TBC CAPITAL

Alcoholic Beverages

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Summary

In 2023, adverse weather conditions across the globe led to the lowest level of global wine production seen in the past 60 years. This significant decline in output underscores the vulnerability of the wine industry to climatic factors, which can severely impact grape yields and overall production volumes.

Italy and Spain, the second and third largest wine producers, experienced significant reductions in production in 2023, with decreases of 23% and 21%, respectively.

According to preliminary data from Geostat, formal wine production in 2023 reached 127 million liters, representing a 7% increase compared to 2022. Even though wine production has increased by 7% in 2023, compared to 2022, in terms of total value it has gone down by 5%. In 2022, wine production in terms of monetary value reached nearly 1 billion GEL, showing a significant increase of 7% compared to the level in 2021.

In 2023, the country earned $259 million from wine exports, which represented 4.1% of its total exports. Georgia ranks among the top 20 wine-exporting nations, consistently holding its place. In 2023, Georgian wine exports achieved a record high in revenue. However, the quantity of wine exported saw a decline. Georgia exported nearly 117 million bottles of wine, an 11% decrease compared to the previous year, while revenues increased by 2% during the same period.

One of the main export destinations for Georgian wine is Russia. In terms of revenue, Russia's share in the total revenue of the Georgian wine industry reached 66% in 2023. In 5 months of 2024, exports to Russia increased by 52% year-on-year, which was mainly caused by the increase in excise duty. Wine exporters opted to export a substantial portion of their annual goods just before the excise duty increase took effect.

In 2023, the total turnover of wine and alcoholic beverages reached 1.43 billion GEL, reflecting a year-on-year (YoY) growth of 4.6%. Over the past nine years, total revenues for local wine producers have grown at a compound annual growth rate (CAGR) of 16%, indicating substantial and steady progress in the industry.

Looking ahead, the total turnover of wine companies in Georgia is projected to grow moderately by 5% in 2024. This forecast considers current export trends, which show a rising interest in Georgian wines in various international markets, as well as local consumption patterns, which continue to support steady demand.

INDUSTRY OVERIEW

Industry Overview
Turnover

In 2023, the total turnover of wine and alcoholic beverages reached 1.43 billion GEL, reflecting a year-on-year (YoY) growth of 4.6%.

Over the past nine years, total revenues for local wine producers have grown at a compound annual growth rate (CAGR) of 16%, indicating substantial and steady progress in the industry. The slight downturn in 2020 during the pandemic was anticipated, as the wine industry, similar to many other sectors, encountered difficulties due to COVID-19.

In 2023, the production of alcoholic beverages increased and further increase in anticipated in 2024.

The number of active registered businesses in the wine industry has been steadily rising, peaking in 2023 with 1,027 entities involved in wine production. Similarly, the spirits production sector has experienced notable changes, with 118 active companies registered in 2023.

The structure of the sector in terms of the company distribution by size has not changed over years and is dominated by Large number of small-size registered companies. Additionally, many individuals or households produce wine and spirits for personal consumption or local distribution, which are not included in the official registered count.

Figure 1. Alcoholic beverages producers' turnover (mln. GEL)

