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"AN ASSESSMENT OF VIABILITY OF EXPORTING MOLDOVAN WINES IN THE US: NECESSITY OR OPPORTUNITY?"

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Honour Declaration

"I declare that the work in this assignment is completely my own work. No part of this assignment is taken from other people's work without giving them credit. All references have been clearly cited."

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Abstract

In 2006, Russia impose an embargo on Moldovan wines. As a consequence, Moldovan wine industry felt to the ground. The industry stood in an uncertain economic situation and in order to revive it, Moldovan winemakers should consider finding new markets for their wines.

This thesis analyse the feasibility of exporting Moldovan wines into the largest wine market in the world, the U.S. wine market. It evaluates the characteristics of Moldovan wine industry and its opportunities in relation to the U.S. wine market. The thesis focuses on the evolution and trends of both the U.S. and Moldovan wine markets, the export challenges that Moldovan industry faces and the import barriers that the U.S. market has.

Moreover, this research investigates and analyses the internationalisation process of Moldovan wine firms. This process, along with its theories, approaches and models, is examined and transposed with the data obtained from interviews. The interviews are part of the qualitative research that was employed in this study. The qualitative research describes how Moldovan wine firms internationalise, as well as identifies factors, motives, challenges and obstacles that are related to the internationalisation process.

The findings from the interviews and literature reviewed, showed that Moldovan wine firms face various challenges and obstacles when they internationalise. However, their wines exhibit competitive advantages that need to be valorised.

Key words: Moldovan wines, Internationalisation process, US wine market

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List of Abbreviations

AVA	American Viticultural Area
AVE	Ad Valorem Equivalent
CBP	Customs and Border Protection
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
IMF	International Monetary Fund
LPI	Logistics Performance Index
Mha	millions of hectares
mha	thousands of hectares
Mhl	millions of hectolitres
NTB	Non-tariff Barrier
OECD	Organisation for Economic Co-operation and Development
OIV	International Organization of Vine and Wine
ONVV	National Office for Vine and Wine
SPS	Agreement on the Application of Sanitary and Phytosanitary Measures
TBT	Agreement on Technical Barriers to Trade
TTB	Alcohol and Tobacco Tax and Trade Bureau
WTO	World Trade Organisation
WWTG	World Wine Trade Group

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1 INTRODUCTION

1.1 Background

Moldova is situated in the eastern part of the European continent and in close proximity to the Black Sea, at 46-48˚ latitude, similarly to other well-known wine regions in Europe. Its territory is characterised by hilly plains and valleys that accounts for a major part of the Moldovan land mass. Its soils are highly fertile with a high percentage of humus, with Chernozem predominating the most part of Moldovan soils. Consequently, this gives higher agriculture yield and favourable conditions for vine crops. Moldovan vineyard surface area extends over 148 thousand hectares and are mainly concentrated in the central and southern part of the country.

The production of wines in Moldova has been showing a fluctuating trend during the 1995-2009 period. This is mainly due to unfavourable weather conditions. Starting with 2009, wine production in Moldova is characterized by slow and steady increase. In 2013, the volume of wine produced in Moldova was 1.4 Mhl. In 2012, Moldova ranked 14th in the world by wine production, with 1.5 percent of world wine output.

Moldova has over 140 wine companies, which employ over 250 thousand citizens. On its territory are grown a large variety of grapes, of which 90 percent represent internationally recognized grape varieties (e.g. Cabernet Sauvignon, Sauvignon Blanc, Traminer, Pinot Blanc, Chardonnay, Pinot Gris, Pinot Noir and Bastardo). In addition, Moldova has its own local wine varieties, such as Fetească alba, Fetească regală, Fetească neagră, Plavai, and Rara neagră. From these grapes are produced high-quality wines that have been appreciated and awarded on most important wine contests (e.g. Decanter World Wine Awards, International Wine Contest, ProWein Düsseldorf etc.).

“Wines of fresh grapes, including fortified wines” commodity, as it is classified under Harmonized System, is ranked 4th most exported commodity in Moldova. Annually, 67 million bottles of Moldovan wines are exported in more than 30 countries of the world, of these 55 percent are red wines. Several former Soviet Republics import the best part of Moldovan wines (e.g. Belarus, Russia, Kazakhstan, Ukraine, and Georgia). This group of countries accounted for 74.18 percent of Moldovan wine exports in 2013.

In the last few years, Moldovan government engaged in building brad awareness for its wines. Thus, the National Office for Vine and Wine (ONVV) was created in 2013, to deal with promotion of its wines on internal and external markets. Consequently, in December 2013 ONVV launched a new national wine brand “Wine of Moldova” aiming to build the image of Moldovan wines abroad.

1.2 Problem Statement

After negotiations over the disputed territory of Transnistria hit boiling point in 2006, Russia tried to inflict economic harm on Moldova and imposed ban on Moldovan wines. The Russian government claimed that the reason for this embargo was that technical analysis had shown that the wines imported from Moldova contain high levels of heavy metals and pesticides and they do not fall under Russian consumers’ standards. In consequence, Moldovan total wine exports experienced a decline of 42.09 percent in 2006, compared to 2005. Specifically, the exports of Moldovan wine in Russia indicated a decline of 76.51 percent, in 2005-2006 period.

In 2007, Russia partially suspended the ban on Moldovan wine. However, in September 2013, Russia again imposed a ban on imports of Moldovan wines. This time, the wine import restrictions were focused at forcing Moldova not to sign up and ratify the Association Agreement with the EU. In 2013, Moldovan wine accounted for 3 percent, in trade value, of all the wine drunk in Russia, compared to 36 percent in 2005. According to the Moldovan Government, the ban has cost Moldova $6.6 million.

Related to the above, it demonstrates that Moldovan wine industry is highly vulnerable to the external factors and adversely influenced, especially when it is used as a political leverage. These scenarios took place due to the fact that the Moldovan economy is heavily based on wine exports and its wine industry represent a strategic sector. Moldovan wine sector accounts for 3.2 percent of the its GDP and 7.5 percent of its total exports.

Drawing these circumstances together, it indicates that Moldovan wine industry stands in an uncertain economic situation and should consider finding new markets for its wines. For Moldovan winemakers, domestic market is important, however, foreign markets are more attractive, both in terms of size and in terms of value. Moldovan wine market is oversaturated. The wine production is almost three times higher than wine consumption. Therefore, the winemakers have a wine surplus that need to be exported.

1.3 Aim and Delimitations

The aim of the thesis is to assess the viability of exporting Moldovan wines into the U.S. market. The aim will be achieved through describing, explaining, analysing, and evaluating the characteristics of Moldovan wine industry and its opportunities in relation to the U.S. wine market. The thesis focuses on the evolution and trends of both the U.S. and Moldovan wine markets, the export challenges that Moldovan industry faces and the import barriers that the U.S. has. Furthermore, the thesis is consolidated through interviews targeted at Moldovan winemaking companies.

Several research questions intend to guide the thesis:

- *What are the trends and evolution of the U.S. and Moldovan wine markets?*
- *What are the challenges Moldovan wine industry faces?*
- *What are the import barriers of the U.S. market for Moldovan wines?*
- *What are the wine preferences in the U.S.?*
- *How do Moldovan wine companies internationalise?*
- *What are the factors that influence Moldovan wine producers to internationalise?*

At the base of this paper stays the internationalisation concept. This process, along with its theories, approaches and models, is explained at a deeper level in the next chapter.

The topic approach in this work is unique because no other researches focused on the internationalisation process of Moldovan wine companies and the U.S. wine market access were done before. This work come as a support tool to Moldovan wine makers to help them make better decision on the internationalisation process, specifically in the U.S. wine market. However, this research imply several limitations:

- The approach of this qualitative research to conduct the interviews via email might have had limitations in terms of diversity and quality of data obtained.
- The sample size of eight Moldovan wine companies might have been too small.
- The primary data obtained from the qualitative research designed for this study was partially translated from Romanian to English, which might have distort the intended meaning of the respondents.
- The research was limited by the time given for this project.

1.4 Thesis Structure

The thesis is structured in 10 chapters (Illustration 1). Each chapter has its peculiarities and is divided in subsections to better organize and structure the paper.

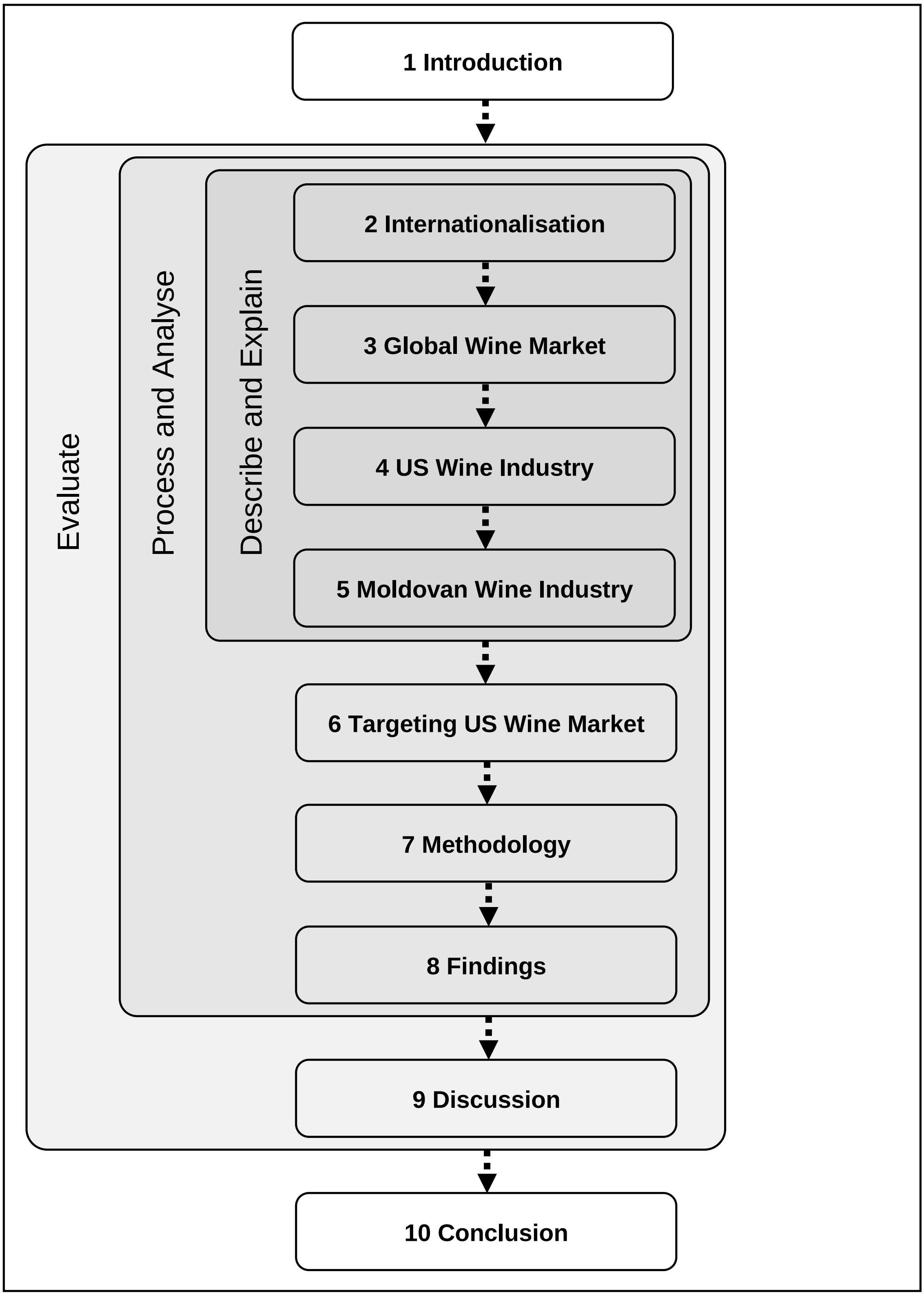

Illustration 1: Thesis structure

Chapter 1 “Introduction”, gives an insight of the topic background and approach the problem statement that will be discussed in more depth latter in the this work.

Chapter 2 “Internationalisation”, approaches the concept of Internationalisation and presents its models and theories.

Chapter 3 “Global Wine Market”, describes the evolution and main trends of the wine market worldwide. Also, describe the major trade barriers wine markets face and introduce international organisations that regulate the wine markets.

Chapter 4 “US Wine Industry”, gives a brief introduction of the history of the U.S. wine industry, then portrays the wine industry trends (e.g. exports, imports, consumption, and production). Additionally, U.S. wine associations and related organisations are presented here.

Chapter 5 “Moldovan Wine Industry”, starts with the characteristics of the wine industry of Moldova, then gives an insight of the Russian embargo on Moldovan wines and its effects on the economy of Moldova. In this chapter are listed relevant wine associations and organisations of Moldova.

Chapter 6 “Targeting the U.S. Wine Market”, gives an insight into the challenges the U.S. wine industry face and identifies trade barriers, as well as tariff and non-tariff barriers Moldovan wine companies might incur. Moreover, it shows the US Logistics Performance Index and present the wine preferences of Americans.

Chapter 7 “Methodology”, describes the strategy of this research. Also presents the methods used in this work for collecting and analysing the data. Sampling size and sampling approch is also discussed in this chapter.

Chapter 8 “Findings”, presents data sets obtained from the interviews into categories and shows relationships that were found.

Chapter 9 “Discussion”, the findings obtained from interviews are discussed in relation to the literature reviewed in previous chapters.

Chapter 10 “Conclusion”, identifies main points of this research and a set of recommendations are presented here. A further research recommendation is also presented in this chapter.

2 INTERNATIONALISATION

2.1 Background

Intense competition from hegemonic corporations and global economic imbalances have significantly changed the way companies conduct their business activities. To manage this multiplicity of challenges, companies have to entrench positions in their domestic markets and increase the presence in international markets. The decision to expand business operations into foreign markets is one of the most important strategic decisions made by enterprises. This entrepreneurial behavioural process is defined as internationalisation.

As noted by Jones and Coviello (2005), internationalisation is a process of cyclical behaviour that occurs as value-creating events manifested in time and locations. Firms' behaviour is influenced by external environment, which may trigger internationalisation process. Similarly, Welch and Paavilainen-Mäntymäki (2014), consider internationalisation a multifaceted process that is based on a temporal phenomenon.

The literature on internationalisation is abundant and offers different views of why and how firms decide to enter new markets. This abundancy of different methodological approaches during the evolution of the concept of internationalization had blurred the issues but also revealed new knowledge (Volery, 2003). One of the earliest research on internationalisation was developed by Aharoni (1966), who presented internationalisation as a social process through a holistic approach and showed the process and its impact in the marketplace and within the firm. Similarly, Beamish (1990) described the process of internationalisation in which firms increase their awareness of the direct and indirect effects of international transactions on their business continuity, and conduct and establish transactions with other countries. Daly (1999), define internationalisation as a process, which makes reference to the increasing importance of international relations, international trade, alliances, treaties, etc. Thus, he agrees that international means between or among nations, however the core unit remains the nation, yet relations among nations become more important and necessary.

Taking the process of internationalisation from a conceptual point of view, it can be defined as a multidimensional construct (Ramaswamy, Kroeck, & Renforth 1996). The two basic units of an internationalisation strategy, the export and foreign direct investment (FDI), can be substituted by a broad range of entry-mode alternatives. Consequently, internationalisation may encompass different levels of risk and commitment (Beamish & Lu, 2001).

There are evidences that the size, in terms of turnover, and level of internationalisation of a firm are correlated. Volery (2003) for example, admits that small firms are less likely to be engaged in export activities and will show a lower intensity of internationalisation. This is because internationalisation involves a certain degree of risk (Calof, 1994; Masurel, 2001). Accordingly, small firms face a bundle of internal and external obstacles (e.g. insufficient market data, limited resources, poorly handled strategic decisions, and conservative attitudes of owner-managers who prefer not to extend their business operations in foreign markets) (Bagchi-Sen, 1999). By the same token, studies demonstrate that older firms show a higher probability to engage in export activities of goods or services and a higher intensity of internationalisation than young and inexperienced firms (Westhead, Binks, Ucbasaran & Wright, 2002; Burgel, Fier, Licht & Murray, 2001). However, these results are contradicted by other studies. Ursic and Czinkota (1984) and Autio, Sapienza, and Almeida (2000) for example, indicated that the firm age was at best inconclusive. Another important aspect of the internationalisation likelihood of a firm is its type of business activity, which has been found to be related with its capacity to export its goods or services abroad. Thus, manufacturing firms will report a higher level of internationalisation and will be more likely to involve in exports than services firms (Miesenbock, 1988).

Human capital plays a significant role in a firm's performance and internationalisation process. Three aspects of human capital, that differentiate an internationalized firm from a non-internationalized firm, can be distinguished. First, a high experienced and skilled manager positively influences the firm internationalisation behaviour (Cavusgil, 1984; Johanson & Vahlne, 1990). Second, the level of international business skills of the top management team have a significant and positive impact on the export performance of the firm (Holzmüller & Kasper, 1991). The more internationally oriented managers are, the more likely they will engage in export activities (Cavusgil, 1984). Finally, some researchers evaluating demographics characteristics have found evidences that a high level of education and the manager's age, specifically younger managers, are linked with internationalisation (Oviatt & McDougall, 1994). However, other studies show that the older the manager is, the more likely that he will show willingness to internationalize the firm (Nakos, Brouthers, & Brouthers 1998).

The internationalisation of firms has been theoretically approached from the earliest days of international business research, however in the last four decades the dispute around Internationalisation has escalated through the elaboration of a range of theoretical models. Methodologies developed from a situational approach to a longitudinal perspective, trying to present internationalisation as a dynamic process. According to Coviello and McAuley (1999), internationalisation is classified into three schools of thought: foreign direct investment theory (FDI), which is the earliest model of internationalisation; stage models, specifically Uppsala model, which is one of the most influential stage models; and the network model, that emphasizes relationships between organisations and represent an accelerated version of stage model.

2.2 Foreign Direct Investment Theory

In the development of internationalisation theory, the foreign direct investment “school” has the longest history. It has evolved from industrial and neoclassical trade theory, and includes a transaction cost approach and internalization of business activities abroad (Volery, 2003).

Foreign direct investment (FDI) can be defined as a financial investment, which imply a lasting interest of a direct investor in a business entity that activates in an economy other than that of the investor (International Monetary Fund [IMF], 1977). According to the Organisation for Economic Co-operation and Development (OECD) (2008), FDI represent the investment net inflows in an enterprise that operates in an economy other than that of the investor, and in result, the investor obtain a lasting management interest, at least 10 percent of voting power of the direct investment enterprise. Summing up, FDI refers to the direct investment into business or production in a foreign economy by a company or individual of another country, either by acquiring a company in the target country or by increasing operations of an existing business in that country.

In a broad sense, FDI can be divided in different categories, which include building new facilities, mergers and acquisitions, intracompany loans and reinvestment of profits earned from overseas operations. From a theoretical perspective, FDI is segregated into two investment types. First type of investment is horizontal FDI, which means the investment of a firm is directed in the same industry it does at home. As a matter of fact, horizontal FDI reproduces its home country-based business activities in a host country. Thus, it acts as an exporting platform in a foreign market and helps to reduce transportation cost and avoid trade barriers (Tülüce & Doğan, 2014). The second type of investment is vertical FDI and refers to firms that separate and outsource their production chain abroad. It is advantageous for a firm to fragment the production chain, if input prices are different between countries (Protsenko, 2004). Therefore, firms are motivated for vertical FDI in order to lower their costs of the production (Tülüce & Doğan, 2014).

It is believed that internationalisation is an investment pattern in a foreign market. Firms that plan to internationalize decide on the location and organisation form in order to minimize the total transaction costs. It is argued that with FDI school of thought, crucial long-term aspects of international expansion are disconsidered; however, the school does not specifically eliminate the increase of decision-making expertise over time (Morgan, 1997). Additionally, according to Oviatt and McDougall (1994), FDI theory represents a static model, which is mainly used for structure and process development in established multinational companies (Volery, 2003).

