

‘The Old world wine’ and its place in the Anatolian Economy

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Abstract

According to the known history, the east of Turkey considered as the birth place of wine in the world. During the Ottoman era, the main wine producers were the non-Muslim population of the empire. After the collapse of the empire, the hands of wine production replaced by modern Turkish Republic’s state owned and promoted alcohol production. For about 70 years, alcoholic drinks (excluding wine) had only been produced by state monopoly. However the wine production had always been produced by both private and public companies. The impact of the recent privatization waves also affected the wine sector. There are more and more wine producers are entering into the market. Is Anatolian wine (‘Old World Wine) claiming its title back? This paper examines the possible impact of recent high taxation policy on Anatolian wine production as well as the value added loss of use of grapes for non-wine consumption. The historical roots of the Old world wine are also investigated.

Keywords: Old World Wine, Wine and high taxes, Turkish wine.

1. Introduction

The English word wine originates from Hittite (Currently Central Turkey) language, according to Wikipedia. Anatolian wine production has a very long history of vineyard cultivating and wine production dates back to the Pre-Hittites who lived in Anatolia between 3000-4000 BC. It is historically well known fact that Anatolia (Asia Minor) is the motherland of vineyards and wine. The same age witnessed Carian and Lydian civilizations in West and south west Anatolia. In 1958 when a sponge diver found an eastern roman wessel of 7th century A.D. under the shores of Halicarnassus (Currently Bodrum), no one knew that wessel was full of wine amphoras exported from Caria. The history of Anatolian wine is well before the wine production dates of France and continent Europe. During the Ottoman Era (1299-1923) mainly non-Muslim population of ottomans were the wine producers of Anatolia. When Turkish republic was established state run TEKEL¹ and some small private wine producers carried out the production. Mainly, non-Muslim wine production of Ottoman era was replaced by modern Turkish Republic's state owned and promoted alcohol production. For about 70 years, alcoholic drinks (excluding wine) had only been produced by state. However the wine production had always been produced by both private and public companies. After the recent privatization of alcohol markets in Turkey, there are smaller and bigger scale wine producers are entering into the market. Is Anatolian wine ('Old World Wine) claiming its title back?

This paper examines the possible impact of recent high taxation policy on Anatolian wine production. The historical roots of the Old world wine are also investigated. The next section examines the current state of Anatolian wine- vinery and grape production in a historical concept. The section 3 examines the impact of recent high taxation on wine production and the loss value added on other use. Finally there are some concluding remarks.

2. Anatolian wine- vinery and grape production.

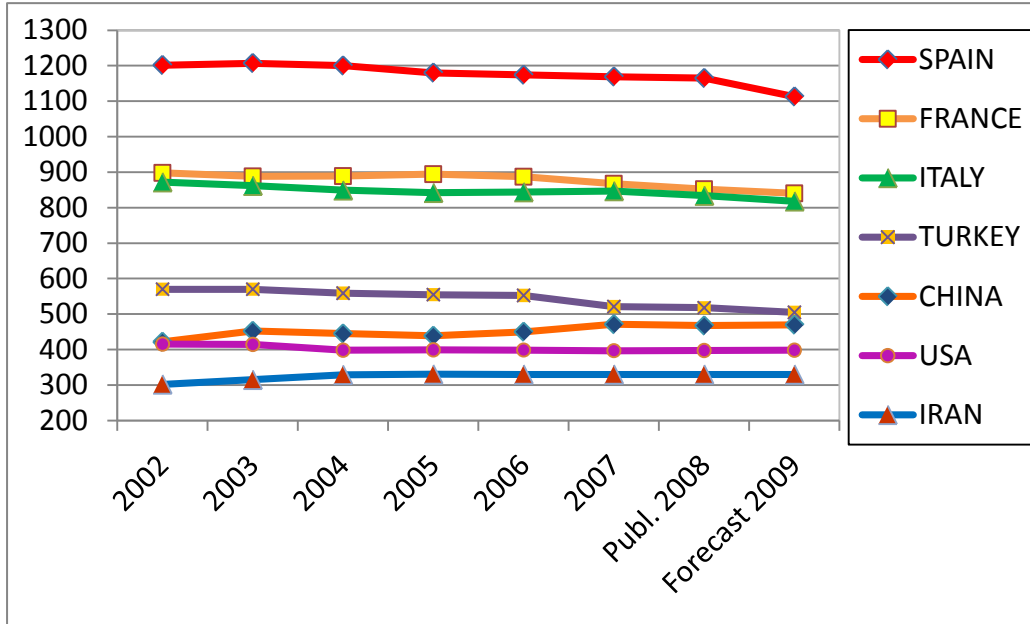
As history also confirms, geographically, Turkey is among the most suitable countries in the world for vineyards. The worldwide vineyard reaches a total area of 7812 mha. in 2006 and Turkey, 4th vineyard in the world by area. Figure below depicts Turkey's level after Spain, France and Italy. Although Turkey is the 4th in vineyards area in the world, the grape production quantity is less. Figure 2 shows Turkey's grape production. An important part of this vineyard remains destined for the production of products not turned into wine, especially in Iran, in Turkey and in Syria. Due to the religious factors, the domestic consumption of wine is well below its counterparts. Turkey's wine export is also very limited. Historically this production has not changed in a greater extend (Figure 3). However the production of wine decreased after 2005 tax increase further.