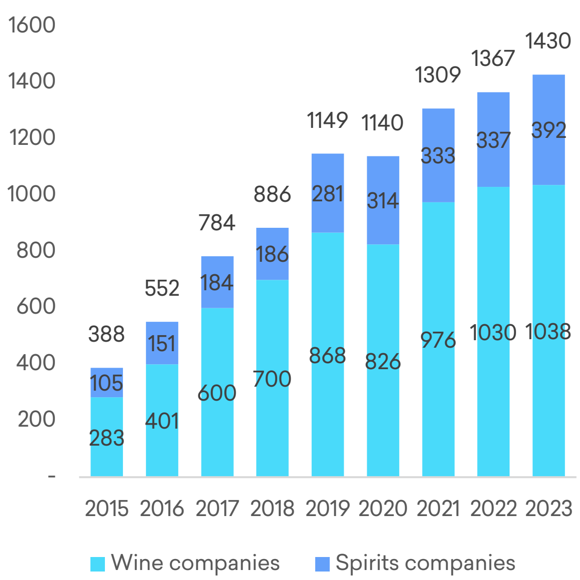


Figure 2. Number of active companies

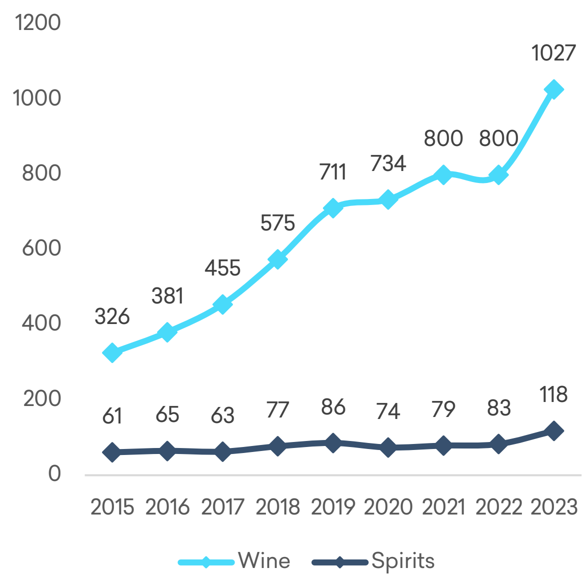


Table 1. Distribution of companies by size, 2023

	Large	Medium	Small
Spirits	2	9	106
Wine	6	29	982

Source: Geostat, 2024

WINE SUPPLY

Supply of Alcoholic Beverages
Production Volume

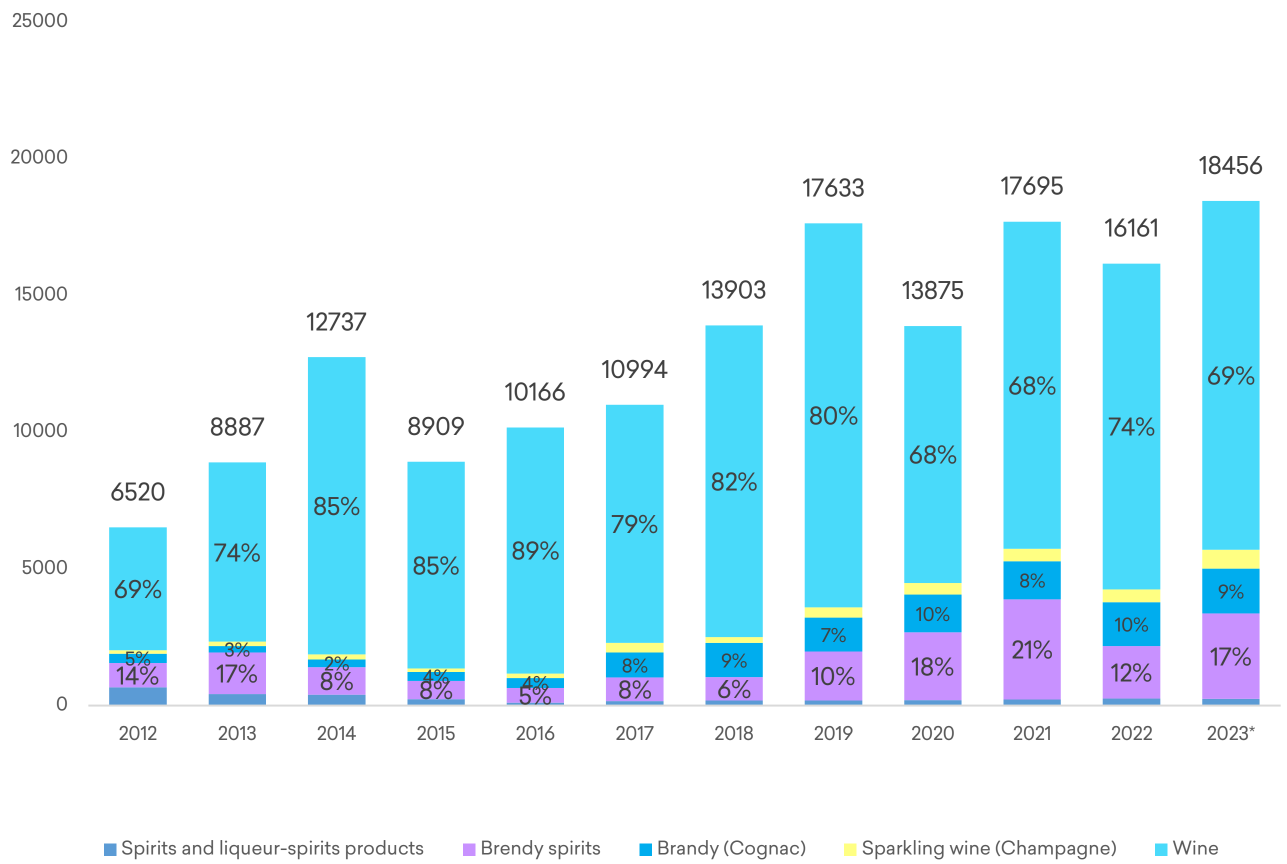
According to preliminary data from Geostat, formal wine production in 2023 reached 127 million liters, representing a 7% increase compared to 2022. Although this figure will be revised in October 2024, it can be assumed that wine production has risen from the previous year.

The production of sparkling wine has shown a strong increasing trend over the past five years. Notably, in 2023, sparkling wine production surged, reaching 7.0 million liters, which is a 46% increase compared to the previous year.

Wine companies are also involved in producing brandy and other spirits. In 2023, the production share of brandy and spirits rose by 35% compared to 2022. Furthermore, the brandy segment has been experiencing a rising trend, with an impressive average growth rate of 6% over the last five years. This growth is significant and indicates increasing demand for brandy both domestically and internationally.

Typically, wine companies report that brandy and spirits make up about 5-10% of their total production, but 2023 figures suggest this share could be even higher.

Figure 3. Production of alcoholic beverages in Georgia ('000 liters)



Source: Geostat, 2024

Note: Preliminary data for 2023, final data will be available in October 2024

Supply of Alcoholic Beverages
Production Value

Even though wine production has increased by 7% in 2023, compared to 2022, in terms of total value it has gone down by 5%. In 2022, wine production in terms of monetary value reached nearly 1 billion GEL, showing a significant increase of 7% compared to the level in 2021.

Wine sector has recovered from the challenges posed by the pandemic and then Russian-Ukrainian war.

It is important to note that, the overall trend in terms of production value of beverages seems to be positive with an increase of 6% in monetary value in 2023 compared to previous year.

In 2023, all the categories of alcoholic beverages experienced a increase in value compared to the previous year.

Figure 4. Production Value of wine in Georgia (mln.GEL)

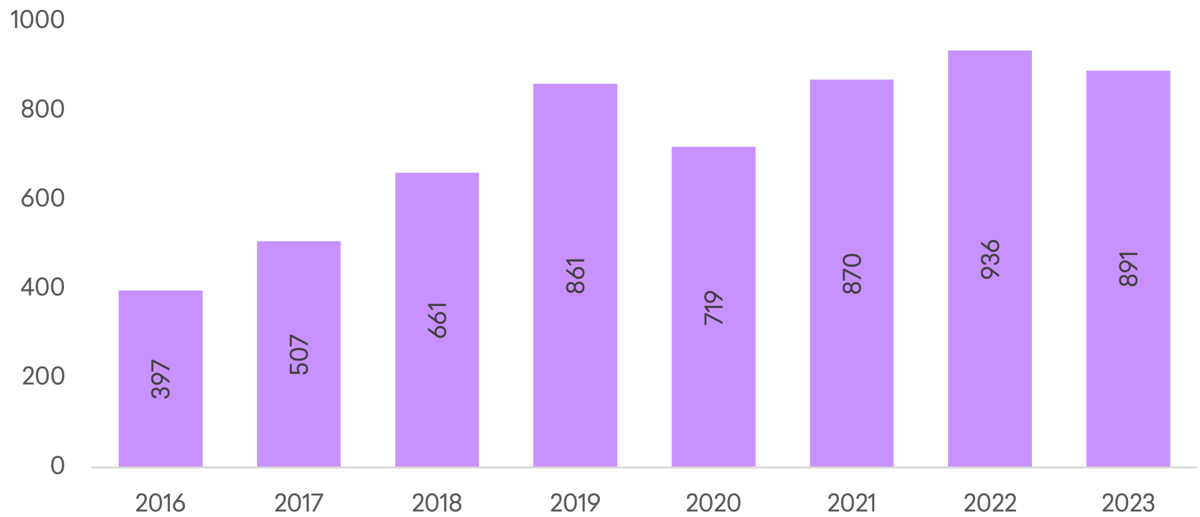
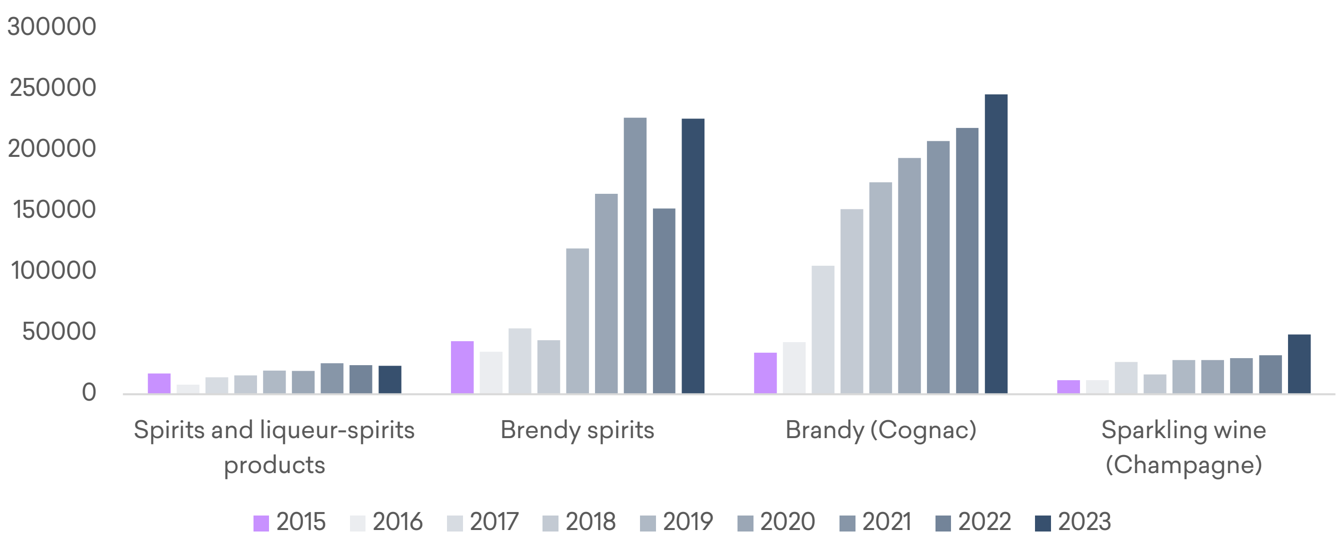