2.3 Stage Models of internationalisation

A firm's decision to enter export markets follows a gradual sequential process associated with several stages of internationalisation (Volery, 2003). Each stage has its peculiarities and is characterized by a distinctive behaviour. Each new stage imply incremental international commitment and involvement in international marketing activities. Welch and Luostarinen (1988) and Donckels, Haahti, and Hall (1998) noted, within the stage model theory, that the process of internationalisation represent a unilinear evolutionary process with incremental stages and that the process features a cyclical evolution pattern with a differentiation character.

One of the most influential stage models represent Uppsala model, which is based on empirical observations and was first described in 1977 by Johanson and Vahlne. According to this theory, internationalisation process focuses on gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets (Johanson & Vahlne, 1977). Typically, internationalisation process consist of three stages and begins with exporting to a country via an agent, later progressing through more sophisticated forms such as joint ventures and licensing to wholly owned subsidiaries, and eventually, in some cases, production in the host country.

The idea behind the Uppsala model is that preliminary activities of internationalisation are targeted to psychically close markets (i.e. markets that have similarities with the home market). For example, markets that have similar trade practices, culture, language, political systems, etc. That being said, firms are exposed to lower level of risks, because customer's behaviour can be predicted based on market similarities and prior experience in home market. Often firms use indirect export activities in the process of their initial expansion in foreign markets, thus improving their knowledge and expanding their presence in foreign markets. As firms are getting more experienced over time, they increase their foreign market commitment and seek to expand to more psychically distant markets (Coviello & Munro, 1997).

An incremental approach to internationalisation is supported by other researchers as well. Cavusgil (1984) for example, differentiate the firm's management attitude and orientation to expand in foreign markets. He identifies five stages of internationalisation: pre involvement, reactive/opportunistic involvement, experimental involvement, active involvement, and committed involvement. Andersen (1993), define this type of incremental approach to internationalisation as being a result of innovation adoption behaviour, whereby the beliefs and perceptions of managers are mainly shaped by involvement in foreign markets (Coviello & Munro, 1997). According to Pleitner (1997), internationalisation is six-stage model: direct exporting, indirect exporting, direct investments, licensing, and joint ventures. He assumed that a firm may choose one specific mode or method of operation through which can meet customer needs in a foreign market.

2.4 Network Model of Internationalisation

A more recent approach to internationalisation has been to analyse the impact of a firm's relationship networks on its growth. This school of thought is based on theories of social exchange and inter-personal and inter-organisational relationships (Volery, 2003). Relationship networks can range from customers and suppliers to other firms in the same industry or even governments and state bodies.

Firms tend to operate in networks of connected relationships, involving resource exchange among its parties. These relationships become bridges to foreign markets and provide firms with the motivation and opportunity to internationalize. In the same way, the success of a firm in entering foreign markets depends more on its network position and relationships within current markets, than on market and cultural features.

The firm patterns and processes of internationalisation are influenced by a set of formal and informal network relationships it has with its partners. The nature of network relationships established between parties influence the firm's approach to internationalisation, particularly the strategic decisions of foreign market selection and mode of entry, as well as market diversification activities and product development

(Coviello & Munro, 1997). Similarly, a firm's strategy is influenced by a variety of network relationships. As noted by Benito and Welch (1994):

"...the sometimes erratic character of internationalisation for individual firms appears to be related to the seeming randomness with which opportunities and threats relevant to international activity arise in a company's external environment."

The network model of business internationalisation identifies various ways a firm can go international. To name a few methods, integrating in an international value-added chain or outsourcing to third countries a part of the production process or even seizing business opportunities by forming international networks to interchange information or fortifying firm's presence on foreign markets (Volery, 2003). As noted by Coviello and Munro (1997), these external contact methods and network relationships may facilitate, drive, or inhibit a firm's international market involvement and might also impact on the firm's selection of foreign market entry mode. The foreign market entry mode is a gradual process and results from interaction between parties, as well as developing and maintaining relationships over time (Johanson & Vahlne, 1992). Overall, the network model of internationalisation goes beyond the models of incremental internationalisation, thus represent an accelerated version of the stage model of internationalisation.

3 GLOBAL WINE MARKET

3.1 Evolution and trends

Wine, or “godly drink” how Pierre Spahni used to name it, has traditionally been traded down the ages. Spahni (1998) defines international wine trade as a collection of potentially bi-directional links between countries dotting the earth’s surface. As he pointed out in his book on international wine trade:

> *“Can there be a more complex trade than commerce in wine? What other commodity is offered in such infinite variety, at prices from inconsiderable to fabulous....Its markets are as almost various as itself, ranging from regions where it is as everyday as bread to milieus where it is elevated (if that is the word) to a fashion item. Governments vary so widely in their attitude to it that in one country it is covered in health warnings, in others used as a tax cow, while in another the only official injunction is not to throw the empty bottle into the nearest ditch.”*

Until the modern age of globalization, most of the wine was consumed close to where it was produced (Mariani, Pomarici & Boatto, 2012). That being said, only a small part, barely 10 percent of the world’s wine production was exported prior to the 1970s (Anderson & Nelgen, 2009). However, in the last two decades, the wine trade has grown substantially and its shape has experienced important changes. There have been significant changes in consumption, in the geography of production and in the direction of export flows (Banks & Overton ,2010; Mariani, Pomarici & Napoletano, 2011). Also, technological revolution the New World designed, challenges traditional exporters.

Compared to 1990s, when the exported share of global wine production was 15 percent, in 2010 the exported production had reached 30 percent. This growth of the wine trade during the 1990s was influenced by the increase of the wine consumption in Northern America and North Europe, and was compensated for the consumption decrease in Mediterranean countries (France, Greece, Italy, Portugal and Spain), and by the exports increase from so-called New World Wine Producers (Mariani et al., 2012).

Moreover, the wine trade major boost in 1995 was characterized by freeing up world agricultural trade, which began to minimize obstacles imposed during the previous 60 years. In the late 1990s, the world wine market share of the three largest wine producing firms was just 6 percent compared to 78 percent for soft drinks, 42 percent for spirits and 35 percent for beer (Anderson & Nelgen, 2009).

Nowadays more than one-third of all wine consumed worldwide is produced in another country. The New World exporters (North and South America, South Africa, Australia and New Zealand), that have come onto the international scene, presented a serious challenge to Europe's dominance of global wine trade. Moreover, new consumers also have appeared as incomes have grown and tastes and eating habits have broadened. The New World and the Old World differentiate themselves not only in the production volume but also in the type of wine they export and consume. That being said, wine can be classified as non-premium, commercial-premium, super-premium, and sparkling wines. The New World specializes in exporting commercial-premium wines and, although the Old World consumes mainly non-premium wines, it exports super-premium wines (Anderson & Nelgen, 2009). Under Harmonized Commodity Description and Coding System of the World Customs Organisation (WCO), wine is classified under 2204 code "Wine of fresh grapes, including fortified wines" (World Customs Organisation [WCO], 2012).

The period between 2000 and 2011, was characterized by fluctuations in the world wine imports and exports (Figure 1). After a significant increase in imports from 2000 to 2007, the global wine market has declined in 2008 and 2009 due to the international financial crisis, however recovered in 2010 (Mariani et al., 2012). In 2011, world wine imports peaked at 98 Mhl. From 2001 to 2011, imports have increased by 41 percent in volume. The world wine exports and imports are tight together, however exports are normally about 5 percent higher than imports. The top ten world wine exporters in 2011 were France, Italy, Spain, Australia, Chile, Germany, the U.S., the United Kingdom, New Zealand and Portugal. The exports in 2011 were 102 Mhl.

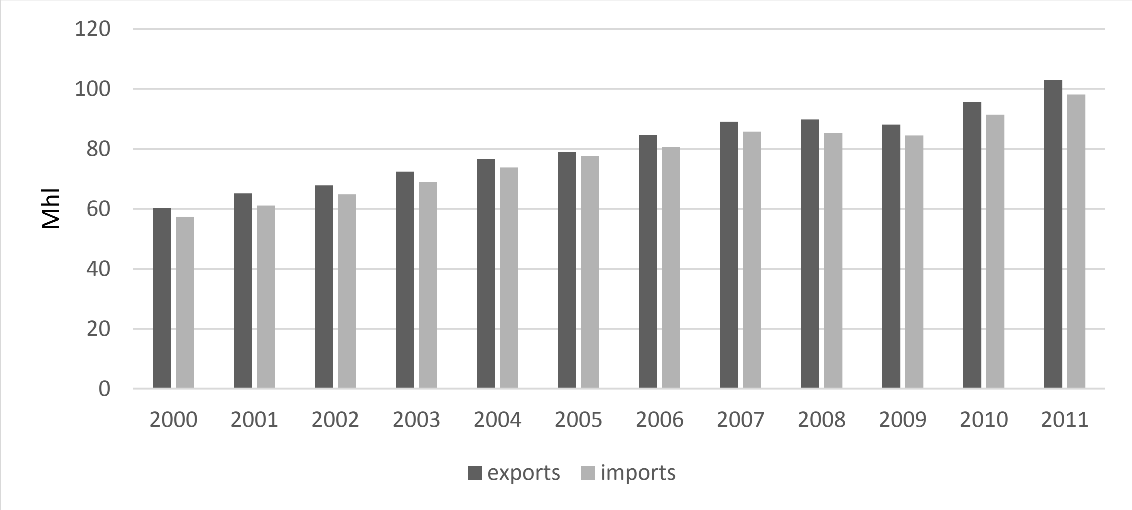

Figure 1: World wine imports and exports

Source: Author’s data compilation from OIV (2015)

As shown in Figure 1, the increase of international wine trade is mainly based on a significant growth in consumption in non-producing countries.

During the 1981 to 1985 period, global wine production culminated at 333.5 Mhl. In contrast, during the 1995 to 2011 period, the highest point was in 2004 at 296 Mhl and the lowermost volume was in 2002 at 257 Mhl. From 2007 to 2011, countries such as Argentina, Australia, Chile. China, France, New Zeeland etc. showed an increasing trend of production (Appendix 1). On the other hand, Bulgaria, Greece, Hungary, Italy, etc. display a decreasing trend of wine production. Ten largest wine producing countries (Figure 2), accounted for 80 percent of the wine production in 2011.

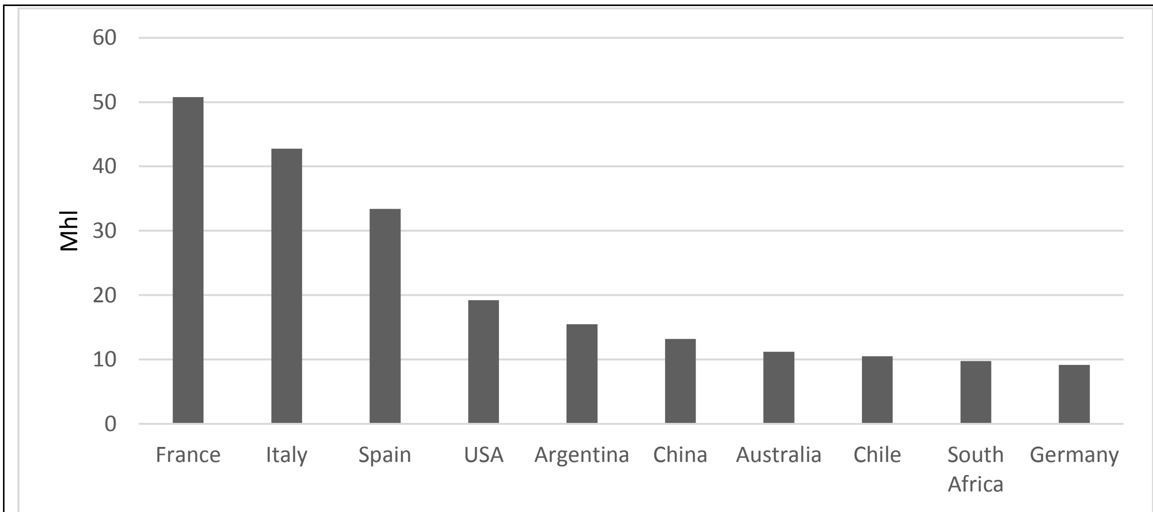

Figure 2: Largest wine producing countries

Source: Author’s data compilation from OIV (2015)

As shown in Figure 2, first three in this top are France with 18.98 percent, Italy with 15.99 percent and Spain with 12.48 percent of the world wine production.

In 2011, production was 267 Mhl, an increase of 1.12 percent compared to 2010 (Figure 3).

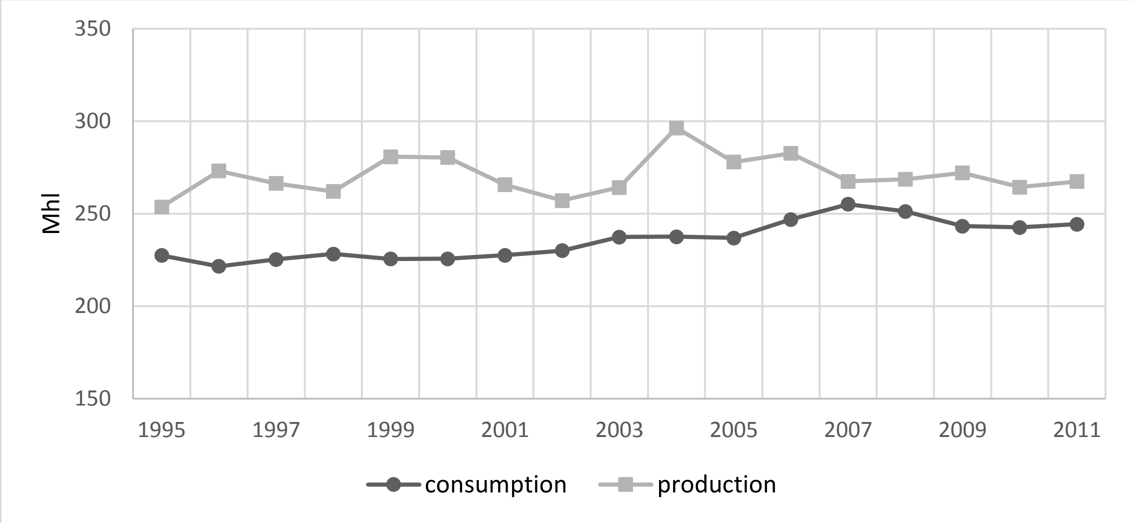

Figure 3: World wine production and consumption

Source: Author’s data compilation from OIV (2015)

As shown in Figure 3, since 2004 world wine production showed a steady decrease, however world wine consumption, on the contrary, displayed an increasing trend. Wine consumption peaked at 255 Mhl in 2007. In 2011, wine consumption was at 244 Mhl, an increase of 0.69 percent compared to 2010. The largest wine consuming countries (Figure 4), accounted for 68.20 percent of the wine consumption in 2011.

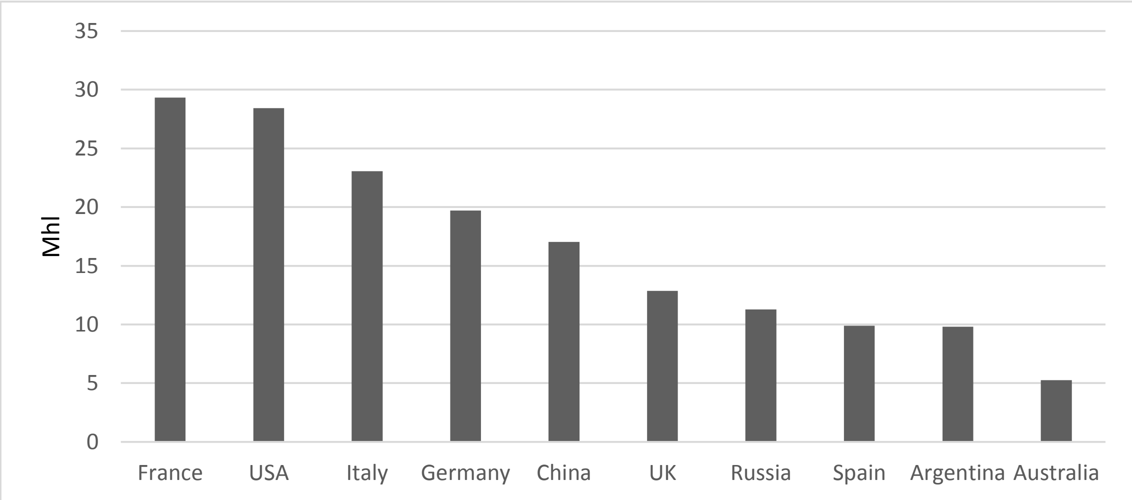

Figure 4: Largest wine consuming countries

Source: Author’s data compilation from OIV (2015)

In the European countries, wine consumption is declining, as opposed to Asia, where wine consumption keeps growing and the forecasts estimate a continuous wine consumption trend (Wine Institute, 2012). In 2013, the U.S. has overtaken France in the volume of wine consumption. Therefore, the U.S. became the world's largest wine consumer by volume at 29.1 Mhl of wine, 0.5 percent more than in 2012.

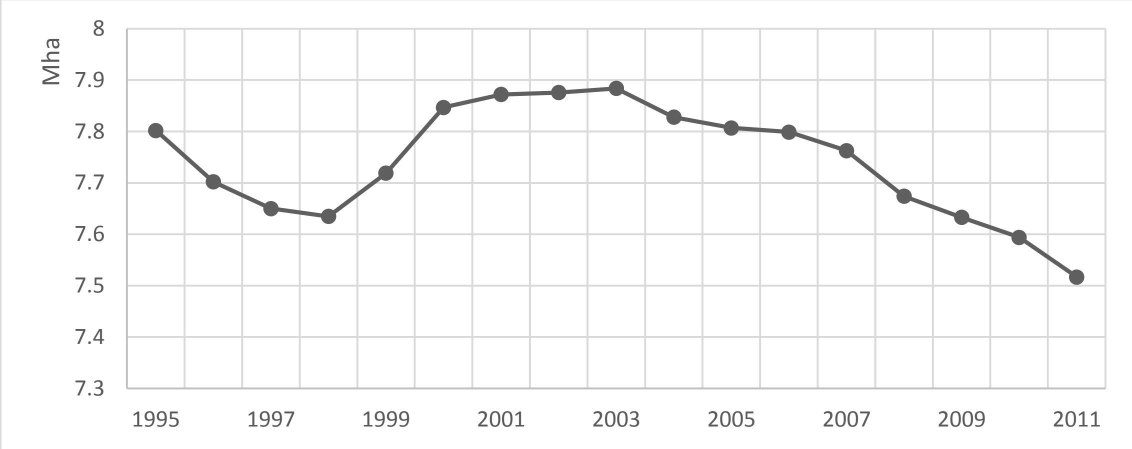

Figure 5: World vineyard surface area

Source: Author's data compilation from OIV (2015)

Worldwide vineyard surface area fluctuated during the 1995 – 2011 period (Figure 5). It peaked in 2003 at 7.8 Mha. Since then, grape-growing surface shows a decreasing trend. In 2011, grapes were grown on a surface of 7.5 Mha. From 2003 to 2011, vineyard area decreased by 4.7 percent (Appendix 2).

3.2 Wine Trade Barriers

Trade barriers represent any restraint on trade of goods or services imposed by governments. Such restraints could be regulations, policies, or government laws that restrict the imports and exports to and from other countries. The most common barrier to trade are tariffs, (e.g.) tax on imports. Those are often established to offer protection to specific industries. However, there are trade barriers other than tariffs, in other words non-tariff barriers (NTBs). NTBs in fact do not encourage trade; on the contrary, they increase the cost of imported goods. Trade obstacles may also include customs clearance, domestic and export subsidies, conformance testing and certification, standards, unnecessary sanitary restrictions, warehousing requirements, distribution services and domestic licensing, among others (Wine Institute, 2012).