There has been a substantial decrease in wine consumption since the 1970s for different reasons, but Turkish people rediscovered wine in the 1990s, contributing to the high quality of wine since then.

Economic impact of vinery is not only on the areas of agricultural sector employment and profits such as number of grape growers, grape bearing acres, grape sales. The biggest value added can be achieved on wine Industry Direct Impact: change in wineries; winery sales revenues. Wine Industry Value Added can be in million in distributor share of Turkish wine revenue; million in retail and restaurant share of Turkish wine revenue; number of wine-related tourist visits; estimated wine-related tourism expenditures. The other Grape Products compared to wine product: grape juice, raisins and grape product sales; retail value of table

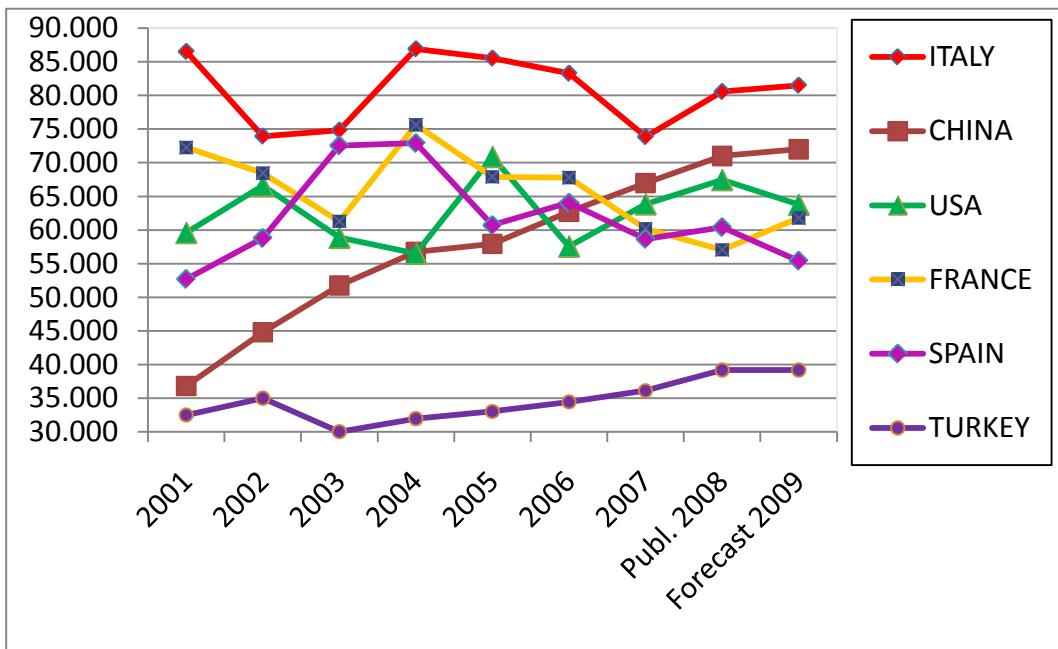
¹ which is a state alcohol producing company.

grape sales; retail value of raisin sales can be minimal. It is also clear that the total Taxes Paid will also higher as wine production grows.