Figure 5. Production Value of alcoholic beverages in Georgia (mln.GEL)



Source: Geostat, 2023

Note: Preliminary data for 2022

Wine Supply

Production

In 2023, grapes harvested has decreased by 23% compared to 2022. Growing trend was reversed in 2021 due to heavy hailstorms, diseases in Kakheti region. According to winegrowers in Kakheti region, this year has brought the worst harvest the region has seen in recent years.

Kakheti was not the only region affected. Total grape harvest decreased in almost all other regions as well. The largest drops were observed in Shida Kartli and Kvemo Kartli regions, 63% and 52%, respectively.

Nearly three quarters of the total grape output is produced in Kakheti region. Around 73% of all Georgian vineyards are located in Kakheti, which contributed 79% of the total grape harvest in 2023.

Another significant contributor is the Imereti region, representing 10% of the production.

In contrast, the Racha-Lechkhumi and Kvemo Svaneti regions have limited vineyard areas, making up to 2% of the total production.

Although their contribution to the overall harvest is small, these regions are highly significant in the Georgian wine industry due to their unique micro-zones. Regions often attract the attention of wine enthusiasts and connoisseurs who seek unique and lesser-known wine experiences.

White grapes currently dominate grape production in Georgia, making up the majority of the total harvest. In 2023, red grapes accounted for approximately 38% of the total harvest, a higher percentage than in previous years. This shift is because white grape varieties were more severely impacted by bad weather and diseases compared to red varieties. The harvest of white grapes decreased by 30% in 2023 compared to 2022, while the harvest of red grapes declined by only 9%.

Figure 6. Grape total harvest by type of grapes, 000' tons

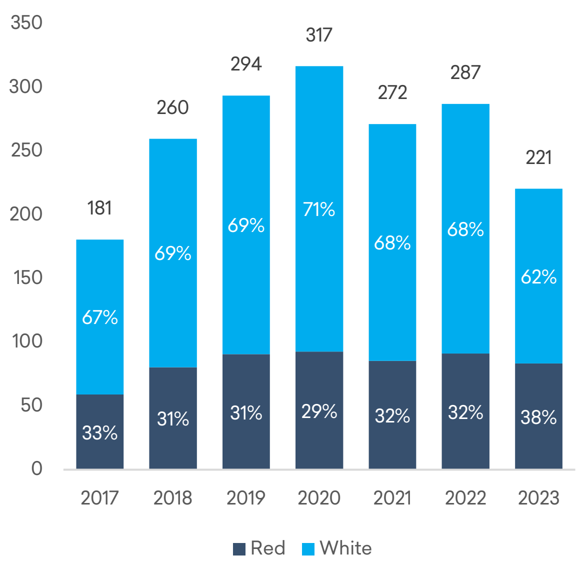
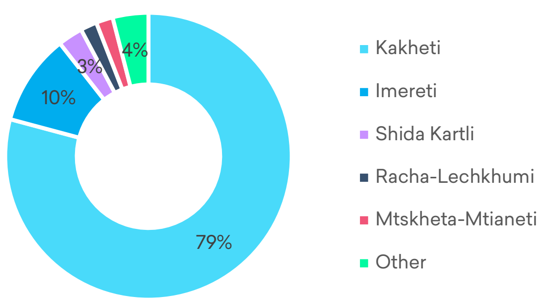


Figure 7. 2023 Harvest Breakdown by Regions



Source: Geostat, 2024

Wine Supply
Production

Rkatsiteli and Saperavi have traditionally been the predominant grape varieties in Georgia, collectively accounting for over 90% of the country's total grape production in previous years. However, in 2023, their shares in the total grape harvest declined due to a poor harvest year.

Rkatsiteli was one of the most impacted grape varieties, with its harvest decreasing by 49% compared to the previous year. In 2023, it made up less than 32% of the total harvest. Notably, the proportion of Rkatsiteli in overall wine processing has been declining.

In contrast, the share of Saperavi saw a minimal decline, with its harvest decreasing by just 1.2% compared to the previous year.

As it was expected total value of grape harvest declined as well. In 2023 total grape value was approximately 286 mnl. GEL, which is 11% lower compared to 2022 figure.

As expected, Rkatsiteli experienced the highest decline in harvest value in 2023, dropping by 44% compared to 2022.

It's also noteworthy that grape varieties grouped under the "other" category have increased in terms of both quantity and value.

Figure 8. Processed grape, (ths. tons)

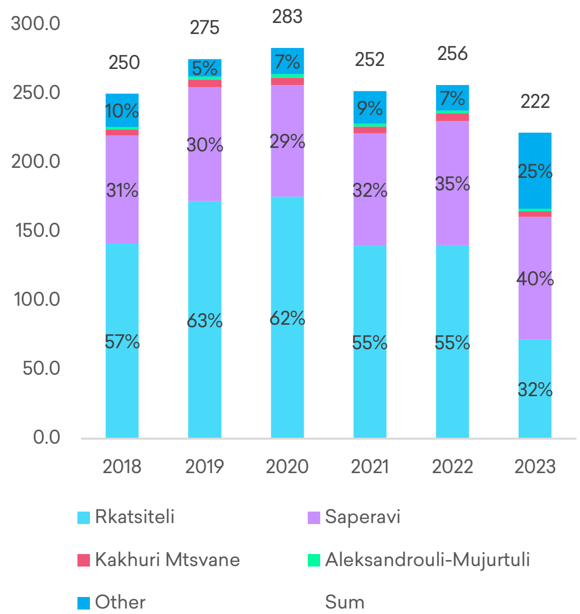
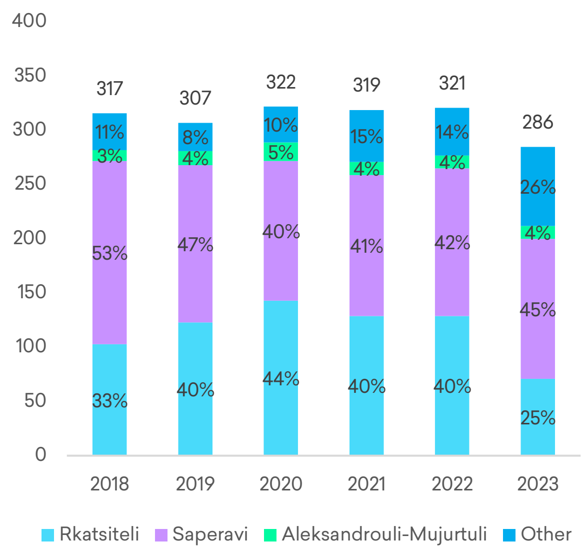