Non-tariff barriers is a type of restrictive trade barrier and represent government measures other than tariffs that restrict trade flows. These include sanctions, import quotas, intellectual property laws, bribery and corruption, foreign currency controls, product classifications, inadequate infrastructure, and restrictions that states use for various reasons, of which protectionism is the most frequent (VinIntell, 2012). NTBs that are used to achieve protectionist goals have continued to be debated in international economic law. The Agreement on the Application of Sanitary and Phytosanitary

Measures (SPS) and the Agreement on Technical Barriers to Trade (TBT) represent the NTBs legal framework, within the World Trade Organisation (WTO) (Staiger, 2012). TBTs and SPSs may take the form of health and safety regulations, including phytosanitary and sanitary regulations and standards, environmental regulations, labelling requirements and quality standards, and other marketing regulations as well (VinIntell, 2012).

At times, governments engage in restrictive trade actions, (e.g.) by subsidizing domestic firms. Thus, they distort trade in a desired way by using various tools, (e.g. macroeconomic, fiscal, competition, immigration, or investment). Lack of capable trade-related infrastructure (e.g. poor rail, road, and port infrastructure) and poor telecommunications infrastructure also constitute NTBs. Those slow down and adversely affect internationally traded goods. Corruption, especially in poorer countries, represents another trade barrier. From this base, being forced to bribe, adds up to the final cost of goods, and increases the uncertainty in further transactions. Some countries impose taxes on imports (i.e. protective tariffs), in order to protect their domestic market from foreign competition. The EU's wine sector for example, like most its agricultural products, is protected from imports through diverse import restrictions, such as tariffs and oenological measures.

According to World Bank, the average simple applied import tariff for all goods worldwide is 3.4 percent, including all preferential rates. Without preferential rates, the average is 7.1 percent. On wine, the EU import tariff ad valorem equivalent (AVE) represents approximately 9 percent, for Japan and Switzerland the import AVE is 15 percent and 90 percent respectively. On the opposite side, the U.S. import AVE constitute 1.4 percent. Other countries slightly reduced their import tariffs on wine, however, those rates are still high. For example, China 14 percent; Russia 20 percent; Brazil 27 percent; Vietnam 50 percent; and India 150 percent (Wine Institute, 2012).

Subsidies represent another type of trade barrier. In many cases, under international agreements, subsidies are considered unfair if they are trade deforming. Under WTO, two basic categories of subsidies are defined, prohibited and actionable (i.e. trade deforming and permitted). After the Uruguay Round of multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT), agriculture subsidies were classified into three categories, based on their invasive consequences into the market. The first one, called "Amber Box" subsidies (i.e. prohibited subsidies), represent domestic support measures that are considered to distort trade and production. The second type are "Blue Box" subsidies, which are less invasive. An example of this type of subsidies would be a measure that regulates direct payments for farmers, with condition of limiting their production. This type of subsidies are considered as “Amber Box” in most industries. The third type, “Green Box” subsidies (i.e. actionable subsidies), do not distort trade, or at most have a minimal trade invasion. They are government-funded and do not involve price support.

Governments use wine subsidies as a tool to support, encourage, and finance winemakers giving them a competitive advantage over rivals in the marketplace. The EU wine market is heavily subsidised and regulated (Meloni & Swinnen, 2013). It increases the competitiveness of its wine grape farmers and winemakers by allocating subsidies and providing distribution at low cost. In 2011, the European Community for wine allocated approximately $2 billion in subsidies. Most subsidized countries are the three largest wine producer nations, France, Spain, and Italy, with a total of $155 million (Wine Institute, 2012). The EU consider their wine subsidies as “Blue Box” or “Green Box” type, however these subsidies are distorting trade allowing European producers to be more price competitive in their domestic markets and foreign markets. European winemakers are relieved of most of their overhead costs as they get support from their governments to buy grape vines for planting sorts that are more competitive (Wine Institute, 2012). Half the cost of the wine promotion and the excess wine production is covered by their government, also compensation is provided to producers while their vineyards are being restructured.

Apart from the EU, South Africa and Australia also provide financial assistance for their domestic wine producers by funding industry research and promotional boards. Canada gives both preferential treatment and financial aid to their winemakers. Argentina and Australia provide their wine producers with marketing data and export tax refunds (Wine Institute, 2012).

The EU, and countries such Brazil, Colombia, China, Malaysia, South Korea, Canada, and Russia have their own requirements on wine compounds testing and certifications. Those wine composition standards, certification, and testing requirements act as trade barriers, because they lack standard consistency between countries and result in higher costs to winemakers (Wine Institute, 2012). Similarly, it happens in regards to wine labelling. Producing a unique label to a specific country, results in a notable additional cost without making any factual value to the consumer.

Finally yet importantly, trade barriers can embody government monopolies. For example, Canada, Sweden, Finland, and Norway apply monopoly policies, which restrict trade of the U.S. wine in their markets. The reason for these monopolies is to protect their domestic wine industry, to collect additional taxes, and to control consumption of alcohol.

3.3 International Regulatory Organizations

As any internationally traded good, production and trade of wine are regulated by regional, state, and local laws. Wine regulations may vary, from delimitation of growing regions, maximum levels of production and the agreed types of wines, to production techniques and blending practices (Spahni, 2000). The purpose of legislation on grape and wine production is to protect both the consumer and the producer, also to regulate wine production, to support rural employment and income from viticulture and winemaking, as well as combat wine fraud and environment protection.

After the adverse effects of 2007-2008 financial crisis on wine market, wine rigid regulations must be weakened by continuing to eliminate trade barriers and duplicative regulations. This has to be done on a national and supranational level, by intergovernmental agreements and key international organizations. Governments work together with key international organizations to facilitate wine trade. An example of intergovernmental organization is International Organization of Vine and Wine (OIV). It was established in 1924 and currently has 46 member states. Its member states account for more than 85 percent of the total wine production worldwide and nearly 80 percent of world wine consumption. The OIV has 10 non-governmental international organisations that act as observers. The OIV contributes to international harmonization of new and existing wine practices and standards. Also defines the standards and specifications of vitivinicultural products, and promotes regulatory practices in order to protect fair-trading, integrity, and sustainability of viticultural products.

The World Wine Trade Group (WWTG) is another important international wine organization. WWTG is an informal group consisting of government and representatives from wine-producing nations with an interest in international wine trade. WWTG members are Argentina, Australia, Canada, Chile, Georgia, New Zealand, South Africa, and the United States. WWTG works to remove wine trade barriers, open new markets, and increase sales in both developed and emerging markets. The WWTG has negotiated three agreements and that promote international wine trade:

- The 2001 Agreement on Mutual Acceptance of Oenological Practices (MAA)
- The 2007 Agreement on Requirements for Wine Labelling (Labelling Agreement)
- The 2011 Memorandum of Understanding on Certification Requirements

At the last WWTG meeting in August 2014, which took place in Tbilisi, Georgia, participated as observers Brazil, China and Moldova. At that meeting have been established a set of new international wine regulation principles with an objective to remove unnecessary barriers to international wine exports. Following principles have been formally agreed: relevant standards, regulatory cooperation, avoid unnecessary analyses, common system of units, expression of regulatory limits, harmonization of results expressions, accreditation, and validation of analytical methods.

4 US WINE INDUSTRY

4.1 The Beginnings and Evolution of the Industry

According to OIV, the United States is the fourth largest wine producer state after France, Italy and Spain, with 31 Mhl produced in 2013. However, behind this brilliant success stays a tumultuous and frustrating period of grape growing and winemaking. It starts when the North American earliest settlers struggled to produce wine in the New World that would be as qualitative and competitive as it was in the Old World. The problem was that Vitis Vinifera (a European grape variety characterized by tender, thin skins, delicate flavours, sweet flesh, and high sugar) did not succeed against the diseases and unpleasant climate of North America as Native American grape varieties would do. The Native American grape species are wild, tough, usually sour and small, full of strange flavours. The number of species of native vines found in North America are about half of the number found throughout the entire world (Pinney, 1989). However, the wine from these grapes is not at all by the Vitis Vinifera standards.

Although the Vitis vinifera is quite tolerant and adaptable, it requires specific climate conditions to grow well, for the purpose of winemaking. For clusters to mature the fruit to full ripeness, it needs sufficient sun light, yet for the vine to go dormant, sufficient winter chill (Pinney, 1989). Wine's balance elements in grapes is another consideration. Too much sun light leads to sugar excess in grapes, this in turn reduces the flavor. Too little heat result in overmuch acidity. Favourable conditions for European grape species where found during the colonization in the west. This changed the situation. With a Mediterranean climate, California offers favourable weather for the European grape growth. There grapes prospered and the state became a plentiful wine source that resembled the European wine styles.

The growing of grapes and the winemaking in the United States represented a major economic activity by the beginning of the twentieth century. This changed in 1920, when the 18th Amendment to the US Constitution went into effect. The Amendment resulted in trade prohibition of all alcoholic beverages. As consequence, wine production dropped by 63 percent in 1920, compared to 1919. In volume wine production in 1919 was over 208 million liters; in 1920 it dropped to 75 million liters; in 1922 it was just over 22 million, and by 1925 it reached a low of 13,7 million (Pinney, 1989).

The 18th Amendment was repealed by 21st Amendment, which took effect in 1933. By that time, the U.S. wine industry was ruined, its machines become obsolete, its distribution channels had clogged, and its markets had disappeared. From 1919 to 1925, the wine production dropped by 94 percent (Pinney, 1989). Prohibition had changed Americans' wine preferences. In that period, consumers preferred cheap jug wine, and fortified wine. The adverse effects of Prohibition on the U.S. wine industry were deepened by Great Depression and war that followed. Despite all these shocks, U.S. wine industry survived and prospered, and perhaps overstepped its previous ascendancies, this time with greater force.

4.2 Trends in Wine Industry

Since 1980, grape-growing regions in the U.S. are regulated by the Alcohol and Tobacco Tax and Trade Bureau (TTB). They are called American Viticultural Areas (AVAs) and resemble the French “Appellation d'Origine Contrôlée” (AOC). At the base of AVAs, stays the concept of terroir; it allows consumers to identify the origin of a wine. Moreover, the use of an AVA identifier on a wine bottle label helps to accurately determine the reputation, quality, and other characteristic of a wine. In 2015, TTB identifies 229 AVAs, from the largest the Upper Mississippi River Valley AVA with 77,000 km2, to the smallest Cole Ranch AVA with only a quarter of a km2 (TTB, 2015). In 2010, there were approximately 23,000 grape-growing farms, of which between 14,000 and 16,000 were vineyards (Hodgen, 2011).

According to OIV, the U.S. is ranked sixth in the world by largest vineyard area surface by country, after Spain, France, Italy, China, and Turkey, having more than 407 mha under vine in 2012.

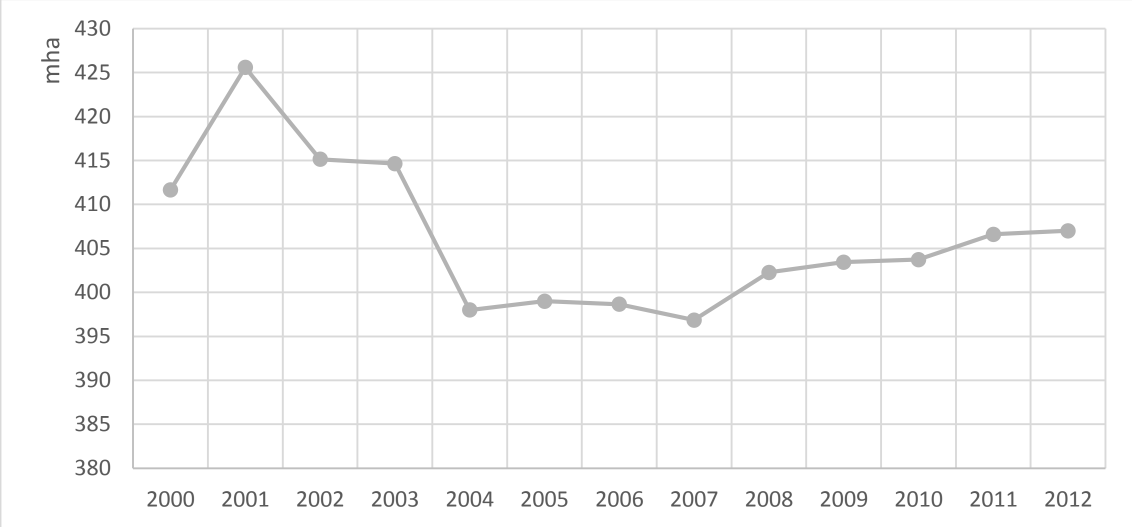

Figure 6: US vineyard surface area

Source: Author’s data compilation from OIV (2015)

From 2000, the total U.S. grape bearing area decreased 1.14 percent, compared to 2012 (Figure 6). Despite the fact that U.S. vineyard surface area decreased, the number of wineries added up. Between 1996 and 2012, the number of wineries increased impressively from 1755 to 8806, an annual compound growth rate of over 30 percent.

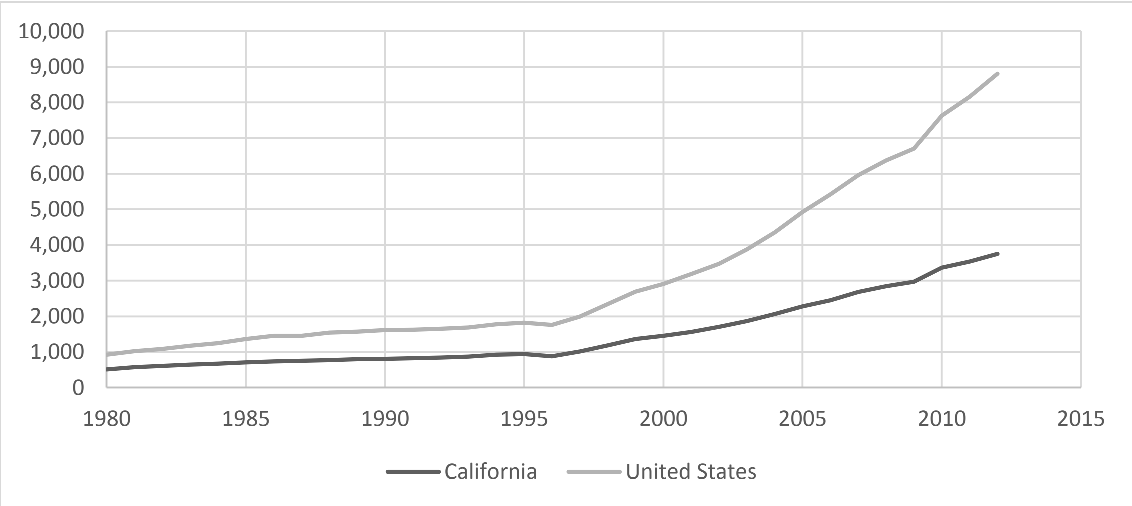

Figure 7: Number of California and United States wineries

Source: Author’s data compilation from Wine Institute (2015)

California wineries accounted for 42 percent of total U.S. wineries (Figure 7).

Region	Percentage
Northeast	10.2
South	13.3
Midwest	12.6
Mountain	3.8
California	44.1
Northwest	16.0
Total	100

Table 1: Percentage of US wineries by geographic regions

Source: Author's data compilation from TTB (2010)

The percentage of U.S. wineries by geographic regions in 2010 are as shown in Table 1. (TTB, 2010)

The most popular wine grape varieties that are grown in the U.S. are Chardonnay, Cabernet Sauvignon, Merlot, Pinot Noir, Zinfandel, French Colombard, Sauvignon Blanc, Pinot Gris, Syrah, and Rubired (Hodgen, 2011). The wine from these grapes is made throughout the U.S. In fact, all fifty states are involved more or less in wine production, however, California accounts for 90 percent of the volume of all wine production in the U.S.

In 2013, the U.S. wine industry revenues from exports reached $1.56 billion and in volume, exports were at 4.14 Mhl, an increase of 3.2 percent compared to 2012. The U.S. wine exports faced various barriers (e.g. foreign wine subsidies; import tariffs; different foreign wine composition standards; and non-tariff barriers, such as wine labelling regulations, government monopolies, and import licensing and customs clearance requirements (Renée, 2014). Despite the fact that U.S. wine exports abroad faced a range of trade barriers, the wine exports represented about 7 percent of total global wine exports in 2013.

Almost half of U.S. wine exports went to the EU in 2013. Thus, the EU is the most important market for the U.S. wines, even though the 2006 Agreement on Trade in Wine between U.S. and EU still remains in the first stage of negotiations and have various issues. In contrast, EU exports wines of almost $3 billion into the US, this represent almost seven times more than the US exports wines into the EU. The wine imports into the U.S. market from the EU account for more than 60 percent (Wine Institute, 2012).

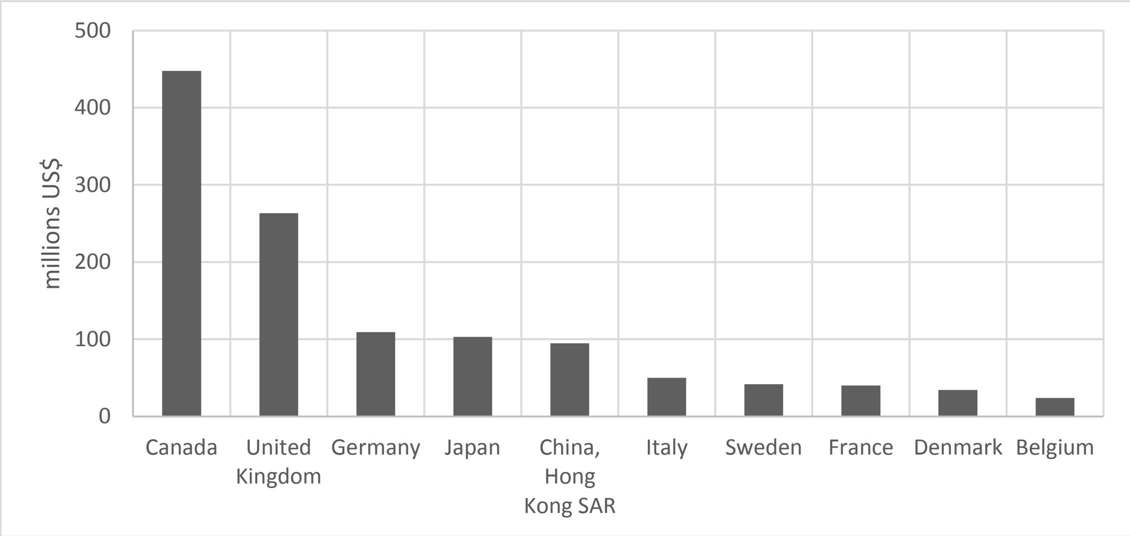

Figure 8: Largest importer countries of the US wines

Source: Author's data compilation from Comtrade (2013)

As shown in Figure 8, the second most important market by region is Canada, with almost 30 percent of U.S. wine exports. Another 12 percent of exports are shared by China at 5 percent, Hong Kong 6 percent, and Taiwan 1 percent. In 2013, Japan accounted for 7 percent of U.S. exports (Renée, 2014).

For the U.S. wine producers, exports in Asia have grown drastically in importance due to the fact that consumption of wine is rising in the region, as opposed to the EU where consumption is declining. Asia is the third largest market by region for U.S, after the EU and North America. The wine exports to this region were at $364 million, an increase of 50 percent compared to 2010 (Wine Institute, 2012). In 2014, U.S. wine exports reached $1.49 billion in winery revenues according to Wine Institute. This represent a 64 percent increase from five years ago and is the second highest dollar value for U.S. wine exports. U.S. wine exports slightly decreased compared to 2013.