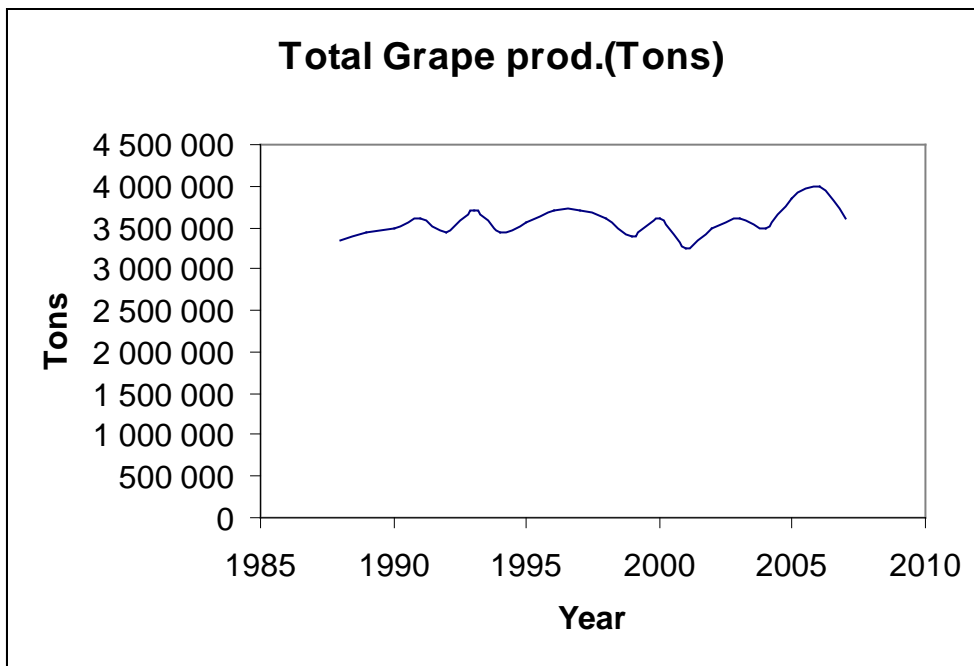
Source: OIV

Figure 1: Vineyard share of the World and Turkey (in 1000 ha)



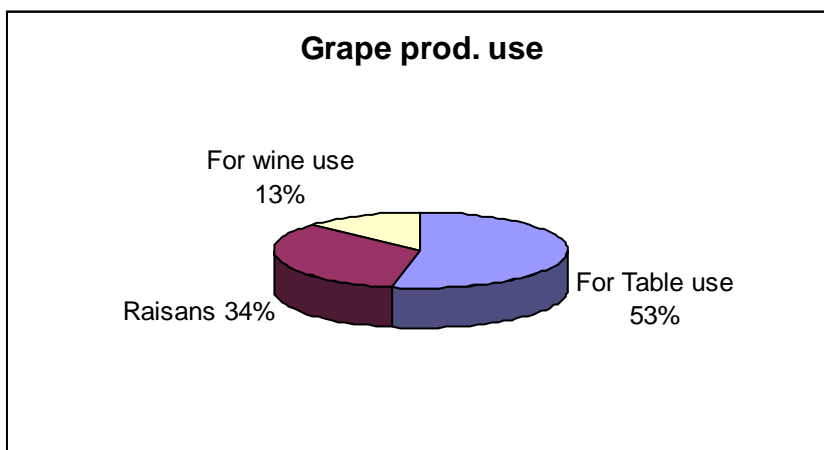
Source: OIV

Figure 2: Top grape producer countries and Turkey's share.