Figure 9. Share of processed grape value, (mln. GEL)



Source: Georgian Wine Agency, 2024

WINE DEMAND

Demand
Export Destinations

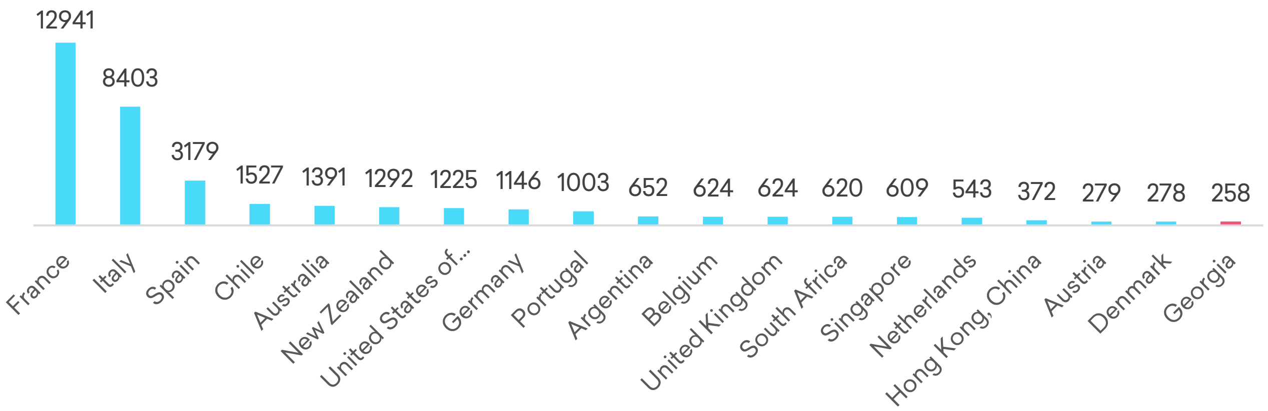
Throughout history, wine has been a key export product for Georgia. In 2023, the country earned $259 million from wine exports, which represented 4.1% of its total exports. Georgia ranks among the top 20 wine-exporting nations, consistently holding its place.

In 2023, Georgian wine exports achieved a record high in revenue. However, the quantity of wine exported saw a decline. Georgia exported nearly 117 million bottles of wine, an 11% decrease compared to the previous year, while revenues increased by 2% during the same period.

Despite the reduction in quantity, the in export revenues can be attributed to the rise in the export price of Georgian wine. In 2022, the average export price of 1 liter of Georgian wine was $2.49. By 2023, this price had increased to $2.89.

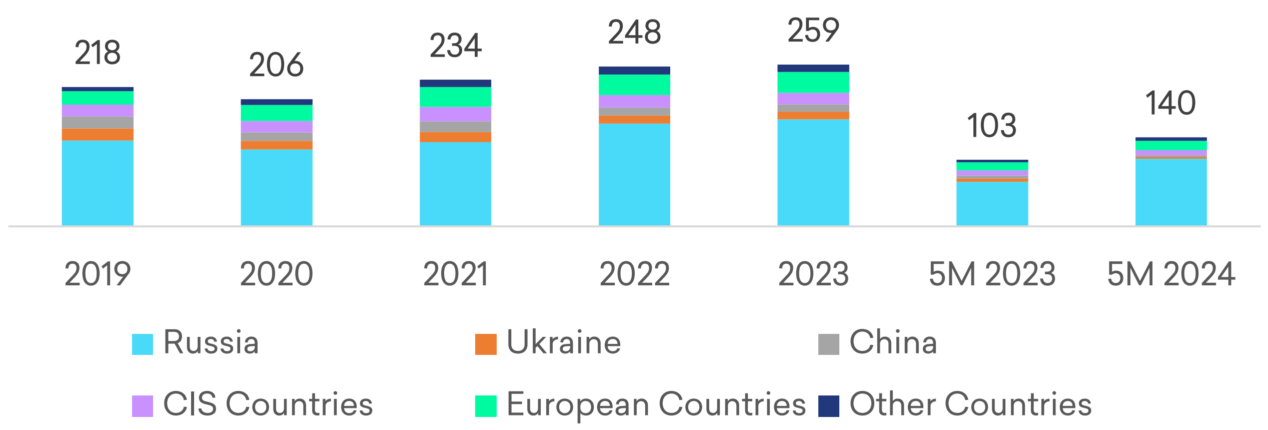
One of the main export destinations for Georgian wine is Russia. In terms of revenue, Russia's share in the total revenue of the Georgian wine industry reached 66% in 2023. In 5 months of 2024, exports to Russia increased by 52% year-on-year, which was mainly caused by the increase in excise duty. Wine exporters opted to export a substantial portion of their annual goods just before the excise duty increase took effect.

Figure 10. TOP Wine Exporters (mln. USD), 2023



Source: Comtrade, 2024

Figure 11. Georgia's Wine Export Destinations, mln. USD



Source: Geostat, 2024

Demand
Wine Export

Wine companies emphasize that the success of Georgian firms in foreign markets relies not only on their marketing activities but also significantly on raising awareness about Georgian wine as a product.

To enhance awareness, specific steps have been taken, focusing on selected target markets. These target markets include Poland, China, the Baltic states, the US, the UK, Germany, and Japan.

In 2023, Poland (14.7%), China (11.5%), and the Baltic states (7.7%) were the main markets for Georgian wine. Historically, China had been the largest market among the target countries, however, its share has been decreasing over years and in 2022 was overtaken by Poland. Some companies report export spikes in Poland after the Russian invasion of Ukraine.

It is worth mentioning that in 2023, share of target countries in total wine export was 18%.