In regards to imports, from 2013 the U.S. is ranked first by the value of imports worldwide. Thus, the U.S. is the world's largest wine importer, with 25 percent share of wine imports and it is valued at $5.2 billion in 2013.

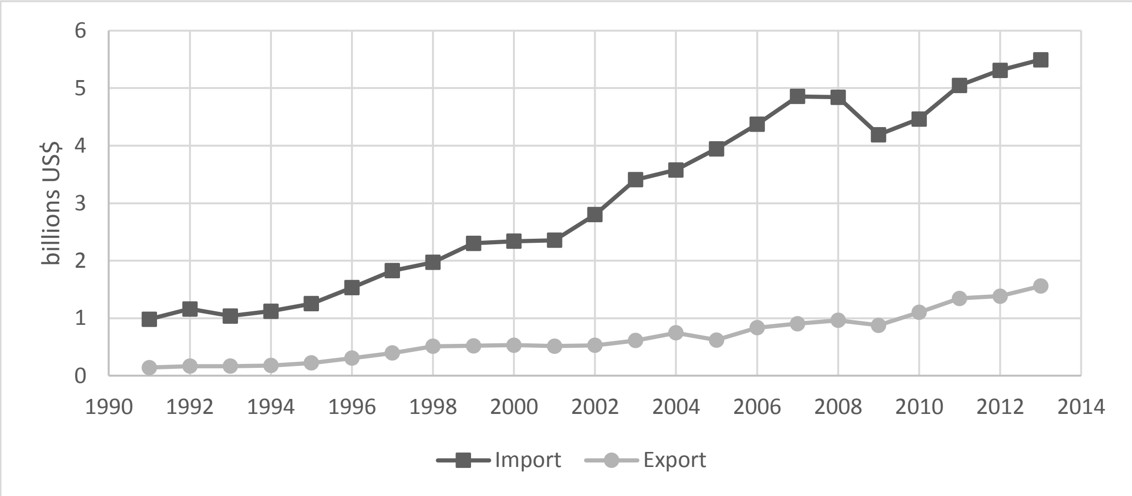

Figure 9: US wine imports and exports

Source: Author's data compilation from Comtrade (2015)

In contrast, exports were $1.56 billion in the same period. This is more than three times less than imports (Figure 9). In consequence, in 2013 the U.S. trade deficit in wine was estimated at $3.7 billion (Renée, 2014).

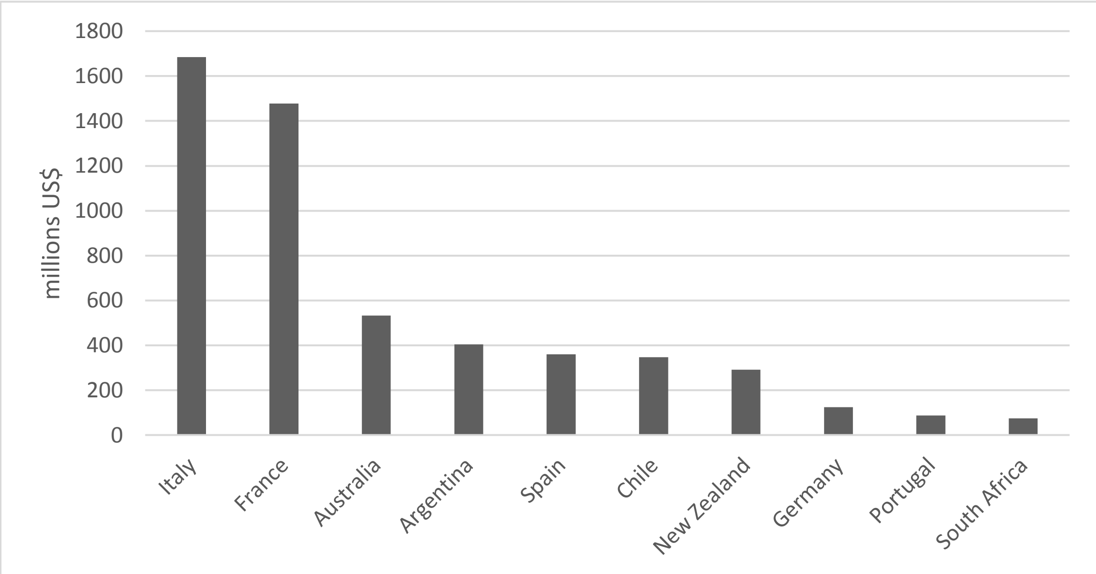

Figure 10: Largest wine importers in the US

Source: Author's data compilation from Comtrade (2013)

In 2013, the largest wine importer in the U.S. was Italy with $1.6 billion, followed by France with $1.4 billion and Australia $533 million (Figure 10).

U.S. wineries produce almost 12 percent of the World's wine, making the U.S. the third largest wine producer behind France at 15.6 percent and Italy at 14.9 percent (Faostat, 2013). The production of wine takes place throughout the United States. However, California is leading the production, accounting for about 90 percent of all wine production in the U.S., with $23 billion in retail value in 2013. Oregon, Washington, New

York, and Virginia are other important wine producing states. In 2013, the total sales retail value of wine in the U.S. is estimated at $36.3 billion (Renée, 2014).

Figure 11: US wine production and consumption

Source: Author's data compilation from Wine Institute (2015)

As shown in Figure 11, the production and consumption of wine in the U.S. display a steady growth. As of 2011, the largest six U.S. wine suppliers accounted for 64.4 percent market share of the U.S. wine market. The largest is E&J Gallo Winery at 22.8 percent, followed by The Wine Group at 15.9, Constellation Brands 12.8 percent, Trinchero Family Estates 4.9 percent, Treasury Wine Estates 4.5 percent and Bronco Wine Co. 3.5 percent market share (Howard, Bogart, Grabowski, Mino, Molen & Schultze, 2012). E&J Gallo Winery is also is the largest in the world and includes 60 brands.

Concerning consumption, in 2013 the U.S. has overtaken France in the volume of wine consumption. Therefore, the U.S. became the world's largest wine consumer by volume at 29.1 Mhl of wine, 0.5 percent more than in 2012 (OIV, 2015). However, per capita consumption of wine in the U.S. is about 10.5 liters per person. This is at least twice as lower as in most European countries. In the EU per capita consumption varies between 25 and 45 liters per person.

4.3 US Wine Associations and Related Organizations

In the U.S. wine industry get support from a varieties of state organizations, non-profit associations, forums and educational foundations. The Alcohol Beverage Industry Electronic Commerce (ABIEC) Council and WineVision for example, represent voluntary non-profit organizations, which provide a forum for alcohol beverage industry members. American Institute of Wine & Food, The American Wine Alliance for Research &

Education (AWARE), Century Council, American Wine Society (AWS), and Women for WineSense are public non-profit educational foundations, which promote better appreciation, understanding and quality of wine and food. California Association of Winegrape Growers is an organization that serves grape growers to enhance the business of grape growing through research and development. National Grape & Wine Initiative (NGWI) is a nationwide coalition committed to improve and expand wine industry. Wine Market Council is a non-profit association committed to expand the wine industry's consumer base in the US. Wine America is a national trade organization of American wineries that represent 800 wineries in 41 states. Winegrape Growers of America is a confederation of state organizations and represent 95 percent of American wine grape production. The largest and one of the most important U.S. wine associations is Wine Institute. It includes nearly 1000 California wineries and affiliated businesses. This association represent the wine industry at the state, federal and international levels. Wine Institute represents 95 percent of California and 85 percent of U.S. wine producers.

5 MOLDOVAN WINE INDUSTRY

5.1 Wine Industry Characteristics

Moldova's national wine day is celebrated each year in October. Having a national celebration day dedicated to wine demonstrates the importance of winemaking that is deeply tied to the country's traditions. The region's wine history starts in 3000 BC, while the first vines were found here 7000 years BC. Although the World Wars (I and II) and the revolutions slowed down the development of winemaking in Moldova, during the USSR Moldova became the biggest wine producer; every 2nd bottle of wine consumed in USSR was from Moldova (Wine of Moldova, 2015).

Moldova is situated in the eastern part of the European continent and in close proximity to the Black Sea, at 46-48˚ latitude, similarly to other well-known wine regions in Europe. Its climate is moderately-continental and is characterized by cold winters and hot summers. Moldovan soils are highly fertile with a high percentage of humus, which gives higher agriculture yield. Chernozem represent 75 percent of all Moldovan soils (Lerman, Csáki, & Moroz, 1998). These features give vine crops favorable conditions in the growing season. Due to the fact that Chernozem soil is widespread in Moldova, allows it to have a great production potential and gives it an advantage over other wine producing countries.

Moldova has a well-established wine industry and represent a strategic sector for its economy. It accounts for 3.2 percent of the GDP and 7.5 percent of total exports (Wine of Moldova, 2015). Its vineyard area extends over 148,000 hectares (OIV, 2015), more than Bordeaux vineyard area of France that has 120,000 hectares (BBR, 2015). Moldova's vineyard area counts for 3.8 percent of its territory and 7 percent of its arable land. This represent the biggest density of vineyards in the world (Wine of Moldova, 2015). Vineyards are mainly concentrated in the central and southern part of Moldova and are divided into four wine regions: Codru (Center), Balti (North), Valul lui Traian (South West), and Stefan Voda (South East) (Appendix 3).

The country's economy benefits greatly from wine production, not only from direct sales on both local and export markets, but also from wine tourism, which is surprisingly well developed here. Moldovan wine tourism passes through a renaissance period mainly due to its famous wine cellars. Many tourists visit each year Milestii Mici, the largest wine cellar and largest wine collection in the world, according to Guinness World Records 2007. This wine cellar complex is situated near the capital Chisinau at 40-85 meters under the ground and is stretching for 250 km, of which half are currently in use. Temperature and the humidity inside this wine city is ideal for storage and stays constant all year around, at 12-14 C temperature and the 85-95 percent humidity. The wine collection of Milestii Mici constitutes nearly 2 million bottles, of which 70 percent of wines are red and 20 percent are white, rest of it represent dessert wines.

Other popular wine tourism destination is Cricova wine complex, which is second largest wine cellar in Moldova. Its galleries have a total length of 70 km and streets are named in a representative manner: Cabernet-Sauvignon, Pinot Noir, Merlot, Feteasca, etc. Moreover, it has a street dedicated to OIV. This wine cellar stores at 35-80 m depth 1.3 million bottles of 465 different wine brands (Cricova, 2015). Among thousands of tourists, were also notorious personalities that visited Cricova wine cellars: Yuri Gagarin, Angela Merkel, John Kerry, Vladimir Putin, etc. As Financial Times stated: “After an all-night tasting session in 1966, the cosmonaut Yuri Gagarin joked that he found it easier to leave earth than the Cricova winery in Moldova” (Oliver, 2014).

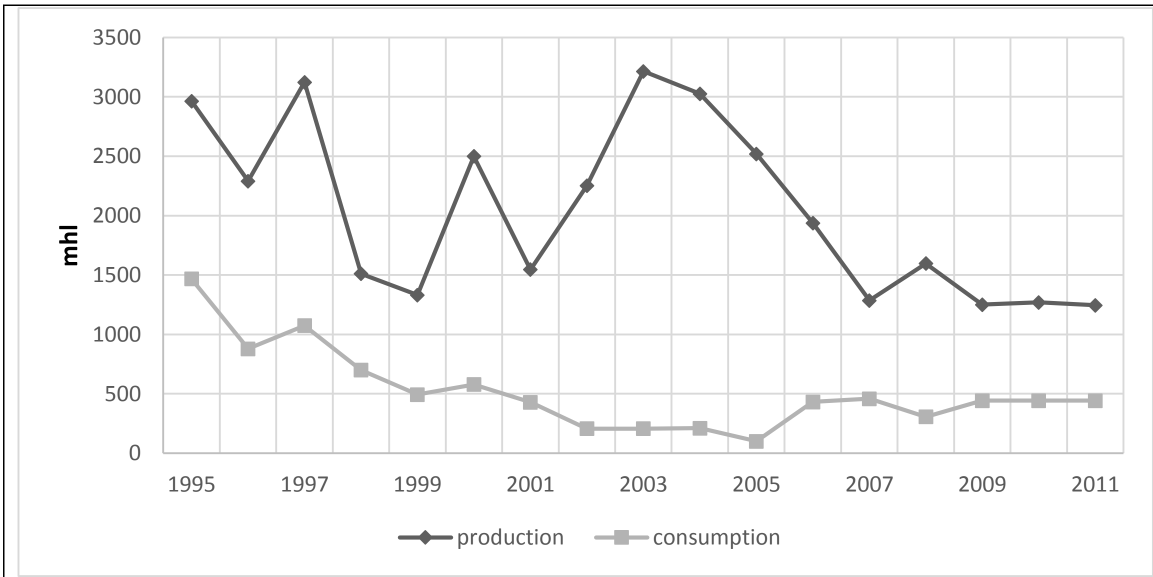

Figure 12: Moldovan wine production and consumption

Source: Author’s data compilation from OIV & National Bureau of Statistics of the Republic of Moldova (2015)

The production of wines in Moldova has been fluctuating during the 1995-2009 period (Figure 12). This is mainly due to unfavourable weather conditions. For example, the lack of rainfall at the beginning of growing season causes stress on grapevines and eventually low yields. This was the case of the catastrophic drought of 2007 (Boian, 2011), when winegrowers had a low production of wines. However, the lack of rainfall in the ripening period and the abundance of sunshine proliferated the production of high quality vintage wines with a high percentage of sugar.

Starting with 2009, wine production in Moldova is characterized by slow and steady increase. In 2013, the volume of wine produced in Moldova was 1.4 Mhl. In 2012, Moldova ranked 14th in the world by wine production, with 1.5 percent of world wine output (TDA, 2012).

Moldova is a member of the OIV; respectively classifies its wine production according to OIV standards. The wine production in Moldova is composed of 30 percent red wine and 70 percent white wine and this in turn is divided into a variety of wines (e.g. dry, semi-dry, sweet, semi-sweet, table wines, sparkling wines, special wines with 14 percent to 20 percent alcohol, divins, and brandy). In 2006 passed a new Grape and Wine law, which led to more stringent food safety measures and quality standards in the wine industry. As a result, all technical documentation that are related to wine production have been revised in conformity with the European Union standards (MIEPO, 2010).

In Moldova, 90 percent of all wines produced are from internationally recognized grape varieties. The most popular white varieties include Muscat, Aligote, Pinot, Sauvignon, Chardonnay, Riesling, Traminer, and Silvaner. Red grape varieties are Cabernet-Sauvignon, Pinot-Noir, Merlot, Saperavi, Gamay,and Malbec. Moldova also grows its own local wine varieties, such as Fetească alba, Fetească regală, Fetească neagră, Plavai, and Rara neagră, which is used for blending with other varieties to produce the famous Negru de Purcari wine.

Moldova has over 140 wine companies, which employ over 250 thousand citizens. The most important winemakers are Vinaria Purcari, Cricova, Acorex Wine Holding, Chateau Vartely, Dionysos-Mereni, DK – Intertrade, LionGri, Milestii-Mici, and Vinaria Bostavan. The last seven companies established in 2007 a non-profit association, the Moldova Wine Guild. The main goal of this association is to promote members' wines on the international market. Together, they export more than one third of all Moldovan wine.

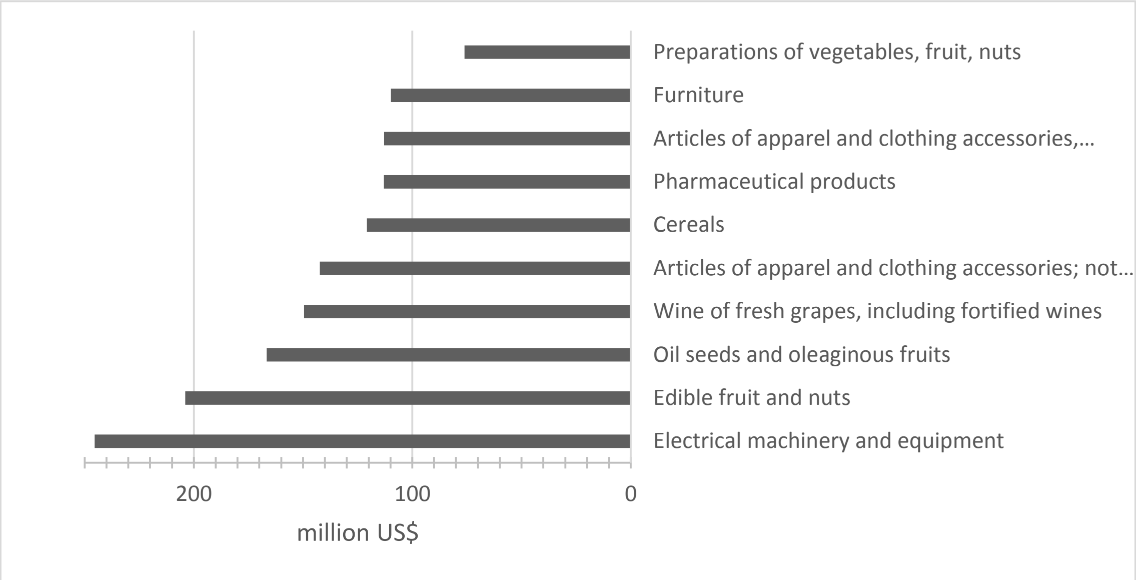

Figure 13: Moldovan exports by group of commodities

Source: Author's data compilation from Comtrade (2013)

The economy of Moldova is heavily based on wine exports. 6.16 percent of its total exports represent wine of fresh grapes. As it can be seen in Figure 13, wine is the 4th most exported commodity, with a trade value of $149.5 million in 2013.

For Moldovan wines, domestic market is important, however, foreign markets are more attractive, both in terms of size and in terms of value. Moldovan wine market is oversaturated.

The wine production in Moldova is almost three times higher than wine consumption. Therefore, the winemakers have a wine surplus that need to be exported. Several former Soviet Republics swallow the majority of Moldovan wine exports (e.g. Belarus, Russia, Kazakhstan, Ukraine, and Georgia). This group of countries accounted for 74.18 percent of Moldovan wine exports in 2013 (Comtrade, 2015).

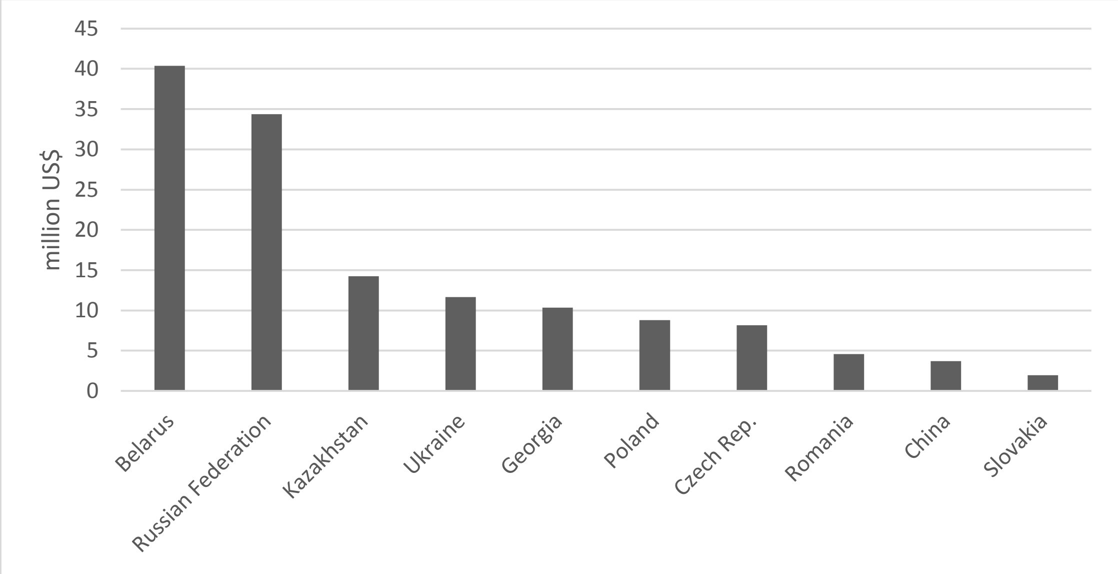

Figure 14: Largest importers of Moldovan wines

Source: Author's data compilation from Comtrade (2015)

The five largest importers of Moldovan wines are Belarus, Russia, Kazahstan, Ukraine, and Georgia (Figure 14). Traditionally, former Soviet Republics have been key markets for the Moldovan wines. Wine export in 2013 constituted 1.23 Mhl, with a total value of $149.5 million.