Source: Turkish Statistical Institute, TUIK .

Figure 3: Grape production by a longer history in Turkey.



Source: TUIK

Figure 4: Turkish grape production in use.

Year	Area (decare)	Production(Tons)	For table use	Raisins	For wine use
2004	5 200 000	3 500 000	1 900 000	1 230 000	370 000
2005	5 160 000	3 850 000	2 000 000	1 400 000	450 000
2006	5 138 261	4 000 063	2 060 167	1 495 697	444 199
2007	4 846 097	3 612 781	1 912 539	1 217 950	482 292

Figure 5: Recent grape use statistics (Source: TUIK)

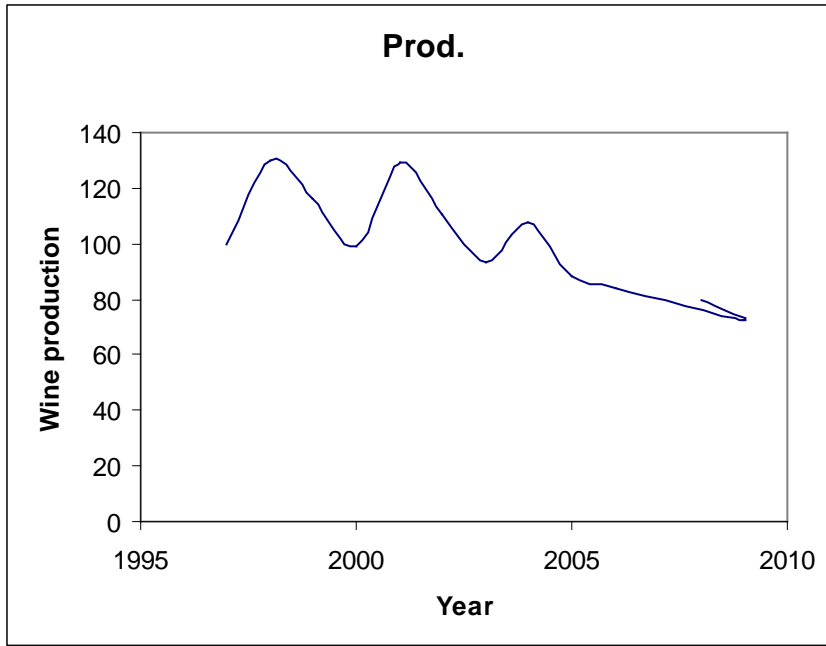


Figure 6: The impact of year 2005 increase in taxes on wine production (Source:TUIK)

Figure 7: Wine Grape Varieties by Regions in Turkey		
Regions	White	Red
Marmara and Thrace	Clairette Pinot Chardonnay Riesling Semillion Beylerce Yapıncak Vasilaki	Pinot Noir Ada karası Papazkarası Karışeker(kontra) Gamay Karalahana Cinsault
Aegean	Semillion Bornova misketi Sultaniye	Carignane Çalkarası Grenache Merlot Cabernet savignon Alicante Bouschet
Central Anatolia	Emir Hasandede Narince Kabarcık	Öküzgözü Boğazkere Kalecik karası Papazkarası Dimrit Sergikarası Burdur Dimriti
Mediterranean	Kabarcık Dökülgen	Sergikarası Goğazkere
South East	Dökülgen Kabarcık Rumi	Horozkarası Öküzgözü Boğazkere Sergikarası

Source: Wine sector in Turkey, by Cengiz Karabayır.(http://www.igeme.org.tr/Assets/sip/tar/Wine_08.pdf)

The added value of wine sector is higher than auto industry, as one of Turkish winemakers claim. Starting with a wine-producing capacity of 3,000 liters in 1943, the Turasan Winery has come a long way to become the tax champion in Nevşehir region in recent years. The wine sector could increase its brand value greatly if the burden of high government taxes and lack of incentives were removed. Not to mention the impact of large current account deficit after the export.

This study uses a standard and widely used methodology which includes direct, indirect, and induced economic impact in order to present the full picture.