Figure 12. Georgian wine export to target countries and share in total wine export, Mln. USD

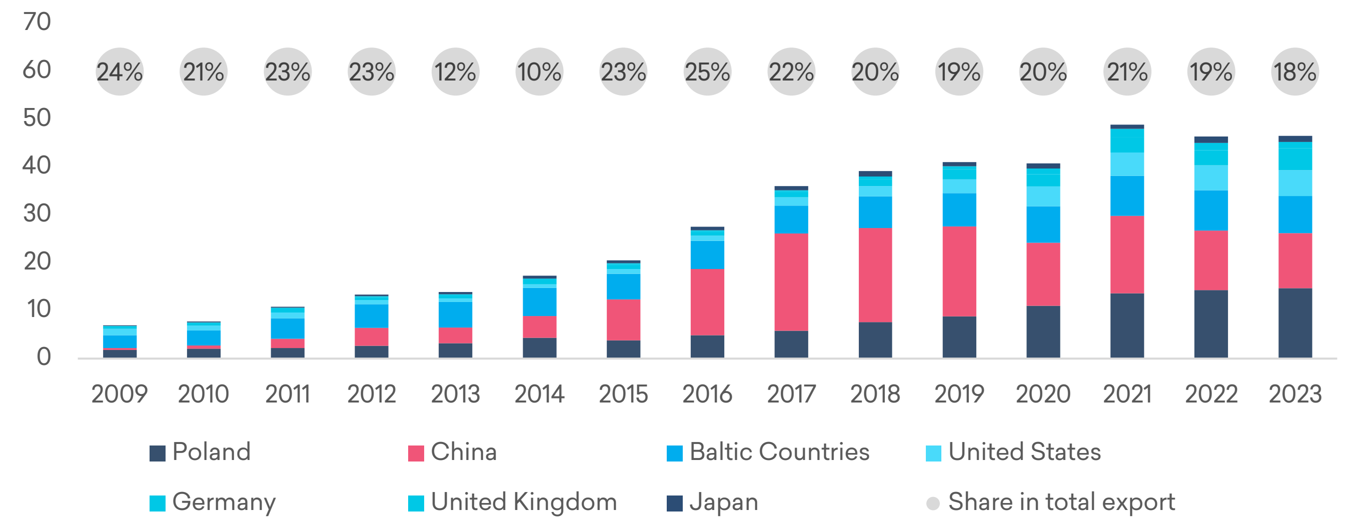
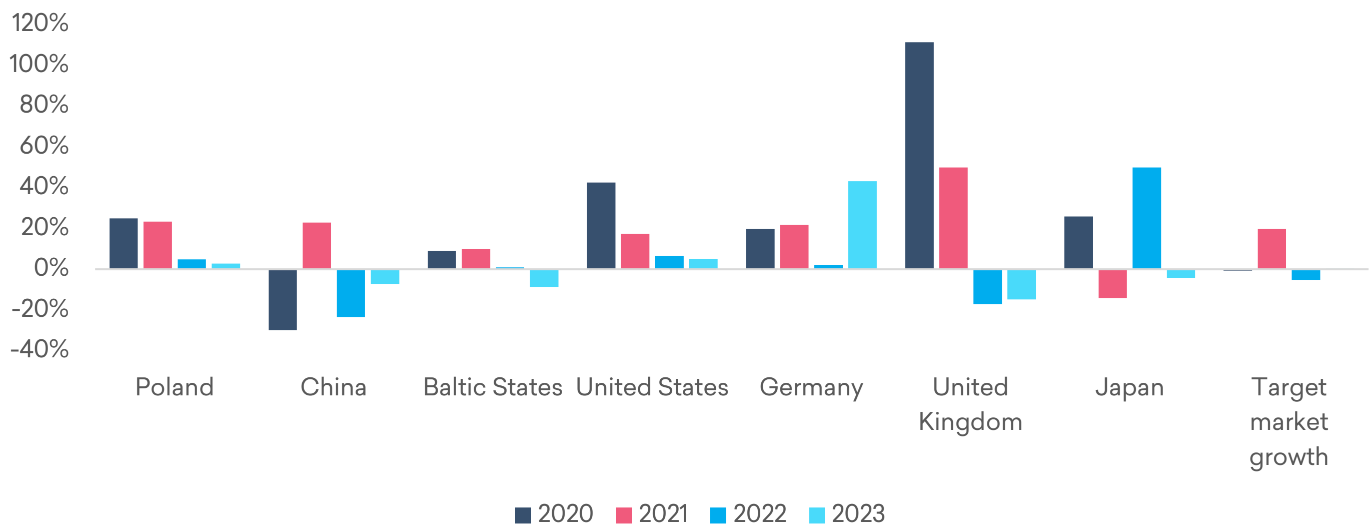


Figure 13. YoY Growth of Georgian Wine Export to Target Markets



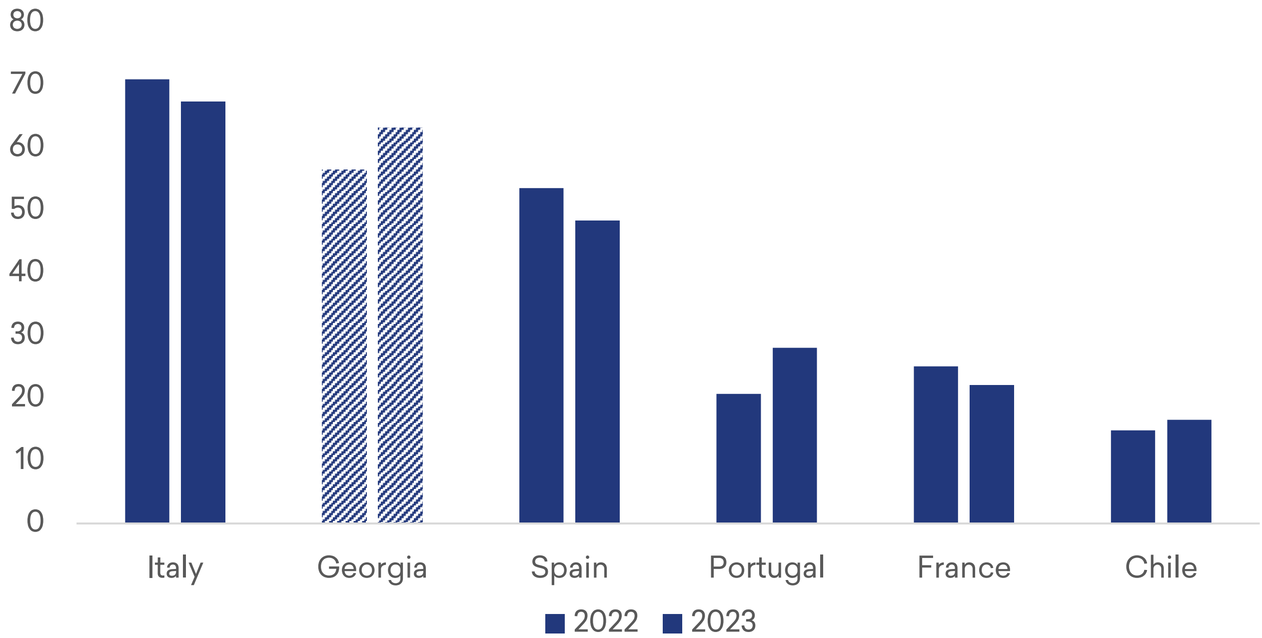
Demand
Russian Market

In August 2023, Russia increased the duty on wines from "unfriendly" countries from 12.5% to 20%, with a minimum duty set at 1.5 euros per liter. This change had a significant impact on lower-priced wines, sometimes leading to effective duties ranging from 100% to 200%.

Italy, Georgia, Spain, Portugal, and France were the top exporters, collectively accounting for a major share of total imports. Notably, while shipments from Italy, Spain, and France decreased, imports from Georgia rose. Following these developments Demand for budget-friendly wine options has increased in Russia and shifts preferences towards Georgian wines.