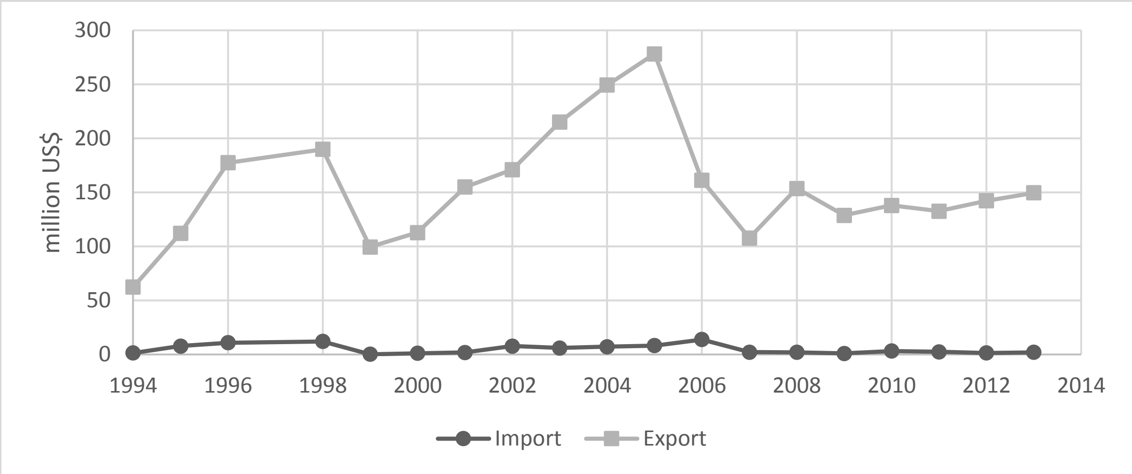

Figure 15: Moldovan wine imports and exports

Source: Author's data compilation from Comtrade, 2015

As shown in Figure 15, wine imports in Moldova are insignificant, compared to the value of exports. Almost half of the wines exported by Moldova are bottled wines. Annually, 67 million bottles are exported in more than 30 countries of the world, of these 55 percent are red wines (Wine of Moldova, 2015).

5.2 The Embargo Effects on Moldovan Wine Exports

Moldovan wines were highly appreciated all over the Soviet Union, and Russia was traditionally an important market, accounting for 74.91 percent of Moldovan wine exports in 2005. Since 1990s, Russia has been trying to keep Moldova and other former Soviet republics within its sphere of influence (Neef, 2013) and has been using political leverages to achieve its geopolitical goals. One of these leverages represent its market, where a big chunk of Moldovan wine is exported. By applying import barriers Russia tries to “punish” those who do not conform to its policies.

This was the case of Russian ban on imports of Moldovan wine in 2006, when Russia tried to inflict economic harm on Moldova (Khachaturyan & Peterson, 2010) after negotiations over the disputed territory of Transnistria hit boiling point. The Russian government claimed that the reason for this embargo was that technical analysis had shown that the wines imported from Moldova contain high levels of heavy metals and pesticides (Khachaturyan & Peterson, 2010) and they do not fall under Russian consumers’ standards. In consequence, Moldovan total wine exports experienced a decline of 42.09 percent in 2006, compared to 2005. Specifically, the exports of Moldovan wine in Russia manifested a decline of 76.51 percent, in 2005-2006 period.

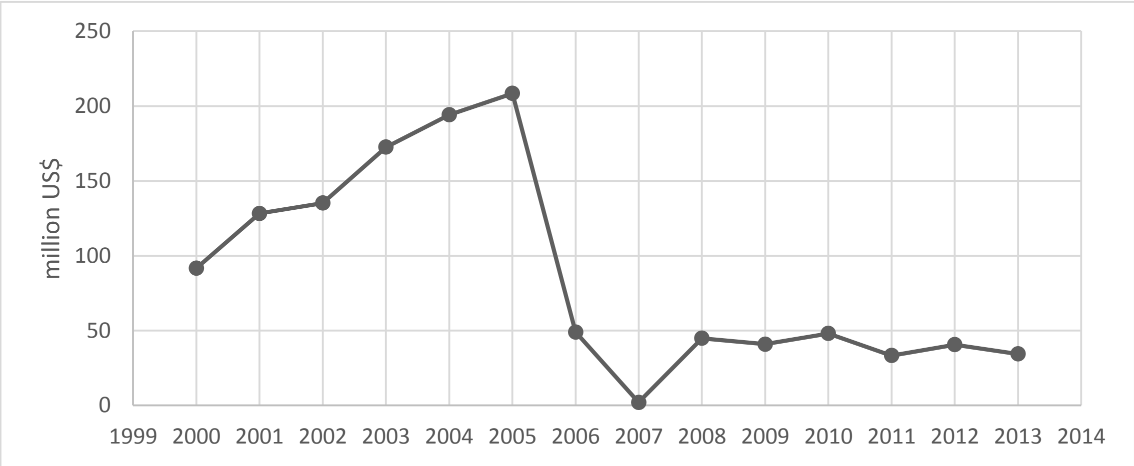

Figure 16: Exports of Moldovan wines in Russian Federation

Source: Author’s data compilation from Comtrade (2015)

Figure 16 shows the Moldovan wine export in Russia from 2000 to 2013 period. Wine trade was growing rapidly, prior to the Russian ban on wine. The average annual growth of Moldovan wine exports was 19 percent and Russian wine imports was 27 percent, for the period 2000 to 2005 (Khachaturyan & Peterson, 2010).

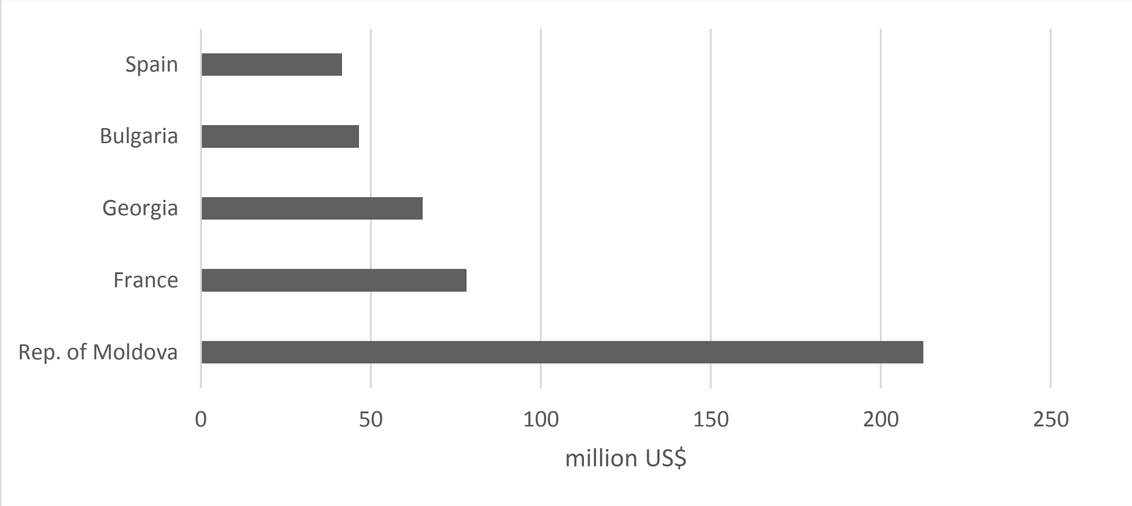

Figure 17: Largest wine importers in Russia

Source: Author’s data compilation from Comtrade (2005)

In 2005, Moldovan wine made up about 36.81 percent of total wine imports in Russia and was the biggest wine importer, as it is shown in Figure 17. In 2007, Russia partially suspended the ban on Moldovan wine. However, in September 2013, Russia again imposed a ban on imports of Moldovan wine, and this time on fruit and vegetable also. Russian sanitary inspection (Rospotrebnadzor) announced that the reason of the ban is that in Moldovan wines had been found traces of plastic. Interestingly, these import restrictions do not concern the Gagauzia Autonomy, which is an autonomous region of Moldova that is supported by Russian government. There is a little secret of the fact that the wine import restrictions was another tactic focused at forcing Moldova not to sign up and ratify the Association Agreement with the EU (J., 2013). In 2013, Moldovan wine accounted for 3 percent, in trade value, of all the wine drunk in Russia, compared to 36 percent in 2005. According to the Moldovan Government, the ban has cost Moldova $6.6 million.

5.3 Moldovan Wine Associations and Related Organisations

Moldova’s wine industry is a strategic sector for the national economy. Thus, the Moldovan government considers reforming, supporting and promoting it. From this base, in 2013 was created the National Office for Vine and Wine (ONVV), which deals with promotion of Moldovan wines on internal and external markets. Consequently, in December 2013 ONVV launched a new national wine brand “Wine of Moldova” aiming to build the image of Moldovan wines abroad. Several other non-governmental organisations advocate the wine industry in Moldova (e.g. Moldova Wine Guild, Moldovan Wine Producers and Exporters Association, Moldovan Small Wine Producers

Association, Moldovan Grape Growers and Exporters Association (APESM), and Oenologists Union of Moldova).

In the last few years, Moldovan wine brands have been intensively promoted. Moldovan wines were highly appreciated at many international wine competitions and exhibitions. Moldovan wines participated in 2014 at the most prestigious wine contest, Decanter World Wine Awards and got a silver medal, seven bronze medals, and five distinctions “commended” (Decanter, 2015). At the International Wine Contest Bucharest 2014, Moldovan wines have won 37 medals, among those were nine gold medals. Other contests Moldova participated include Chardonnay du Monde and Muscats du Monde (France); VinItaly (Verona, Italy); World Bulk Wine Expo (Amsterdam, Netherlands); the International Wine and Spirit Competition (London, UK); Concours Mondial de Bruxelles (Brussels, Belgium), and INTERVIN (Toronto, Canada). Recently, Moldova participated at ProWein Dusseldorf, one of the biggest wine exhibitions.

6 TARGETING US WINE MARKET

6.1 Challenges

Each country's wine and grape industry represent a complex set of economy activities that faces diverse internal and external risks. Generally, grape growing is subject to a range of risks related to climate, pest, disease, and soil, while wine products are sensitive to rapid changes in tastes and trends. The U.S. grape and wine industry, like many other countries, face various challenges. Some of these challenges come from other wine producing countries who export wine and grape products into the U.S. and have low-cost labour and land, low tax burdens, low or no environmental regulations, and receive governmental subsidization for production and promotion of their grape and wine products. Below are presented main challenges the U.S. wine industry faces.

6.1.1 Research and Education

In the U.S., the research and education regarding viticulture and oenology has not kept the same growth pace as the expansion of its wine industry across the country. For an industry that generates billions in economic value and creates more than one million jobs, the support received for its development is small (MKF Research, 2007). In the last few years, the financial support increased but still requires substantial additional funds to ensure that US wines remain competitive.

6.1.2 Insufficient Skilled Labour

The U.S. wine industry faces a shortage of skilled labour and this represent a significant concern for it. Moreover, the expansion of the industry across the country has aggravated the problem, because, as stated above, the viticulture and oenology research and education remain weak and the U.S. has few programs and institutions that would provide expertise in the winemaking and grape growing area (MKF Research, 2007). Equally, the limited number of wine experts available and vineyard workers constrain the efforts to improve the quality of wines.

In 2007, only five states had full degree programs in oenology and viticulture (MKF Research, 2007). Several other states were offering community college programs or part-time classes. Moreover, some states were unable to fill state oenologists and state viticulturists positions they had, and some universities were unable fill open faculty position with qualified candidates.

6.1.3 Agricultural and Climate Risks

The fact that the period for grapes to grow and ripe take particularly long time adds up risks for wine production and pricing. In addition, the Midwest and East coast regions of the U.S. where grapes are grown, face challenging climate. Severe winters and sudden temperature changes pose a high viticultural risk. Also, pests and diseases that are attracted because of high humidity in the region, reduce the yields and increase costs for grape growers. Another natural peril for grapes are hurricanes that usually form during the harvest season. Continuous price increase of land in metropolitan areas makes more difficult to develop vineyards. All these environmental issues pose substantial additional production costs.

6.1.4 Market Risk

The nature and the long cycle of vineyard planting, grape growing and winemaking show a continuing pattern of wine surplus and shortage in the industry. This is due to the fact that the decision to plant new vineyards may be regretted few years later. The decision to develop new vineyards may seem logical at that time, for example, there is period of short wine supply and wine prices are rising. However, similar decisions of other wine growers, all create a wine surplus in the market, four to seven years later when the wine is ready to be sold. Therefore, the wine market is rather volatile, with price swings (MKF Research, 2007).

6.1.5 Insufficient Financing

The consumer and agricultural risks, and the time when investment needed and the revenues inflow, create an unattractive combination for creditors and other financial institutions. Also, few credit institutions understand the characteristics and subtleties of wine business and feel comfortable to invest in this area. As a consequence, both winemakers and wine growers face impediments when trying to secure sufficient financing for their operations.

6.2 Market Access

6.2.1 Trade Barriers

Wine Institute works closely with the Office of the U.S. Trade Representative on tariff and trade barrier reduction, free trade agreements, and negotiations with other nations. The U.S. government and its wine industry have successfully eliminated many wine trade barriers, but numerous obstacles remain and new ones are being established that impede continued growth and even threaten maintenance of existing markets

Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) issues restrict sales and significantly increase costs for testing and labelling for Moldovan wine exporters. These barriers to trade are presented below.

Security Related Trade Barriers

The Container Security Initiative (CSI) was established in 2002 by US Customs and Border Protection (CBP) as a response to the terrorist attacks on September 11, 2011. Under CBP's cargo security strategy, CSI deals with potential terrorist threats to the U.S. border security. The CSI examine and target high-risk maritime containers that are intended to be shipped to the U.S., before they are laden on board (CBP, 2011). Over 80 percent of all maritime cargo that is imported into the U.S. is subject to pre-screening procedures. CSI ports use technology in order to assist officers to quickly inspect high-risk containers before they are shipped to the U.S. Currently, there are 23 CSI ports in the EU.

The CSI screening procedures and related customs routines give greater security to the U.S., however are causing significant additional delays and expenses to wine shipments. This represent a serious concern to Moldovan wine exporters, as it has adverse effects on competitiveness.

6.2.2 Tariff Barriers

In spite of many tariff reductions and eliminations as a result of Uruguay Round of multilateral trade negotiations, the U.S. maintains significant tariffs and duties on imports of Moldovan wines.

Article Description	Excise Tax
Still wines containing not more than 14 percent of alcohol by volume	$1.07/gallon
Still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume	$1.57/gallon
Still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume	$3.15/gallon
Champagne and other sparkling wines	$3.40/gallon
Artificially carbonated wines	$3.30/gallon

Table 2: US Excise Tax on Moldovan Wines

Source: Author's data compilation from TTB (2015)

Most costly are excise taxes that range from $1.07 to $3.40 per gallon (TTB, 2014) Table 2. In addition, these taxes (i.e. gallonage tax) act discriminatory. They apply to wine produced in or imported into the U.S. However, small U.S. wine producers are entitled for a tax credit, Moldovan counterparts are not eligible to the same tax credit.

Other tariff impediments on wine importation is the Merchandise Processing Fee (MPF). This fee is required for formal and informal customs clearances and is paid to US Customs Border Protection. The MPF is an ad valorem fee that represent 0.3464 percent for formal clearance and does not include duty, insurance and freight charges. The amount of the fee shall not be less than $25 and shall not be more than $485 (CBP, 2014). For informal clearance the fee ranges from $2, $6, or $9 per shipment. The Merchandise Processing Fee is not levied on goods from the least developed countries or US FTA partners. Moldova does not belong in neither group.

Generalized System of Preferences

The U.S. Generalized System of Preferences (GSP) is one of several U.S. trade preference programs that provide non-reciprocal, duty-free tariff treatment to specific products that aims to help developing countries to expand their economies (Jones, 2014). To be eligible for the GSP program, developing countries must meet certain criteria (e.g. must not have seized assets' control or ownership of U.S. citizens or investors, must maintain worker rights etc.). As of July 2014, there are 144 beneficiaries of the US GSP, 137 countries and 7 territories and Moldova is among these beneficiaries.

Although the U.S. has implemented this system of preferences (i.e. GSP) there are still duties on various commodities including wines.

Code	Article Description	Rates of Duty
2204.10.00	Sparkling wine	Free*
2204.21.30	In containers holding 2 litres or less; Of an alcoholic strength by volume not over 14 percent vol.: Tokay	Free*
2204.21.50	In containers holding 2 litres or less; Of an alcoholic strength by volume not over 14 percent vol.: Red, White, Icewine, Other	6.3 cents / litre*
2204.21.60	In containers holding 2 litres or less; Of an alcoholic strength by volume over 14 percent vol.: Marsala	Free*
2204.21.80	In containers holding 2 litres or less; Of an alcoholic strength by volume over 14 percent vol.: Sherry, Other	Free*
2204.29.20	In containers holding over 2 litres but not over 4 litres; Of an alcoholic strength by volume not over 14 percent vol.: Red, White, Other	8.4 cents / litre*
2204.29.40	In containers holding over 2 litres but not over 4 litres; Of an alcoholic strength by volume over 14 percent vol.	22.4 cents / litre*
2204.29.60	In containers holding over 4 litres; Of an alcoholic strength by volume not over 14 percent vol.	14 cents / litre*
2204.29.80	In containers holding over 4 litres; Of an alcoholic strength by volume over 14 percent vol.	22.4 cents / litre*

Table 3: US Harmonized Tariff Schedule Applied to Moldovan Wines

Source: Author's data compilation from USITC (2015)

* Imports are subject to excise tax

In the ongoing Doha Round, the latest round of negotiations among the WTO members, Moldova hopes to achieve more reductions or eliminations of U.S. import tariffs on wine.

6.2.3 Non-Tariff Barriers

Regulatory divergences

International wine standards are an important tool to eliminate technical trade barriers on wine, to increase and facilitate market access, to improve the safety and quality of wines, and to promote technology and know-how. Governments use various wine regulatory policies, thereby these act as significant impediments to investments and trade. Particularly, the U.S. has a low level of standard implementation set by the international standardisation bodies (European Commission, 2009). Specifically, the U.S. does not follow standards, regulations, and rules of OIV as Moldova does. Thus, there are regulatory discrepancies between U.S. and Moldova. In the U.S., imported wines are required to conform to a range of technical regulations related to consumer protection (e.g. health and safety), oenological practices, labelling requirements etc.

Oenological Practices

In order to facilitate international wine trade and to avoid import restrictions based on oenological practices, agreements between governments have to be established. These oenological practices relate to processes, techniques, treatments, and wine making materials, rather that labelling, packaging and bottling for final sale. There are various oenological agreements between countries. United States for example, has oenological practises agreements with 35 countries. That means that parties accept each other's laws, requirements and regulations, and permit wine import.

Moldova does not have such agreement with the U.S. Therefore, this represent a trade barrier for Moldovan wine exporters, as they have to comply with the U.S. oenological standards, this in turn is another expense for them.