3. Problems of Turkish Viniculture and wine production and the tax impact.

According to the survey carried out by Gümüs and Gumus (2007), the most important problems of Turkish wine production are; High consumption taxes, unregistered economy and lack of support from government. For example as a result of excessive olive production support in the north west of wine growing region of Turkey, vineyards were uprooted and left their place for young olive trees. The number of Olive trees has increased from 75000 to 350 000 and this has been determined to be a development going against vineyards between 1993 and 1997 (Günger and Güngör 2003). It is not only subsidy for alternative agricultural production it is also the chain of high consumption taxes are introduced after August 2002. The first consumption tax on wine was 48,7% imposed on table wine and 212% on sparkling wine. After the first tax imposition the tax rate changed five times in the following three years. It was than finalized a 63,3% private consumption tax on house wine and 275,6% on sparkling wine. It was also added that the wine has to have a fixed minimum price of 3,28 TL/Lt (1.8 Euro) for house wine and 11,212TL (6,2 Euro) for sparkling wine and all other wines (Gümüs and Gümüs 2007). Infact these amendments almost doubled the wine prices in 2005. Basic house wine price rises from 5TL (P1) to 10TL (P2) in 2005. The increase in price, reduced the house wine quantity sold from (Q1)92795123 Litre to (Q2) 82391164 Litre from 2005 to 2006, according to Turkstat data source.(decrease by 10403959 litre).

A simple demand elasticity of wine in Turkey for these years can be looked at:

Since Q1: 92795123 Litre and Q2: 82391164 Litre from 2005 to 2006, according to Turkstat data source. The quantity sold decrease by 10403959 litre in one year. By using the simple arc elasticity formula E_p :

$$E_p = \frac{\frac{Q_2 - Q_1}{(Q_1 + Q_2)/2}}{\frac{P_2 - P_1}{(P_1 + P_2)/2}}$$

The price elasticity of demand is (E_p)= 0.18 which means inelastic. Understandably basic price responsiveness of house wine is low. It confirms that house wine is a basic goods. The basic principle of Taxation on house wine in regards to the price: High priced wine pays almost same taxes as the lowest priced wine (excluding VAT –rate) in Turkey. This policy encourages a higher quality wine production and consumption.

Taxation policy is right for raising tax revenue but not that right for wine sector which needs production incentives. Long run production capacity damaged and government reduced those taxes in 2010 but still higher as it is far from being encouragement. The details of wine producing sector can tell the problems further.

The latest regulations on the wine sector necessitate almost 2 Turkish Liras of private consumption tax per one litre of wine, an amount that does not include the value added tax.

Wine producer: If you sell 100,000 liters of wine, you have to pay almost 200,000 liras as private consumption tax within 15 days. The wine producers expected to subsidize this money

in this case. Wine companies have to take out bank loans to pay taxes, which means paying constant interest to keep the business running.

Increasing value added can be done by the increase of the quality of wine but before the quality, Turkish grape use needs to be converted to wine making as opposed to the use of raisins and table grapes. If we compare the retail price of raisins and table grapes with basic retail house wine, regardless of the quality improvements it is possible to achieve high value added in Turkish grape production.

4. Value added loss and alternative scenarios

In this section, we have examined the alternative scenarios for Turkish wine production. Our first scenario is the continuation of current state of viticulture and wine production. The second scenario is if Turkey leaves the leading role in world raisin production as it is and converts the table grape production to wine grape production. i.e. 53% table consumption is converted to wine production. The last scenario is the conversion of total grape production into the wine production such as France, Spain and Italy percentages.

It is clear that in our preliminary results show, the highest value added for the economy is achieved within the third scenario.

5. Conclusion

Due to the inelastic demand in house wine, a high taxation policy is good for increasing the short run government revenues, but this claim is no longer valid for the long run. In fact the use of grapes for raisins or fresh usage creates a huge economic loss and in the long run also a loss in government revenue. 'Anatolian old world wine' can claim its title back if the government policies on taxation reviewed and subsidies to the sector introduced. All is there to improve Turkish wine and viticulture to its world stages.

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