Georgian wine presently enjoys preferential import duties, however, It should be mentioned that, there are ongoing talks within the Russian Wine Association about abolishing these preferential rates. This change could affect the excise duty rates for Georgian wines, potentially impacting their competitiveness in the Russian market.

Figure 14. Wine Export to Russia, mln. USD



Source: OIV stat, 2024

Demand
CIS Countries, Kazakhstan

In 2023, CIS countries accounted for 7% of Georgia's total wine exports. This share has declining trend. Despite this decrease, the CIS region still represents a significant portion of Georgia's export market, though the overall share has been diminishing.

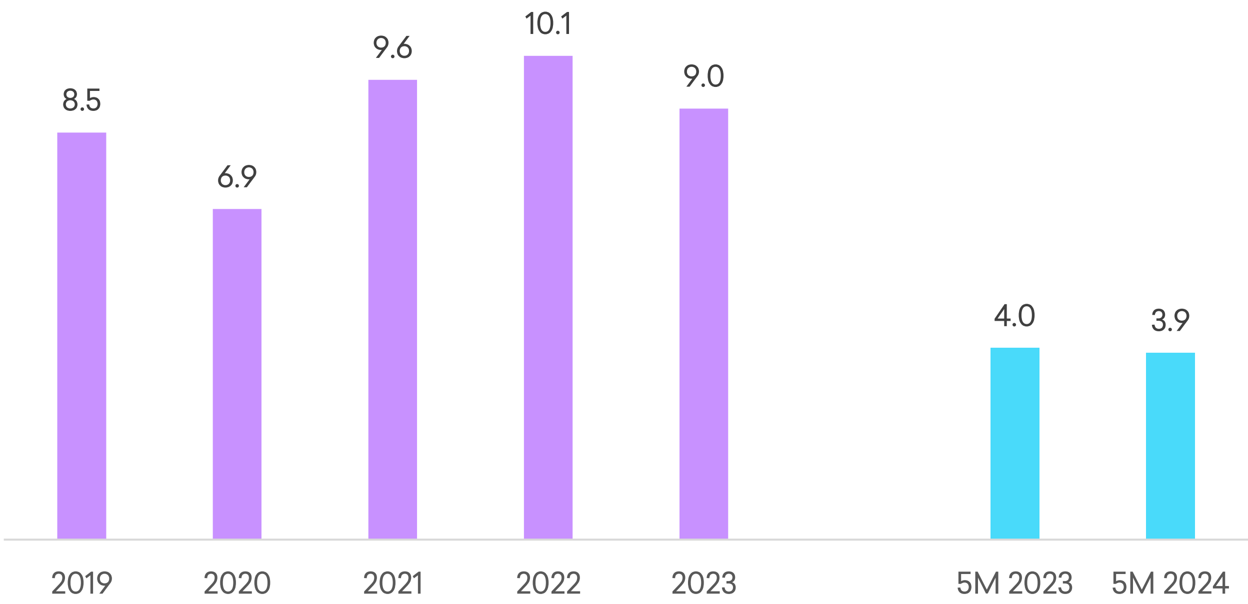
In 2023, key market for Georgian wine exports was Kazakhstan, which accounted for 4% of the total wine exports.

Kazakhstan has demonstrated a robust and expanding wine market, with imports growing at a compound annual growth rate (CAGR) of 11% over the past three years.

This strong growth indicates increasing consumer demand and a thriving market environment for wine. However, despite this overall growth in the Kazakhstani wine market, Georgian wine exports to Kazakhstan have experienced a decline, with a CAGR of -3% over the same period.

In Kazakhstan, in recent years, there has been a shift in customer preferences, with wine becoming a popular choice for everyday consumption. Rise in disposable incomes, leading to an increase in the purchasing power of consumers and they are willing to spend more on premium and imported wines.

Figure 15. Wine Export to Kazakhstan,
mln. USD



Source: Geostat, 2024

Demand
China

Georgia is among 10 top wine importers in China. Georgian wines are often competitively priced compared to wines from traditional wine-exporting countries like France and Italy. This makes them an attractive option for price-sensitive consumers.

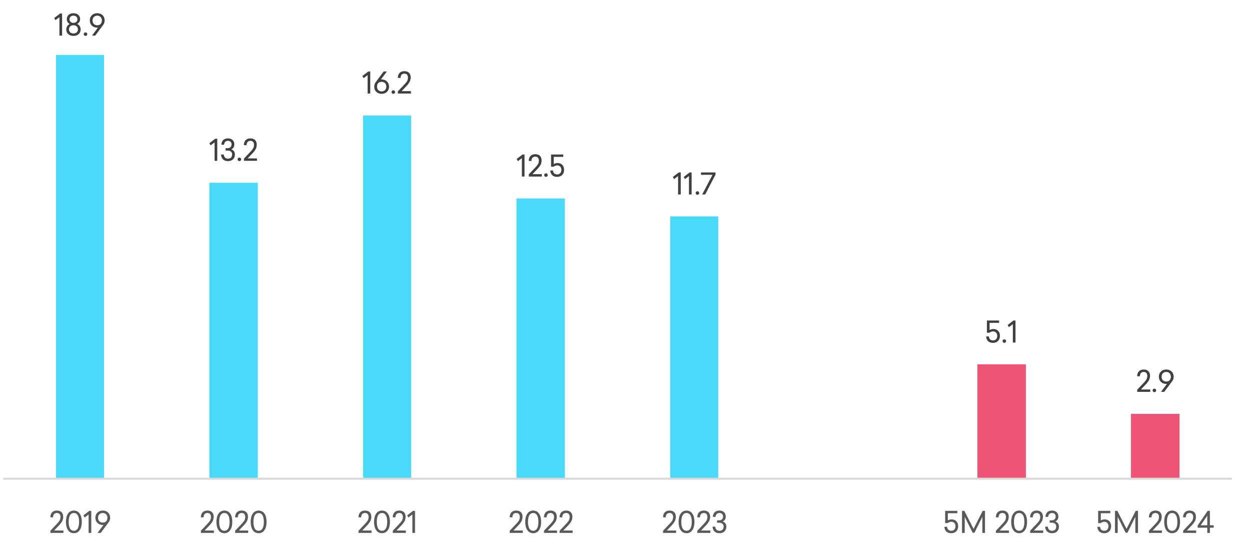
In 2023, China accounted for 4% of Georgia's total wine exports. This share has been decreasing over the past five years.

It should be noted that the decline in Georgia's wine exports to China is part of a broader trend. China's wine consumption has been falling since 2018, and in 2023, the country experienced a significant reduction in wine consumption, with a 24.7% decrease compared to 2022.

In China, wine consumption is mainly a social activity occurring in restaurants, bars, and gatherings, making it more vulnerable to the impacts of lockdowns compared to other types of alcohol. Despite the significant hit during the pandemic, wine sales were already decreasing before COVID-19 and have continued to drop even after the country has reopened. This ongoing decline indicates more profound shifts in consumer preferences and market trends affecting wine consumption in China.