US Wine Labelling Regulations

In the U.S., wine labelling is regulated by TTB. Its strategic mission is to protect the public by assuring the integrity of alcohol beverages in the marketplace, verifying and substantiating compliance of each wine industry member with laws and regulations, and providing information to the public. TTB reviews and verifies each year thousands of labels and advertisements for adequate information, as well as the quality and identity of each wine to make certain they meet the requirements and do not mislead consumers. TTB conduct investigations, which include a comprehensive chemical analysis of wines. To be able to import wine into the U.S., a Certificate of Label Approval is required to be obtained from TTB.

Wine label gives consumers a range of information regarding one specific bottle of wine (e.g. what is the brand name, what is the dominant grape, where were grapes grown and wine bottled, what is the country of origin, what is the name and address of the bottler, what is the vintage date, what is the appellation of origin and viticultural area, what is the alcohol percentage and net contents, and if there are any health warnings and sulfites contained in the wine). These information give wine consumers enough basic information to make an informed decision when buying a bottle of wine.

The TTB accurately states what information and how it should appear on a label. The TTB has several label options, the difference lies in design rather than in information. One of these options is shown in Illustration 2.

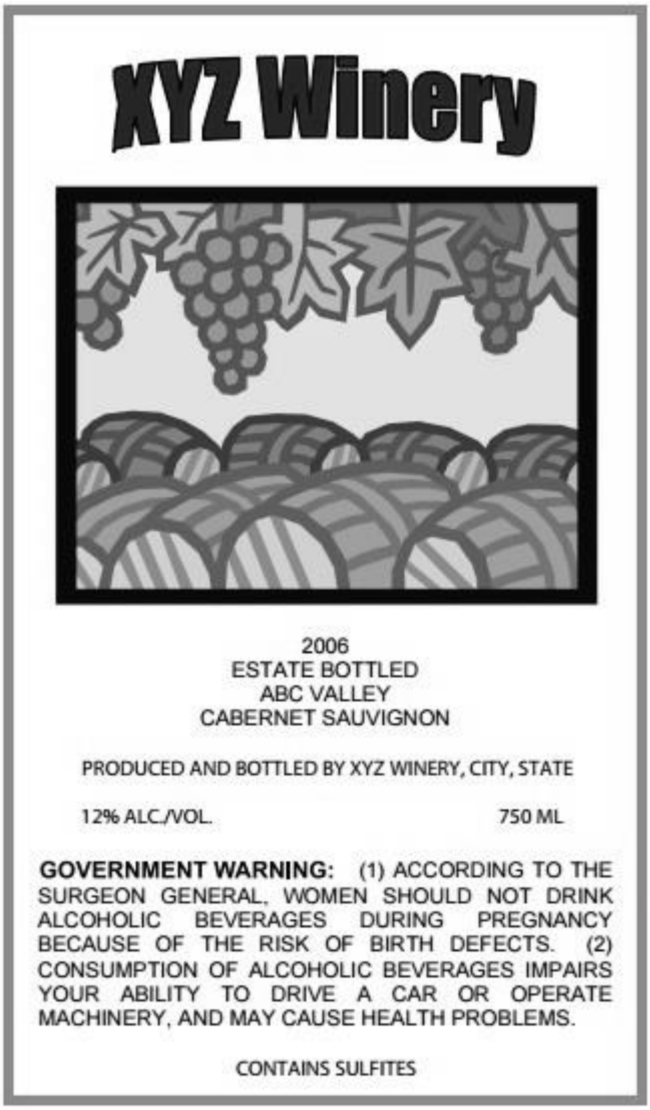

Illustration 2: Sample Wine Label by TTB requirements

Source: TTB (2015)

The above label has all of the required and mandatory information for a typical grape wine that contains 12 percent alcohol by volume. The most prominent information on the label is the brand name which is used to market and identify the wine. TTB requires that the brand name may not mislead the consumer about the identity, age, origin, or other wine characteristics. The vintage date information must indicate the year when the grapes were harvested. The estate bottled and the appellation of origin is also required to appear on the label. This information indicates the place in which grapes were grown and wine bottled. Other mandatory information to be shown on the label include: viticultural area, varietal designations, country of origin, name and address of the bottler, net contents, alcohol content, and declaration of sulphites and health warnings.

Based on the above, Moldovan Government has different requirements in regards to wine labelling. However, some pieces of information that are mandatory on the label remain the same (e.g. brand name, appellation of origin, name and the address of the bottler, net contents, alcohol content, country of origin, and declaration of sulfites) (Parlamentul Republicii Moldova, 2000). On the other hand, some peculiar information feature the label requirements in Moldova (e.g. product category, bottling date, and lot identification number). Moldovan legislation does not require to indicate any health warnings on the label. All these different requirements imply extra costs for Moldovan wine exporters, because changes in the bottling line are necessary to be made.

Customs Clearance

The Bureau of Customs and Border Protection regulates the entry or importation of goods into the U.S. In order to go through the customs clearance a legal process must be done. The legal process all goods must undergo when imported is called entry (Ogden, 2008). The entry takes different forms and is categorized by the intended purpose of importation (e.g. consumption entry, transportation entry, warehouse entry, mail entry, informal entry, etc.). Imported goods can be entered only by persons that have legal authority to enter those goods. Three types can be defined: Importer of record, Ultimate Purchaser and Licensed Customs Brokers (Ogden, 2008). When imported goods arrive within Customs territory these persons deal with entry documentation. Certain documents requires to be filled with U.S. Customs (e.g. evidence of right to make entry, invoice, entry summary, etc.). Imported goods have clear Customs only after they obtained import authorization and all duties own on the imported goods have been paid.

Generally, there are three types of customs clearances in the U.S., first type is De Minimis with a value for goods between $0 and $200. The second type of customs clearance is Informal and involves the merchandise importation that has a value between $201 and $2,500. Informal clearance is done on the spot and liquidated at release, and does not imply posting a customs bond. This type of clearance is for commercial and personal importations. However, may not be used for goods importation, specifically commercial, that are subject to anti-dumping, countervailing and quota duties (Ogden, 2008). Third type is Formal clearance, for goods valued at more than $2,500. This clearance is done through a Commodity Specialist Team specialized in the type of goods that are imported. The team handles the duty rates, tariff classification numbers, type of customs bond and liability limit.

Packaging Requirements

The U.S. strictly monitors packaging materials that come into the country in order to protect industries, mainly agricultural, form insects and pests. Wooden packaging and pallets are inspected for compliance to the International Standards for Phytosanitary Measures # 15. This do not apply to particle board, plywood, and plastic.

Sanitary and Phytosanitary Measures

Sanitary and phytosanitary (SPS) measures deal with animal and plant health and food safety. These measures aim to ensure that consumers are being supplied with safe food (WTO, 2015). SPS measures may encompass import restrictions, however shall not be used to shield domestic producers from competition (i.e. protectionism measures).

Currently, various SPS issues continue to impede the Moldovan wine trade with the U.S. The SPS regulation in the U.S. is stringent. It requires importing countries to demonstrate to the U.S. authorities that the wine has been produced in an acceptable and safe manner. This requires the wine producers that have compliance agreements with the U.S. to use a quality assurance system that includes Hazard Analysis & Critical Control Points (HACCP), good manufacturing practices and standard sanitary operating procedures (Greenhalgh, 2004). In situation where no compliance agreement exists with the U.S., as in the case of Moldova, it is required to take adequate steps to ensure that importers are producing wine in accordance with the U.S. regulations and that they have a HACCP programme. In this case, the certification is needed on each wine lot, from an independent and competent private party or from an appropriate foreign government inspection service. Based on the above, it means that SPS measures represent a concern for Moldovan wine exporters because they cause additional costs and delays.

6.3 Logistics Performance Index

Logistics performance index (LPI) represent an index that measures the countries' logistics performance. It was developed by World Bank in 2007. LPI reflects the average score of a country's logistics performance and the efficiency of its trade supply chains based on six key dimensions: efficiency of customs clearance process, quality of trade- and transport-related infrastructure, quality of logistics services, ability to track and trace consignments, ease of arranging competitively priced shipments, and frequency with which shipments reach the consignee within the scheduled time (Word Bank, 2014). The index score ranges from 1 to 5, with a lower score representing lower performance and a higher score better performance. LPI is the most complete index to data that measures the countries' logistics performances. This index provides an insight into target market and shows possible opportunities and strengths.

Generally, logistics manages the flows of information, cash, and goods between the supplier and the demander. Logistics can be seen as one of the most important component of national competitiveness. The quality of infrastructure and logistics services facilitates the transportation of goods among countries. For the U.S., as for other countries, supply chains represent the backbone of its national trade and commerce. Its logistics include warehousing, freight transportation, payment systems, border clearance, and many other operations that are outsourced by merchants and producers to specialized service providers. According to World Bank, the U.S. ranks nine by LPI with a score of 3.92.

The LPI and its components give a comparative overview among countries' logistics structures and help countries to understand the challenges that they may face. Thus, it provides valuable information for Moldovan wine companies, which operate or plan to operate in the U.S. market. For Moldovan wine exporters, the importance of a well-established logistics and supply chains is of outstanding significance, because this facilitate the imports and movement of goods in an expeditious, reliable manner and at low cost. In contrast, inefficient logistics structure increases the costs of imports in terms of time and cash and has adverse effects to competitiveness. To better understand how the U.S. positions itself in terms of its logistics performance, an illustration is shown below. In figure below, the U.S.' LPI index is presented along with the LPI index of Russia and Germany, the latter is the world's best performer. As discussed in previous chapters, Russia was traditionally a key market for Moldovan wine companies; therefore, it is relevant to make a comparison between the Moldova's traditional market and the U.S market.

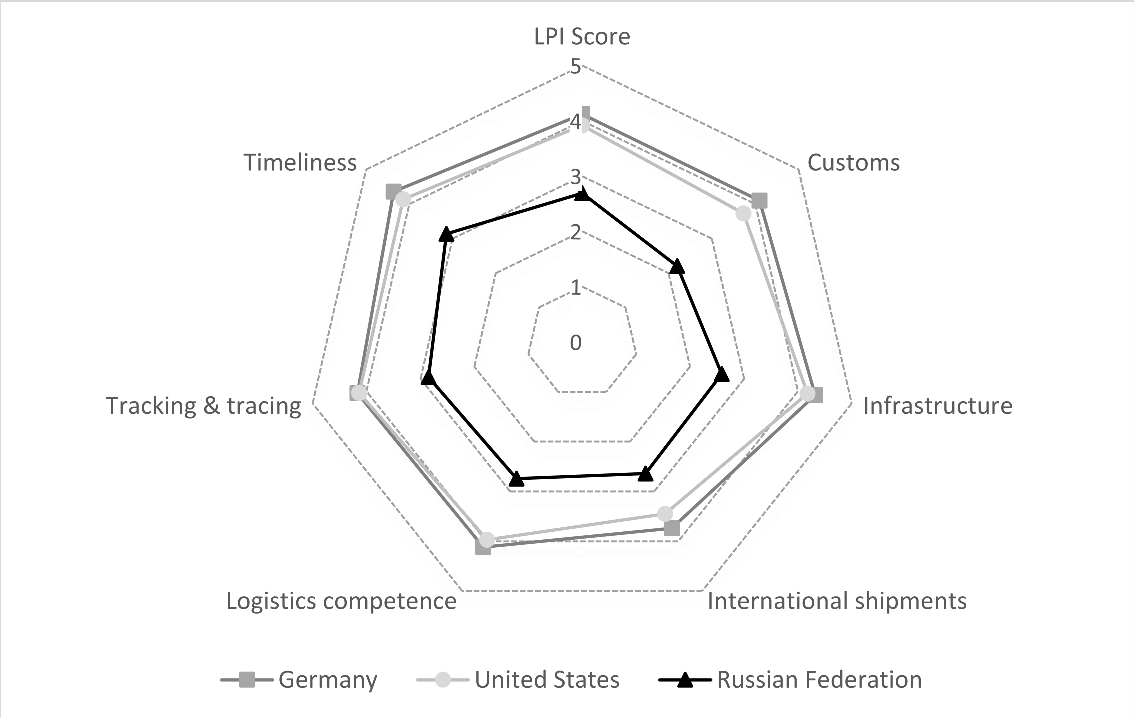

Figure 18: LPI of US, Russia and Germany

Source: Author's data compilation from World Bank (2014)

In the Figure 18, six key dimensions display the overall LPI index and benchmark the logistics performance of Germany, the U.S., and Russia. The first indicator is the efficiency of the clearance process (i.e. simplicity, speed, and predictability of formalities) by customs. For Russia, this indicator shows 2.20, while the U.S. has 3.73 and Germany 4.10. The quality of trade and transport related infrastructure dimension (e.g. railroads, ports, roads, information technology) shows 2.59 for Russia, 4.18 for the U.S., and 4.32 for Germany. The ease of arranging competitively priced shipments indicator reads as follow, 2.64 Russia, 3.42 US, and 3.74 Germany. The following indicator is competence and quality of logistics services (e.g. customs brokers, transport operators), 2.74 Russia, 3.97 US, and 4.12 Germany. Ability to track and trace consignments dimension shows the same trend, the worst indicator reads 2.85 for Russia, followed by far by the U.S. with 4.14, and Germany with 4.17. Last dimension is timeliness of shipments within the expected or scheduled delivery time. Russia has a score of 3.14, which is the best indicator for it among those six; the U.S. has 4.14, and Germany 4.36.

Based on the above, Russia’s LPI index is almost twice lower than that of Germany and the U.S. Despite all these Russia’s logistics challenges, Moldovan wine makers have shown ambition to penetrate the market. Nevertheless, the U.S.’ LPI index shows a better feasibility for Moldovan companies to penetrate the U.S. market than that of Russia’s. A more detailed and specific comparison between the logistics performance of Russia and the U.S is shown below in Table 4.

	United States	Russian Federation
Import time and cost / Port or airport supply chain		
Distance (kilometres)	160km	1225km
Lead time (days)	2 days	4 days
Cost (US$)	769US$	1732US$
Import time and cost / Land supply chain		
Distance (kilometres)	454km	3500km
Lead time (days)	3 days	15 days
Cost (US$)	944US$	4472US$
Shipments meeting quality criteria (%)	86.67%	76.57%
Number of agencies - exports	3	3
Number of agencies - imports	4	3
Number of documents - exports	3	4
Number of documents - imports	3	5
Clearance time without physical inspection (days)	1 days	1 days
Clearance time with physical inspection (days)	2 days	3 days
Physical inspection (%)	3.63%	16.52%
Multiple inspection (%)	2.30%	3.05%

Table 4: LPI performance of Russian Federation and United States

Source: World Bank (2014)

Similarly as in Figure 18, the U.S.' LPI display a higher performance than that of Russia. The import time and cost in US is several times lower than in Russia. The shipments quality and clearance time show a better score for the U.S.

6.4 Drinking Culture

Any company that want to market their product to potential customers need to know that various consumer groups have various preferences. This also applies to wine producing companies. Knowing the target market and how to reach it is crucial in wine marketing. So that to be able to find the target market, wine companies need to research and group wine consumers based on their needs, wants, demographics and preferences. Consumer preferences may consist of some wine characteristics like wine type, flavour, brand name, production year, and price. Demographics may include age, gender, income, education, employment, race, marital status, and living location. Based on the above, wine producing companies can establish a strategic marketing plan that will help them to maximize their sales. Below are presented different groups of consumers in the U.S. and their preferences for alcoholic beverages.

The U.S. alcohol market is divided in three big categories, beer, wine, and liquor. Americans prefer to drink these alcoholic beverages about equally. According to Gallup's annual Consumption Habits poll, based on telephone interviews of 2027 adults aged 18+, living in all 50 U.S. states and conducted between July 10 and July 14 2013, 36 percent of Americans drink beer, 35 percent drink wine and another 23 percent drink liquor (Jones, 2013).

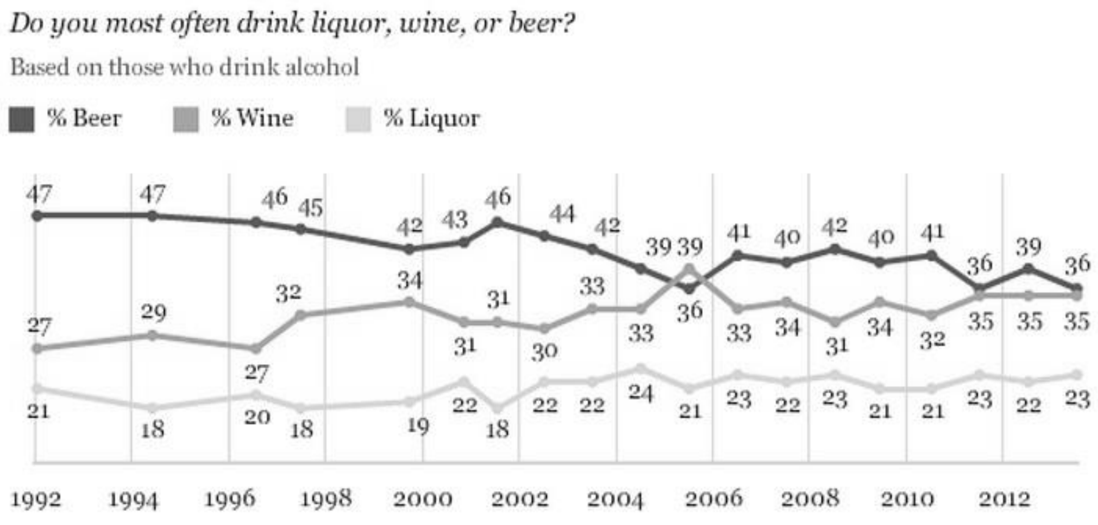

Figure 19: Americans Drinking Preferences, period 1992 – 2012

Source: Gallup (2013)

As can be seen in Figure 19, the drinking preferences of Americans have changed over time. From 1992 to 2013, wine featured the greatest increase in popularity compared to other alcoholic beverages. Wine's popularity gained 7 percent, while liquor gained 2 percent. Americans preferences for beer have shown a decrease by 11 percent. This is mainly due to the fact that younger adults' preferences have changed drastically over the last decades. In the early 1990s, more than two thirds of adults under 30 drank beer most often, in 2013 less than a half (Table 5). Younger adults' alcoholic beverages preferences have shifted toward wine and liquor.

	% Beer	% Wine	% Liquor
18- to 29-year-olds			
1992-1994	71	14	13
2012-2013	41	24	28
Change	-30	+10	+15
30- to 49-year-olds			
1992-1994	48	31	17
2012-2013	43	29	24
Change	-5	-2	+7
50+			
1992-1994	28	37	30
2012-2013	29	46	19
Change	+1	+9	-11

Table 5: Preferred Alcoholic Beverage, by Age

Source: Gallup (2013)

As shown in Table 5, adults between 30 and 49 have shifted exclusively toward liquor. Those after 50 now increasingly prefer to drink wine most. Accordingly, beer remains the preferred alcoholic beverage of 18 to 29 and 30 to 49 years old Americans. In contrast, wine rank as the top choice of Americans 50 years old or more.

Besides these differences in alcoholic beverage preferences by age, there is also a wide gender difference in preferences among Americans. According to the same annual Consumption Habits poll by Gallup, 53 percent of men named beer as their favourite alcoholic beverage, while 22 percent said liquor and 20 percent wine (Table 6). Women have different preferences, 52 percent prefer wine, while 24 percent prefer liquor and 20 percent beer.

	% Beer	**% Wine**	**% Liquor**
Men			
1992-1994	64	15	16
2012-2013	53	20	22
Change	-11	+5	+6
Women			
1992-1994	29	43	25
2012-2013	20	52	24
Change	-9	+9	-1

Table 6: Preferred Alcoholic Beverage, by Gender

Source: Gallup (2013)

More than half of Americans, specifically 60 percent, say that they drink alcohol at least occasionally. From these, 35 percent reported having had a drink in the last 24 hours and 29 percent in the past week (Jones, 2013). Generally, the frequency of drinking is higher now than in the 1990s.

