Together, the top ten countries in the list of countries where Romania exports the most wine are accounting for almost 90% of wine deliveries abroad.

Presently, the conjuncture on the UK market is favorable to us, creating an increased interest for Romanian wine and, in general, for wines from Eastern Europe due to a very good grape production in Romania and, implicitly, wine in 2017 combined with harvests weak in almost all EU countries and with the instability of the British currency. However, Romanian producers are worried about March 2019 when the UK will leave the EU, this in the context that about 20% of the volumes of wine traded by Romania across borders reach this country.

4. Research Methodology

In order to identify the opinions of managers of wine producing companies in Romania regarding the impact of the EU withdrawal on Romanian wine exports, a qualitative research was carried out.

From the multitude of techniques specific to the qualitative marketing researches, the semi-direct or semi-structured depth interview method was chosen. In this respect, 6 interviews were conducted among managers of wine-producing companies from all wine-growing areas of Romania, aiming at a thorough knowledge of their opinions.

The main objectives of the research were to identify the managers' opinions of wine producing companies in Romania regarding the consequences of Brexit on the export of Romanian wine.

In line with the marketing's theory and practice requirements, a questionnaire was drawn up for the selection of potential respondents and an interview guide for achieving the objectives proposed for this research.

The selected subjects and the companies they represent can be found in table no.1.

Table 1

Composition of the selected sample for the qualitative research

The subjects	Function within the wine producing company	Category of winemaking company	Seniority on the Romanian market
Subject 1	General manager	Small producer	1 year
Subject 2	Marketing manager	Middle size producer	13 years
Subject 3	General manager	Small producers	5 years
Subject 4	Sales manager	Middle size producer	13 years
Subject 5	Sales manager	Big producer	5 years
Subject 6	Executive manager	Middle size producer	15 years

** the names of the interviewed managers were not mentioned in order to preserve the confidentiality of their identity*

The interview guide was structured on two themes with the aim of quantifying the managers' opinions on:

1. Outlook for the export of Romanian wine in the context of the UK withdrawal from the European Union.
2. The measures to be taken by the Romanian producers to offset a possible decrease in export sales.

The semi-direct depth interview was conducted on the basis of the above themes at the wine producers' headquarters, where the selected managers carry out their activity. Answers were recorded using a recording device and stored in electronic files. Subsequently, these files were transcribed, the information being subjected to a primary quality processing technique called content analysis.

5. Results and Discussions

Most of the interviewees mentioned that after the referendum the prices increased significant overnight, the price of a bottle of wine that costs about 15% more in shops increased in restaurants by 30%. They consider that the psychological impact, corroborated with the continuous depreciation of the pound, the increase in taxes and the delay in establishing free trade agreements, will contribute to the rise in the price of imported wine in the United Kingdom and thus to the decrease in consumption.

According to the opinion of the majority of the subjects, the application of fixed fees and not an excise tax calculated as a percentage of value will make the cheap imported wines, including the Romanian ones, to be the most affected, because they do not generate a proportional impact on wines different prices. Taking into account the fact that, regardless of the price of wine, the cost of transport to the UK is the same, the application of a fixed fee of 4 pounds/bottle of wine makes the impact bigger for the wine that was sold with 5 pounds/bottle than for the product sold with 40 pounds /bottle of wine, the final price of cheap wine rising more than expensive wine, making cheap wines less attractive.

British supermarket chains are already facing an increase in import costs and a stagnation in consumer demand. In an attempt to preserve their profit margin, they will exert pressure on suppliers. Romanian wine imports, because they are disproportionately value-priced supermarket wines, may be especially vulnerable as margins tighten.

Only one respondent said optimistically that signing free trade agreements between the EU and the UK is a priority and if this happens in the near future wine imports to the UK market will not change. Given that Brexit has no impact on actual earnings growth rates or on consumption in the UK, and in the medium term, the British pound will return to the exchange rate previously existing against other currencies, the Romanian exporters will not be affected.

Another interviewed manager was very reserved to make predictions considering that Brexit's repercussions for Romanian wine depend on the free trade agreements that the UK will sign and the customs duties it will impose.

However, it is obvious, that depreciation of the pound against the euro has made imported wine more expensive. As long as it is not clear whether customs duties will be applied to imports of certain products or will continue to continue free trade, only speculation can be made, the manager stressed.

Regarding the measures to be taken by the Romanian producers to compensate for a possible decrease in export sales, most interviewed managers stated that they did not have a reserve plan, a strategy for offsetting the revenue cuts on the UK market. Only one manager said he is currently conducting a campaign to aggressively promote his wines on the China market, aiming to increase his sales to 20% in 2019.

6. Conclusions and Proposals

The Brexit scenarios involve adjustment not just to U.K and UE27 bilateral tariffs but also to assumed changes to the UK's income growth and currency (Anderson, Wittwer, 2017).

Clearly, there will be a lot of uncertainty over a certain period of time about the possible policy outcomes of Brexit and its consequences on the British population's incomes, foreign exchange rates and bilateral tariffs for wine trade.

If Britain succeeds in convincing countries on transitional arrangements setting out tariff changes until new free trade agreements are signed and ratified, the initial effects will be less dramatic than the scenarios made by specialists, but remains to be seen when such agreements can be reached.

In any case, Brexit's net effect on the welfare of British consumers and wine producers in general, including the Romanian ones, will be negative not only initially but also permanently, unless the new UK trade policy commitments with wine-exporting countries will be more liberal than current provisions.

The intensification of the activity of the associates of wine producers and exporters combined with State aid are essential for increasing the international presence of Romanian wine producers.

7. Acknowledgements

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