5% percent GDP growth target set for 2024 and initiatives stimulating consumer spending, offering positive prospects for the wine industry.

Figure 16. Wine Export to China,
mln. USD



Source: Geostat, 2024

Demand
Wine Export

In recent years, Georgian wine exports to the European Union (EU) have been gaining traction. Major markets in the EU for Georgian wine include Poland(5.8%), Germany(1.8%), and the Baltic states(3%), where consumers are developing a taste for Georgian varieties.

Poland has become one of the key markets for Georgian wine in the EU, showing consistent growth in import volumes year after year. Polish consumers are increasingly seeking out wines with distinctive flavors and rich histories.

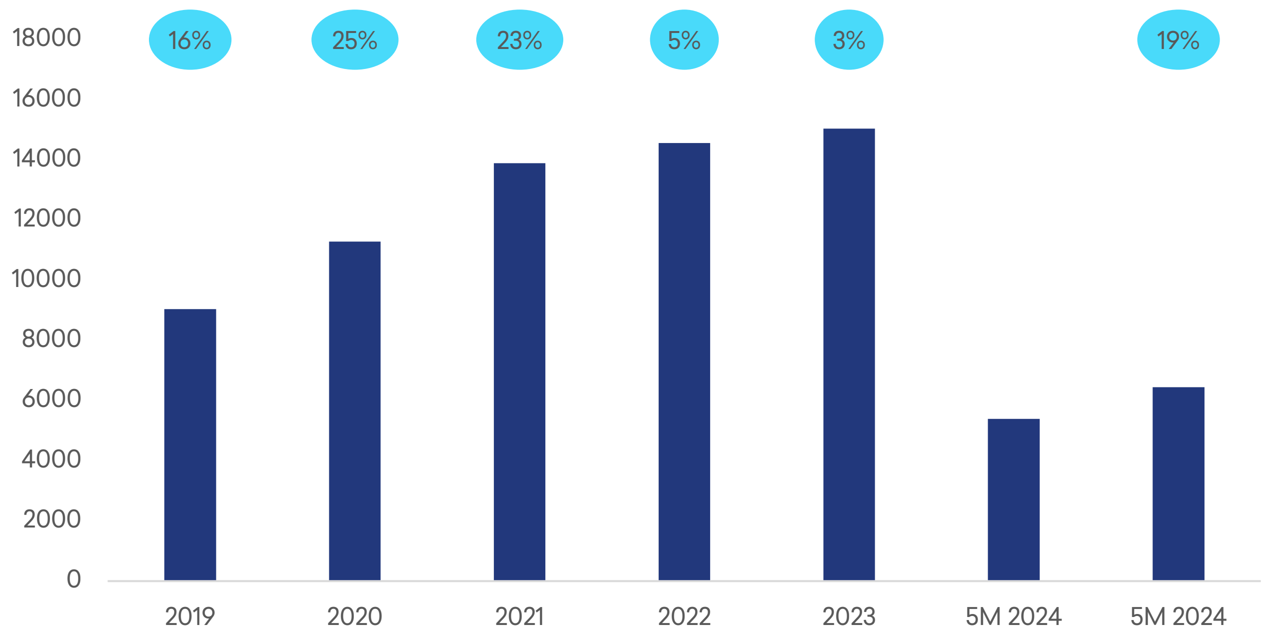
Wine consumption in Poland has been steadily increasing. Wine consumption in Poland has been steadily increasing.

Poles are becoming more interested in wine, moving away from traditional preferences for beer and vodka.

While domestic wine production is on the rise, imported wines from Italy, France, and Spain continue to be highly popular. Additionally, Georgian wines are gaining traction thanks to their competitive pricing and quality.

In general, there is a clear trend towards higher quality wines in the EU. Consumers are more willing to invest in premium wines, showing a rising appreciation for finer wine varieties. This shift highlights a preference for quality rather than quantity, with many choosing wines that provide distinctive flavors and authentic winemaking methods.

Figure 17. Wine Export to Poland, mln. USD



Source: Geostat, 2024

THE GLOBAL TENDENCIES IN THE WINE INDUSTRY

Wine Industry
International Trade

The United States, the United Kingdom, and Germany are among the world's top wine-consuming countries. Together, these three nations imported about $10 billion worth of wine, accounting for a substantial 40% of the total global wine imports.

Besides the top three wine-importing countries, the LEPL National Wine Agency is actively exploring opportunities in large markets such as China and Japan. Although Georgian wine imports to these countries are currently small in comparison to their total imports, they present a promising opportunity for Georgian winemakers to enter markets with high purchasing power.

Although the USA is among the top wine-exporting countries, it recorded a trade deficit in wine trade, with a $3.9 billion deficit in both 2022 and 2023. Similarly, the UK and Canada also experiences significant trade deficits in wine trade.

As traditional wine-making countries with long-established reputations in viticulture and winemaking, France, Italy, and Spain have consistently achieved the highest trade surpluses in the global wine trade. Their expertise, diverse wine offerings, and strong international demand contribute to their ongoing success in maintaining these trade surpluses.