Another survey about the preferences in wine of various aged US consumers was conducted in 2013 by Jacob Clinite. That research analysed wine preferences of different consumers aged 21 plus. He found that price, brand name, and varietal type of wine were more important for consumers that label appearance, food pairing, and origin of wine. Interestingly, for consumers alcohol level was not important at all (Table 7).

When purchasing wine how important is the following information?				
	Not important	**A little important**	**Important**	**Very important**
Brand name	24.3%	31.3%	37.4%	6.1%
Price	2.6%	12.2%	58.3%	27.0%
Varietal-type of wine	2.6%	21.7%	40.9%	34.8%
Label appearance	25.2%	40.9%	29.6%	4.4%
Origin of wine	17.4%	33.0%	33.0%	16.5%
Food pairing	27.8%	44.4%	22.6%	5.2%
Alcohol level	41.7%	33.9%	15.7%	8.7%

Table 7: What characteristics in wine are most important to the consumer

Source: Clinite (2013)

At the question, how many bottles of wine the consumer buys per month, he found that almost half of the respondents (44.3 percent) buy between 1 and 3 bottles, 24.3 percent of the respondents said they buy between 4 and 6, and 16.5 percent between 7 and 9. The rest of the respondents said the bay more than 10 bottles of wine per month. Additionally, he found that 60.9 percent of the respondents would prefer red wine rather than white wine.

The consumers' preferences in regards to the varietal of wine, showed that the majority of them would prefer to drink Cabernet Sauvignon regularly or very frequently. In contrast, the wine varietals like Merlot, Syrah, Pinot Noir, Pinot Grigio, and Chardonnay showed less popularity as they were drunk rarely or not at all (Table 8).

How often do you drink each varietal of wine?				
Varietal	**Do not drink**	**Drink rarely**	**Drink regularly**	**Drink very frequently**
Cabernet sauvignon	7.1%	36.3%	32.7%	23.9%
Merlot	8.9%	42.9%	41.1%	7.1%
Syrah	13.0%	49.1%	28.7%	9.3%
Chardonnay	14.0%	44.7%	29.8%	11.4%
Pinot Grigio	23.0%	50.4%	20.4%	6.2%
Pinot Noir	9.8%	47.3%	32.1%	10.7%

Table 8: How often consumers drink each varietal of wine

Source: Clinite (2013)

Based on the above, the most popular wine varietal is Cabernet Sauvignon, followed by Merlot, Pinot Noir, Chardonnay, Syrah, and the less popular is Pinot Grigio (Clinite, 2013).

7 METHODOLOGY

7.1 Research Strategy

A research is defined as a systematic and scientific search for information on a specific topic (Kothari, 2004). Each research paper has its specific purpose. The purpose or objective of a research is to discover answers to specific questions using different scientific procedures. Research objectives fall into four broad groups: exploratory or formulative research study, descriptive research study, diagnostic research study, and hypothesis-testing research study.

This thesis is an exploratory research study. It seeks to gain familiarity with the internationalisation phenomenon of Moldovan wine producers and acquire an insight into the viability of exporting Moldovan wines into the U.S. Consequently, it will help to formulate a more precise problem statement and develop hypothesis for further studies. This study is unique, as there is no other research focused on internationalisation process of Moldovan wine companies.

The objective of this thesis, as stated in Chapter 1, is to assess the viability of exporting Moldovan wines into the US market. The aim is intended to be achieved through describing, explaining, analysing, and evaluating the characteristics of Moldovan wine industry and its opportunities in relation to the US wine market. The main focus of the thesis is on the evolution and trends of both the U.S. and Moldovan wine markets, the export challenges that Moldovan industry faces and the import barriers that the U.S. has.

In addition to the above, several research questions were set in order to guide the thesis:

- *What are the trends and evolution of the U.S. and Moldovan wine markets?*
- *What are the challenges Moldovan wine industry faces?*

- *What are the import barriers of the U.S. market for Moldovan wines?*
- *What are the wine preferences in the U.S.?*
- *How do Moldovan wine companies internationalise?*
- *What are the factors that influence Moldovan wine producers to internationalise?*

In order to answer these research questions, literature that is relevant to this topic was reviewed, and data was collected from various sources.

Social and business systems are complex. To understand these systems and their related phenomena requires a holistic approach (Gagnon, 2010). A holistic approach not only produce detailed descriptions of events and situations but also gives an in-depth understanding of the persons involved. Thus, the holistic approach of this research study seeks to obtain a complete picture of the internationalisation processes of the Moldovan wine producers. Gaining a comprehensive picture of these processes requires using qualitative research methods (Gagnon, 2010). Thus, this exploratory research study was conducted by adopting a qualitative research strategy and collecting data from structured interviews.

7.2 Data Collection

Research strategies are neither “good” nor “bad”, nor are they “right” or “wrong”, it is how useful and appropriate they are (Denscombe, 2014). At the base of the research strategy of this thesis stays a systematic method, which go through several phases: enunciating the problem, collecting the data and facts, analysing the data and facts and reaching conclusions.

For this work, primary and secondary data have been gathered from different sources. In the first phase, literature was reviewed and its data was processed. In the second phase, primary data from interviews was collected.

In phase one, primary and secondary data was collected through various means such as content analysis and literature review. Sources used in this phase were:

- digital libraries (e.g. Web of Science, ACM, Scopus, Jstor, Science Direct, and Google Scholar),
- statistical data (from International Organisation of Vine and Wine (OIV), Comtrade, Faostat, Wine Institute, Alcohol and Tobacco Tax and Trade Bureau (TTB), National Bureau of Statistics of the Republic of Moldova (NBS), Licensing Chamber of the Republic of Moldova, and Wine of Moldova), and

- reports on wine (OIV, Wine Institute, Moldovan Investment and Export Promotion Organisation (MIEPO), U.S. Department of Commerce, Congressional Research Service, and WTO).

In phase two, primary data was collected from standardized interviews targeted at Moldovan wine companies. Generally, interviews enable the researcher to gain an insight into people's feelings, opinions, experiences and emotions, privileged information, and sensitive issues (Denscombe, 2014). For the purpose of this thesis, the structured email interviews approach has been adopted. The main reason for using this approach was that the interviewer and interviewees were located far from each other (i.e. large geographic distance), which made impossible to conduct the interviews face to face, and quite difficult to conduct them via phone, due to different time zones.

For preliminary exploration and for screening and sorting ideas, in-depth interviews were applied. Interviews, as one of the main qualitative research methods, were used to determine people's opinions, perceptions, and facts regarding the internationalisation process of their companies. Interviews were conducted with companies' owners or managers. That is to say, the persons that are directly involved in decision making, in export activities and/or possess international experience and knowledge.

The interviews were conducted over a three-week period. As it can be seen in Appendix 4, the interviews were structured and divided in four groups of questions: a) company background; b) internationalisation process; c) US wine market; and d) respondent profile. The questions in the interview evolved from the basic research questions defined in Chapter 1, and from subsequent review of literature.

In the first instance, the potential respondents received prior notification via email about the ongoing interview process. They received invitations to participate in the interview and were informed about the topic and scope of the research, as well as ethical considerations. Right after a positive response was received from respondents, the questions were emailed to them. From those eight companies, three of them accepted to participate in the interview.

Researchers rarely get responses from all the people who were invited to participate in a research (Denscombe, 2014). A classic way to increase the response rates is to follow up non-respondents. After non-respondents were followed up, three more companies accepted to participate in the research.

7.2.1 Ethical Considerations

Because sensitive information and opinions were obtained in this research, it is of high importance that this data remains anonymous. To ensure anonymity and confidentiality of respondents, protective measures were taken such as aggregate presentation of data and codification of participants. Moreover, it was made clear to the participants, in the early stage of the interviews process, that the real information about companies and respondents will not be revealed to the public at any time in the future.

7.3 Sampling

The size of a sample should be saturated and optimal, neither too large, nor too small. An optimal sample represent one that fulfils the requirements of representativeness, efficiency, flexibility, and reliability (Kothari, 2004). Additionally, a sample needs to reach saturation, in other words, when further data adds little or nothing more to the study (Robson, 2011). To reach the saturation several factors needs to be taken into account: nature and scope of the study, quality of data, qualitative method, and the amount of useful data gathered.

Generally, the size of sample is not predetermined in a quality research. However, in practice, due to limited financial and time resources, sample size needs to be planned in advance (Eisenhardt, 1989). Eisenhardt recommends that a sample size of four to ten is enough to provide sufficient data for analysis. Based on the above, eight wine companies were selected in advance as potential respondents for this research. However, six of them accepted to participate in the interview.

	Founded	Number of employees	Hectares of vineyard owned	Annual production capacity (bottles)	International sales	Presence in US market
Company A	1997	20	70	2.3 mil	80%	No
Company B	2001	50	150	1 mil	98%	No
Company C	1995	150	350	4 mil	99%	No
Company D	1997	20	150	3 mil	93%	Yes
Company E	1952	650	600	7.5 mil	40%	Yes
Company F	2003	780	1030	30 mil	85%	Yes

Table 9: Sample size

In order to obtain as much rich and diverse information as possible, the wine companies were non-randomly selected based on various criteria such as size, production capacity, year of establishment, export intensity and international experience, as well as companies with and without presence in US market (Table 9).

The main source for identifying these eight companies was the Licensing Chamber of the Republic of Moldova. In large part, the contacts of the companies' managers and/or owners were provided by the sales manager of one of the companies that were contacted initially.

7.4 Data Analysis

There can be defined two main approaches to a research: inductive and deductive. For a quality research, the approach cannot be solely inductive or deductive, because these two inform each other in the process (Perry, 1998). Therefore, at the base of this work stays a combination of those two approaches: inductive and deductive. The deductive approach is based on prior hypotheses and theories, while the inductive approach implies generation of conclusions, and new hypotheses and theories from the obtained data. Based on the above, the deductive approach was applied when literature was reviewed and inductive approach when qualitative research was conducted and data was collected. After collection, data has to be processed (i.e. coding, editing, classifying, and tabulating) so that it is possible to be analysed. To analyse refers to the computation of measures and searching for relationship patterns that exist among data sets (Kothari, 2004).

The data obtained in this study was carefully read, transcribed, and partially translated from Romanian to English. In the first phase, primary data obtained from interviews was checked for consistency and accuracy, then it was examined, categorised, and cross-referenced. Then the data was compared and analysed in connection with the literature that was reviewed initially and the differences and similarities were presented in later chapters.

8 FINDINGS

For the purpose of this thesis, eight Moldovan wine companies were targeted and invited to participate in the research. From those eight, six companies accepted to collaborate. Companies were represented by their owners, commercial directors, or managers. The respondents profiles are characterised by following criteria:

- working experience within the company – from three to fifteen years
- previous experience in wine industry – from none to six years
- previous exporting experience – none

As it can be seen from above, respondents show an extensive experience within the companies they work, however none of the respondents have previous exporting experience.

The qualitative data gathered in this research takes the form of scripts. The scripts represent words obtained from the interviews. The words are combined into meanings, which are classified and sorted. Based on the above, the data obtained from interviews is codified into categories below.

When Moldovan wine companies involved in export activities?

Moldovan wine companies display a tendency of rapid internationalisation. All respondents, except Company E, involved in export activities in the same year their companies were founded.

Motives and factors to go international

Moldovan wine companies identify market diversification and the potential increase of sales and profit as the main motives for going international. The factors that influence them to go international are various (e.g. their production capacity, winemaking experience, etc.). However, they all agree that the main factor that triggered them to internationalise was a low demand on wine on the local market and oppositely a high wine demand on external markets. Additionally, the low production cost of wine is seen as a competitive advantage and represent a factor in the internationalisation process. As Company E stated:

"The low production costs is giving us a competitive advantage in the European market"

By the same respondent was identified another factor for internationalisation, which is the increased level of the Moldovan brand awareness in the recent years, due to the launching of the national wine country brand "Wine of Moldova".

Steps taken to go international and entry modes used

Respondents identified similar patterns when they went international. First, they targeted and researched potential external markets, and then they contacted distributors and potential buyers and sent them wine samples. In the first phase, the Commonwealth of Independent States' markets were targeted, then the European market and other foreign markets.

For Moldovan wineries, the criteria for selecting a market for their wines are, first of all, the competition, market size, market growth rate, and demand, as the majority of respondents affirmed. Other criteria represent the wine consumption, traditions, and preferences in that market, as Company C pointed out. For Company E, the geographical proximity represent the main criterion for selecting a market.

The entry modes used, represent the most basic forms, some companies use direct exporting, and other indirect exporting. Nevertheless, there appears to be a relation between the year of establishment and the entry mode they use. Thus, the companies that are established earlier use direct export mode and have subsidies in foreign markets. In contrast, companies that are "younger" used indirect export for their wines.

What were the obstacles?

Moldovan wineries face numerous obstacles in foreign markets. The Russian embargo and the low brand awareness, as well as unfamiliarity of consumers with the wine's country-of-origin were the common obstacles they faced. In addition, respondents identified other barriers when they penetrated foreign markets. In particular, Company B and F affirmed that they faced an increased competition. Company C recognized the weak image of Moldovan wineries and low marketing knowledge as being obstacles they had. For Company E obstacles were:

"The non-tariff barriers and legislation, mainly agreements related to label layout and requirements on application of stickers"

Creation of external business relations

Moldovan wineries recognize that they create external business relations mainly participating at international wine fairs and exhibitions, as Company A, B, C, and E stated. Additionally, they use networking techniques (e.g. internet, acquaintances, referrals, etc.) to create relations with foreign businesses. Company A identifies “direct contact with potential buyers and sending buying proposals”, as methods to establish business relationships. Company F, on the other side, creates relations by building stronger ties with existing clients, as they reported:

“… through active search of new partners, and building stronger ties with existing clients by loyalty programs”

Government support

The majority of respondents affirmed that they receive support from the Government through the National Office of Vineyard and Wine in the form of information about international wine expositions and collaboration proposals send to them from abroad. In addition, Company F specified that they get support from Government in the form of:

“… organizing different events like participating in different exhibition together, wine festivals, and other events to promote the Moldovan wine culture in the country and abroad”

Company D and E reported that they do not receive any support from the Government.

US wine market

As presented in previous chapter, half of the companies that participated in this research reported that they export wines in the U.S. market. Company A, B, and C do not have wine exports in the U.S. The main reason for this is the distance between countries, which “doesn’t allow so easily to interact”. Also, as Company A reported, “not knowing the [import] procedure”. In addition, for Company C, the reason for not having exports in the U.S. is the necessity of having a high budget for promotion their wines and not knowing the specifics of distribution channels in the U.S.

For Company D, E, and F, the reason for exporting wine into the U.S. is the fact that US is the largest wine market. At the question “How important is the U.S. wine market for your company?”, they all reported that it is very important and that is on the top of their priorities.

At the last question “Do you think, exporting wine into the U.S. is a necessity or opportunity for your company?”, respondents agree that it is an opportunity. As Company E affirmed:

“It is an opportunity that we intend to valorise in the coming years”

As for Company F, the wine exports into the U.S. is also a necessity:

“… because we want to diversify our sales and thus minimising market related risks”

9 DISCUSSION

In this chapter, the findings obtained from interviews are discussed in relation to the literature reviewed in previous chapters. The discussion chapter is divided into categories based on the research questions that were set in Chapter 1. The answers at the research questions are presented below.

- *What are the trends and evolution of the U.S. and Moldovan wine markets?*

As presented in Chapter 5, Moldovan wine industry accounts for 3.2 percent of the GDP and 7.5 percent of total exports, thus represent an important strategic sector for its economy. Moreover, wines are the 4th most exported commodity of Moldova. Wine production in Moldova is highly volatile and has a fluctuating trend. Starting with 2009, wine production in Moldova is characterized by slow and steady increase. In 2013, the volume of wine produced in Moldova was 1.4 Mhl. In 2012, Moldova ranked 14th in the world by wine production, with 1.5 percent of world wine output. Generally, the wine production is composed of 30 percent red wine and 70 percent white wine; 90 percent of all wines are produced from internationally recognized grape varieties.

The Moldovan wine market is oversaturated because the wine production is almost three times higher than wine consumption. Therefore, the winemakers have a wine surplus that need to be exported. From this reason, as the participants in this research stated, Moldovan wine producers tend to involve in export activities from the first year of their establishment. Moreover, they export more than 80 percent of their wine production. For Moldovan wine companies, foreign markets are more attractive than their domestic market, both in terms of size and in terms of value. Annually, almost 70 million bottles are exported in more than 30 countries of the world.

In terms of the U.S. wine market trends, the production and consumption of wine in the U.S. display a steady growth, making the U.S. the largest wine market in the world and by the largest wine producer state, the United States is ranked fourth. The largest wine producer state in the U.S. is California accounting for 90 percent of the volume of all wine production in the U.S.

About half of the U.S. wine exports go to the EU. Thus, the EU is the most important market for the U.S. wines. In contrast, the EU exports wines into the US almost seven times more than the US exports wines into the EU. In regards to imports, the U.S. is ranked first by the value of imports worldwide. Thus, the U.S. is the world's largest wine importer, with 25 percent share of wine import. In contrast, their exports are three times less than imports.

Another trend in the U.S. wine market is the decreasing vineyard area. Although, the U.S. is ranked sixth in the world by largest vineyard area surface, its total vineyard area decreased by 1.14 percent from 2000. Despite the fact that U.S. vineyard area surface decreased, the number of wineries added up with an annual compound growth rate of over 30 percent. California wineries accounts for 42 percent of total U.S. wineries.

What are the challenges Moldovan wine industry faces?

Moldovan wine sector represent a well-established industry, however it is easily influenced by external factors. For example, the 2006 Russian ban had an adverse effect on Moldovan wines exports and inflicted a harm of $6.6 million to the economy of Moldova. As a result of that ban, the wine exports experienced a decline of 42.09 percent in 2006.

Another challenge for Moldovan wine industry, as for other countries' wine industries, represent the peculiarities of the sector. The nature and the long cycle of vineyard planting, grape growing, and winemaking show a continuing pattern of wine surplus and shortage in the industry. This is due to the fact that the decision to plant new vineyards may be regretted few years later. Thus, represent a risk for wine producers. Pests and diseases also present risks for wine companies because reduce the yields and increase costs.

Insufficient financing acts as an impediment for further development of the winemakers. Few credit institutions understand the characteristics and subtleties of wine business and feel comfortable to invest in this area. As a consequence, both winemakers and wine growers face obstacles when trying to secure sufficient financing for their operations. Moreover, inadequate support from the Government restrains the growth of the industry. According to information gathered from personal communication with Moldovan wine companies, the support they receive from the Government is nonmonetary, it is rather information from the National Office of Vineyard and Wine about international wine expositions and collaboration proposals send to them from abroad.

- *What are the import barriers of the U.S. market for Moldovan wines?*

For Moldovan wines, the import barriers are various. As shown in Chapter 6, there are tariff and nontariff barriers to trade. When importing wine into the U.S., Moldovan wine companies may face security related trade barriers (e.g. The Container Security Initiative). This can create significant additional delays and expenses to wine exporters.

The U.S. maintains significant tariffs and duties on imports of Moldovan wines. For example, for each litre of still wine containing not more than 14 percent of alcohol by volume there is an excise tax of 28 cents. Although, Moldova is a beneficiary of the U.S. Generalized System of Preferences, there are import duties on wines. For example, red, white or icewine in containers holding 2 litres or less with an alcoholic strength by volume not over 14 percent (code 2204.21.50 under Harmonized System), has 6.3 cents per litre. Other tariff impediments on wine importation is the Merchandise Processing Fee. This fee is required for formal and informal customs clearances and is paid to US Customs Border Protection.

Regulatory divergences may also create obstacles when importing Moldovan wines into the U.S. For example, Moldova follows standards, regulations, and rules of OIV. On the contrary, the U.S. does not follow OIV rules; they have their own standards and regulations. Thus, there are regulatory discrepancies between U.S. and Moldova. In addition, as one of the company that was interviewed for the purpose of this study stated, the obstacles represent the legislation, mainly agreements related to label layout and requirements on application of stickers. The U.S. has different requirements than Moldova in regards to wine labelling. Moreover, the U.S. has specific packaging requirements to monitor packaging materials that come into the country. Also, the US sanitary and phytosanitary measure impede the Moldovan wine trade with the U.S., as it requires to present to the U.S. authorities additional certificates that demonstrate that the wine has been produced in an acceptable and safe manner. All these different requirements imply extra costs for Moldovan wine exporters.

One of the respondents that participated in this research, indicated that the low marketing knowledge and weak image in foreign markets of Moldovan wineries restrains the exports of wines. Another obstacle is the unfamiliarity of consumers with the wine's country-of-origin. With the establishment of the national brand “Wine of Moldova”, it is expected to build positive national image and brand awareness for Moldovan wines.

- What are the wine preferences in the U.S.?

In the U.S., 35 percent of adults prefer to drink wine instead of other alcoholic beverages. These preferences were different a decade ago. In 1992, wine was drunken by 27 percent of adults. This shows that the wine gets more popular compared to other alcoholic beverages. However, the alcoholic beverage preferences depends on the consumer's age. Wine is most drunken by adults of 50 years old or more.

Besides these differences in alcoholic beverage preferences by age, there is also a wide gender difference in preferences among Americans. For example, 20 percent of men name wine as their favourite alcoholic beverage. In contrast, 52 percent of women say that their favourite alcoholic beverage is wine.

For Americans, the price, brand name, and varietal type of wine are more important than label appearance, food pairing, and origin of wine. Moreover, for Americans the alcohol level is not important at al. Additionally, about half of the Americans buy between one and three bottles of wine a month and about 60 percent prefer red wine rather than white wine. The most popular wine varietal is Cabernet Sauvignon, followed by Merlot, Pinot Noir, Chardonnay, Syrah, and the less popular is Pinot Grigio.

- How do Moldovan wine companies internationalise?

As presented in previous chapter, wine firms first target and research their potential external markets, and then they contact distributors and potential buyers and then send wine samples. The criteria for selecting a foreign market represent competition, market size, market growth rate, and demand, as the majority of respondents that participated in the research affirmed. Other criteria represent the wine consumption, traditions, preferences in that market, and the geographical proximity. They use most basic entry mode forms, some companies use direct exporting, and other indirect exporting.

Generally, a firm's decision to enter foreign markets follows a gradual sequential process associated with several stages of internationalisation. The preliminary stages of internationalisation are targeted to psychically close markets (i.e. markets that have similarities with the home market). For example, markets that have similar trade practices, culture, language, political systems, etc. Firms that target psychically close markets are exposed to lower level of risks, because customer's behaviour can be predicted based on market similarities and prior experience in home market.

For Moldovan firms, psychically close markets are those of Commonwealth of Independent States (i.e. Ukraine, Russia, Belarus, Georgia etc.). This pattern of gradual sequential process of internationalisation is also followed by Moldovan wine companies. The respondents that participated in the research stated that, in the first phase, they entered markets of Commonwealth of Independent States and then expanded to the EU states and other countries.

Other approach to internationalisation that is used by Moldovan firms to internationalise is the network model. This school of thought is based on theories of social exchange and inter-personal and inter-organisational relationships. Specifically to Moldovan wine firms, they create business relations by participating in international wine fairs and exhibitions and using networking techniques (e.g. internet, acquaintances, referrals, etc.). Moldovan wine firms tend to operate in networks of connected relationships, involving resource exchange among its parties. For example, they form non-governmental organisations (e.g. Moldova Wine Guild, Moldovan Wine Producers and Exporters Association, Moldovan Small Wine Producers Association, etc.), to work together in order to promote their wines in foreign markets.

- What are the factors that influence Moldovan wine producers to internationalise?

As was described in Internationalisation Chapter, the decision of a firm to go international is influenced by external environment. This is also true in relation to Moldovan wine companies, which decided to internationalise being influenced by external factors. The main factor for them to go international was the low demand of wine on the local market.

In the process of reviewing literature, it was found that the size, in terms of turnover, and level of internationalisation of a firm are correlated. Specifically, there are evidences that small firms are less likely to be engaged in export activities and will show a lower intensity of internationalisation because of a certain degree of risk the internationalisation process involve. However, according to data obtained from the qualitative research, there is little relation between the size of Moldovan wine companies and level of internationalisation. The reason is that Moldovan wine companies, regardless of their size, are driven from their establishment to export their production in foreign markets, because of the low demand on the local market.

10 CONCLUSION

The scope of this thesis was to explore the viability of exporting Moldovan wines in the U.S. through describing, explaining, analysing, and evaluating the characteristics of Moldovan wine industry and its opportunities in relation to the U.S. wine market. The thesis focused on the evolution and trends of both the U.S. and Moldovan wine markets, the export challenges that Moldovan industry faces and the import barriers the U.S. has. Furthermore, the thesis was consolidated through interviews targeted at Moldovan winemaking companies.

The results of the interviews have shown some interesting conclusions. Although the literature reviewed indicates that the size and the internationalisation level are correlated, it has been found that there is little relation between the size of Moldovan wine companies and their level of internationalisation. Also it has been found that their internationalisation process took a gradual approach, as Uppsala model teaches. However, their entry modes are mostly basic (e.g. indirect or direct export). Interesting is the fact that Moldovan wine companies internationalise in the first year of their establishment, which is due to the low demand of wine on the local market.

Moreover, the findings from the interviews showed that preliminary activities of internationalisation were targeted to psychically close markets (e.g.) Commonwealth of Independent States. As Moldovan wine firms are getting more experience over time, they increase their foreign market commitment and seek to expand to more psychically distant markets (e.g. EU and US market).

Moldovan wine companies, which operate or plan to operate in the U.S. market, need to have an insight into the market. One way is to assess the performance and efficiency of the U.S. trade supply chains by using Logistics Performance Index. This index and its components give a comparative overview among countries' logistics structures and may help Moldovan wineries to understand the challenges that they may face. Based on the above, it has been shown that the US Logistics Performance Index present a high score. Compared to Russia, which was Moldova's traditional wine market, it has an index that is almost twice lower than that of the U.S. That means that the US logistics index display a higher performance than that of Russia. The import time and cost in US is several times lower than in Russia. The shipments quality and clearance time show as well a better score for the U.S. This demonstrates that Moldovan wine producers could import wines into the U.S. easier and at lower cost than into Russia.

Apart from that, when entering the U.S. market, Moldovan wine firms need to consider many import barriers. It has been found that there are security related barriers, regulatory divergences, as well as tariffs and duties on wine imports. Additionally, Moldovan wineries must have a thorough understanding of the market they enter. Yet, they have little knowledge about the U.S. wine market and the import procedures, as the interviews revealed.

Another point to mention is that Moldovan wine companies face many internal and external obstacles (e.g. lack of governmental support, insufficient market data, limited resources, lack of country image, little export experience of managers, etc.), which restrict their expansion. On the other hand, they have a competitive advantage in terms of costs of production.

In this thesis, the main research question was whether exporting Moldovan wine into the U.S. is an opportunity or necessity. Drawing all the findings together, it can be affirmed that the U.S. market represent an opportunity for Moldovan wines. Nevertheless, it cannot be stated that it is a necessity.

10.1 Recommendations

The results of an exploratory research are not typically used for decision-making bodies; however, they can provide important insight into a given problem and recommendations can be drawn.

The problem stated in Chapter 1 was that Moldovan wine industry is highly vulnerable to the external factors, as it was the case of Russian ban. Based on the problem statement, a set of recommendations can be made. First, Moldovan wine firms should consider finding new markets for their wines. They need to apply a more profound market diversification strategy in order to lower their risks. Second, they should consider applying a more proactive approach to the process of internationalisation and move to more sophisticated forms of it, (e.g.) sales subsidiaries. Third, they tend to be conservative in regards to new opportunities and changes. Thus, they need to be more willing to cooperate with their foreign partners as well as maintain and improve their relationships. Moreover, Moldovan wine firms need to be highly adaptable to ever-changing circumstances in order to compete effectively. Fourth, there is a lack of foreign market knowledge that hinder firms' expansion. Therefore, a thorough market investigation can help them gain a deeper understanding of the market and find new opportunities, which in their turn could be valorised subsequently. Fifth, firms should consider attracting more investment in order to finance the development of their wineries. Specifically, they need to invest in the quality of their wines, machinery and equipment, packaging materials, as well as marketing. An intense promotional campaign is needed to create a strong brand identity in foreign markets. Along with that, policy-makers should consider creating a strong and positive country image.

Finally yet importantly, in order to sell their wines in the U.S. market, Moldovan wine exporters should guarantee uninterrupted and constant deliveries of wine as well as price stability on the American market.

10.2 Further Research

The results of a qualitative research can respond to questions as "why", "how" and "when" something happens, but it cannot provide with the information on "how often" or "how many". Therefore, a quantitative research may provide a valuable insight into this topic.

Other recommendation for further research might include a further qualitative research with a larger sample of respondents. This could be helpful in getting a more precise and diversified data. At a deeper level, it can be implemented a longitudinal case study with the same sampling of respondents but over a longer period of time.

Moreover, interviews targeted at governmental and non-governmental wine organisations as well as wine connoisseurs that are familiar with Moldovan wines, could be of great importance for a further research. Last but not least, triangulation of sources would add more consistency and reliability to the data

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Personal Communications

Company A, personal communication, April 27, 2015

Company B, personal communication, April 30, 2015

Company C, personal communication, May 6, 2015

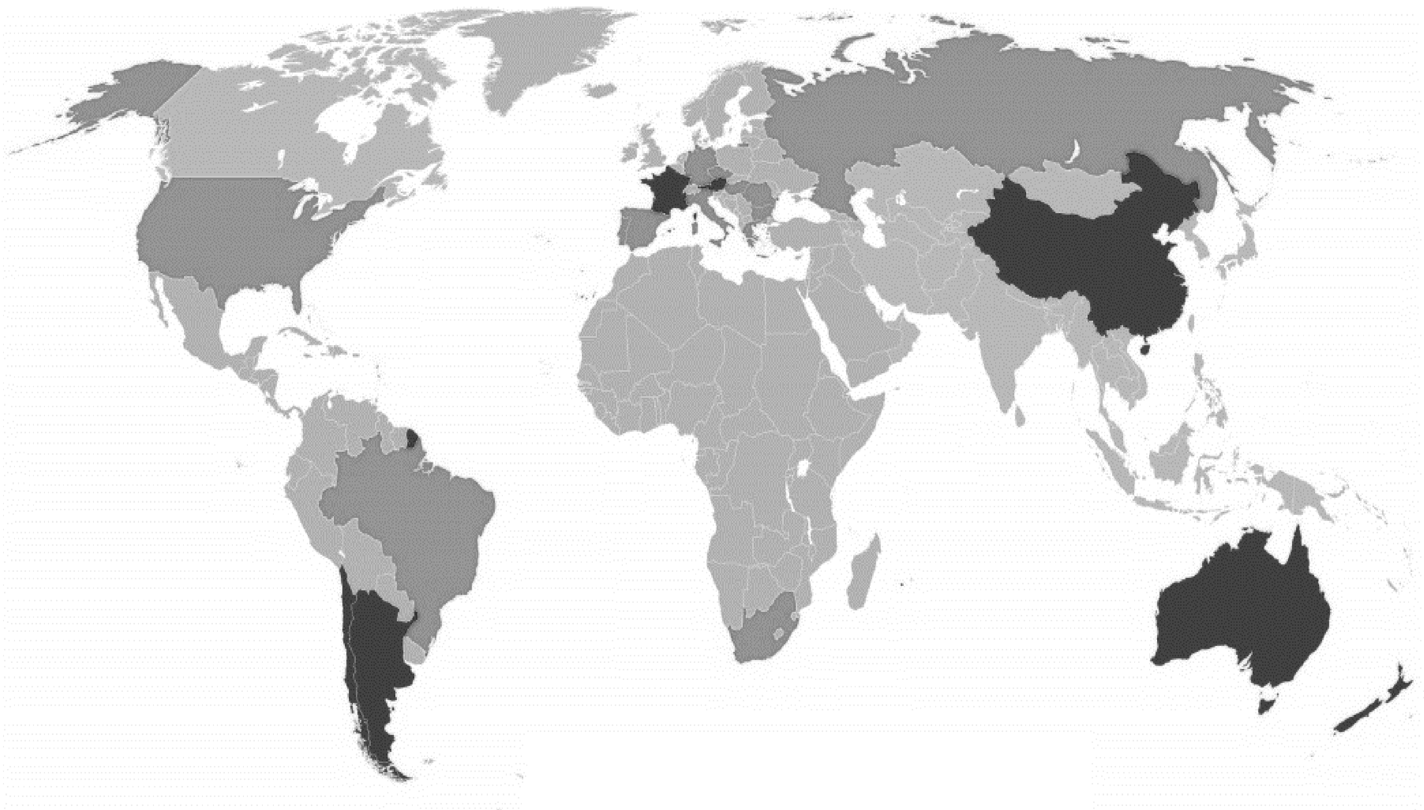
Company D, personal communication, May 9, 2015

Company E, personal communication, May 12, 2015

Company F, personal communication, May 18, 2015

Appendices

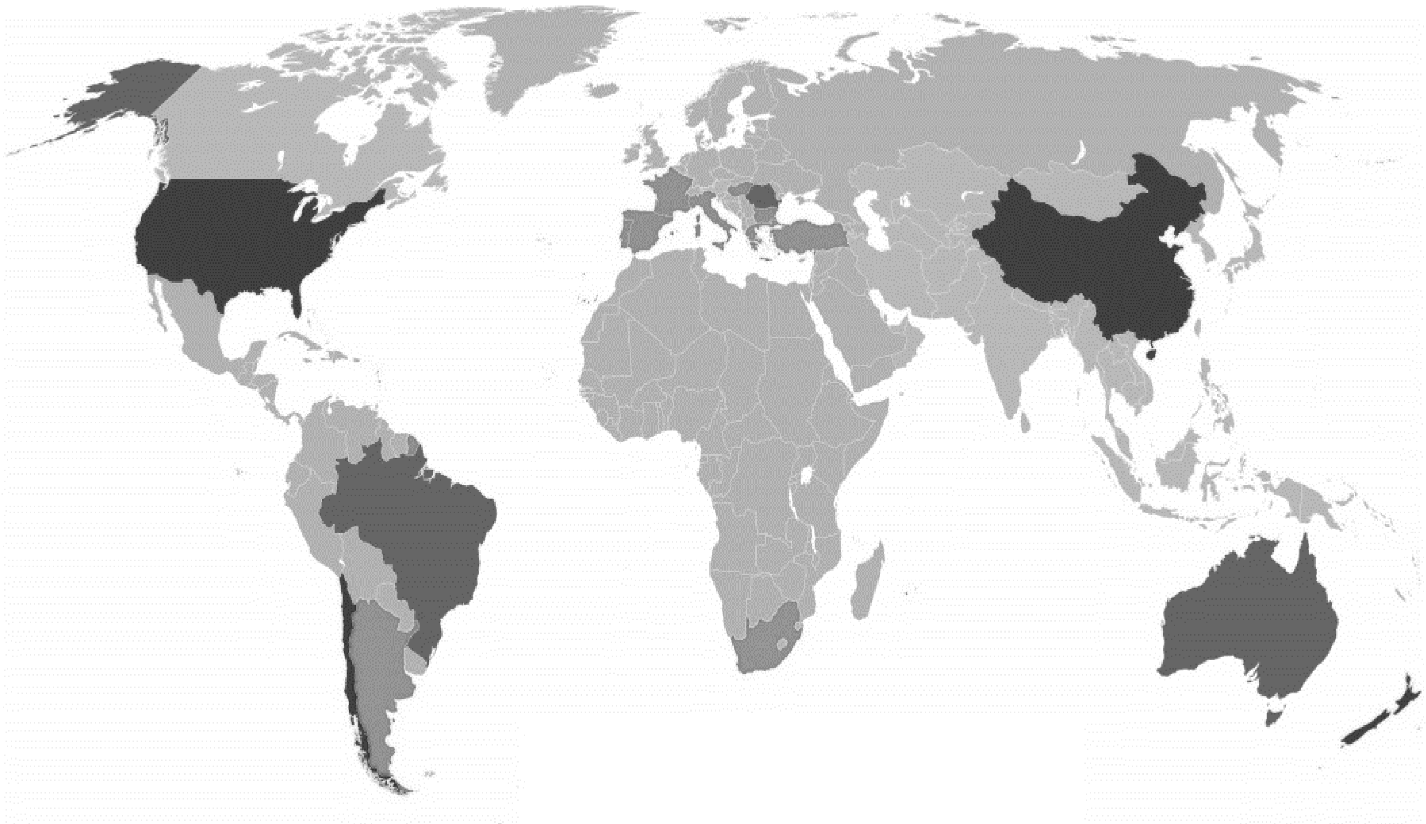
Appendix 1: Evolution of global wine production, 2007-2011 period



Country	mhl	Growth rate 2007/2011
Argentina	15473	3%
Australia	11010	14%
Brazil	3450	-1%
Bulgaria	1268	-29%
Chile	10572	29%
China	13200	6%
France	49633	9%
Greece	2587	-26%
Hungary	2447	-24%
Italy	41580	-10%
New Zealand	2350	59%
Portugal	5925	-2%
Romania	4708	-11%
Russian Feder.	6353	-13%
South Africa	9336	-1%
Spain	34300	-1%
USA	18740	-6%

Source: OIV (2015)

Appendix 2: Surface area under vines and its growth rate, 2007-2011 period



Country	mha	Growth rate 2007/2011
Argentina	218	-4%
Australia	174	0%
Brazil	92	0%
Bulgaria	73	-22%
Chile	202	3%
China	560	4%
France	807	-7%
Greece	111	-6%
Hungary	65	-13%
Italy	776	-6%
New Zealand	37	21%
Portugal	240	-3%
Romania	204	0%
South Africa	131	-2%
Spain	1032	-12%
Turkey	500	-4%
USA	405	2%

Source: OIV (2015)

Appendix 3: Historical wine regions of Moldova

Source: Wine of Moldova (2015)

Appendix 4: Interview questions

Company background
1. When was your company founded?
2. How many employees does it have?
3. How many hectares of vineyard your company has?
4. What is your company’s annual production capacity of wine?
5. How much are your company’s average annual sales of wine?
6. What percentage of your sales are international?

Internationalisation process
7. When your company involved in export activities?
8. What motivated your company to go international?
9. What are the internal and external factors that influenced your company to go international?
10. What were the steps your company took to go international?
11. Which entry mode your company used?
12. What were the criteria for market selection?
13. What obstacles your company faced?
14. How does your company create external business relations and how those influence the international expansion of your firm?
15. Does your company get support from the Government to internationalise? If Yes, In which way?
16. How would you describe the international strategy of your company?

USA wine market
17. Does your company export wine into the U.S.?
If No, What holds your company to export into the U.S.?
If Yes,
a. What percentage of your sales are in the U.S.?
b. What determines your company to export into the U.S.?
c. What import barriers does your company face?
d. How important is the U.S. wine market for your company?
e. Do you think, exporting wine into the U.S. is a necessity or opportunity for your company?

Respondent profile
* Position in the company
* Duration of working experience within the company
* Previous experience in wine industry
* Previous exporting experience