Figure 18. Countries with Wine Trade surplus, 2020-2023, bln. USD

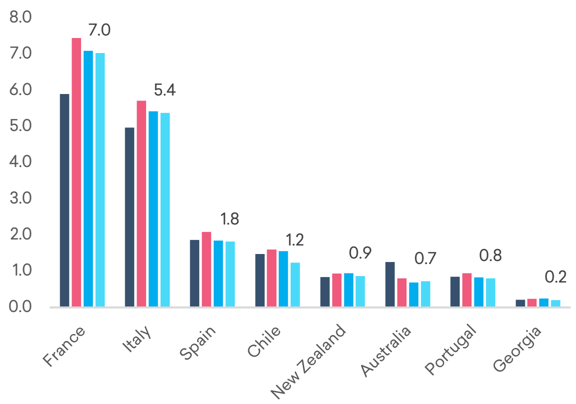


Figure 19. Countries with Wine Trade Deficit, 2020-2023, bln. USD

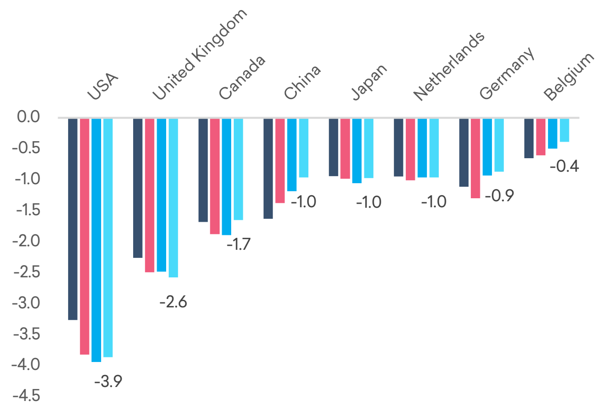
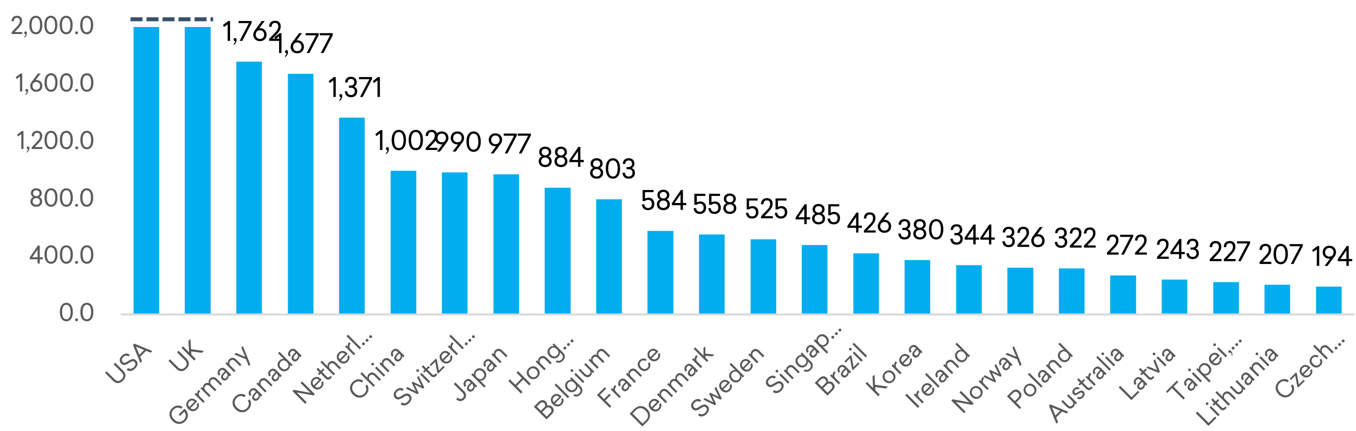


Figure 20. Top Wine Importing Countries, 2023, mln. USD



Source: Comtrade, 2024

Note: Datum for Russia is for 2021, a latest available one

WINE PRICE

Wine Prices
Export Markets

In recent years, the average export price for Georgian wine has been declining. However, in 2023, the average export price for 1 liter of Georgian wine rose to $2.89, marking a 16% increase compared to the previous year.

The price of Georgian wine has risen in most exporting countries, including Russia where preferential import duties benefit Georgia. However, the Russian Wine Association seeks to cancel these duties.

In July 2023, import duties on wines from 'unfriendly' countries increased from 12.5% to 20% until 2024. Despite this, some officials and winemakers find the increase insufficient and propose tariffs as high as 200% on NATO country wines.

Following the Russian-Ukrainian war, Russia's purchasing power declined, leading to increased demand for budget-friendly wine options. This change in consumer preferences, along with higher prices for European wines, further reduced demand for European wines and shifted preferences towards Georgian wines.

UK, the United States, and Japan are the markets that, on average, pay premium prices for Georgian wine, compared to other countries.

In 2023, global wine production is projected to be the lowest in the past 60 years. The European Union is expected to experience low production volumes. Italy and Spain have seen significant decreases compared to 2022, attributed to unfavorable weather conditions causing issues like downy mildew and droughts. .

Apart from the United States and France, only Argentina among the selected countries managed to maintain an upward trend in wine prices.

Figure 21 Average Export Price for Wine, Selected Countries 2019-2023, USD/Liter

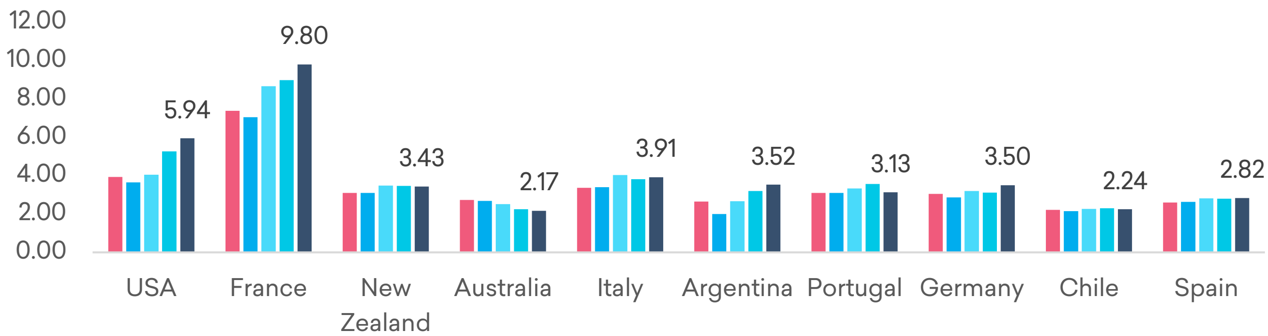
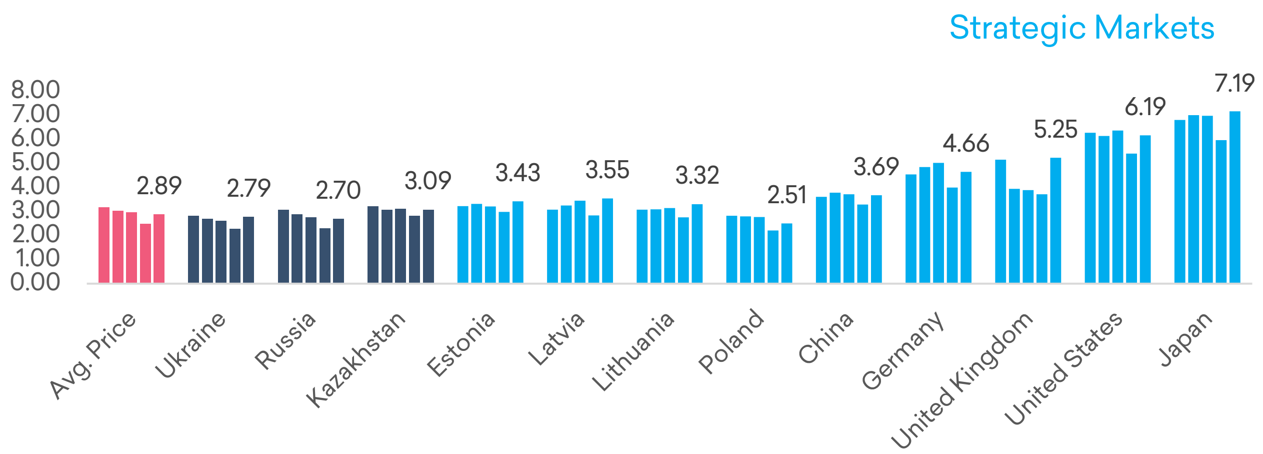


Figure 22. Average Export Price of Georgian Wine, Selected Countries 2019-2023, USD/Liter



Source: Trademap, Geostat, 2024

WINE MARKET FORECAST

Wine market Forecast

The Georgian wine industry has demonstrated a strong recovery from the pandemic, with overall turnover reaching new heights and a noticeable increase in local consumption.

In 2023, the total turnover for the sector reached 1.04 billion GEL, marking a 4.6% year-on-year (YoY) increase. This growth indicates a strong rebound and an upward trajectory in the wine market. Looking ahead, the total turnover of wine companies in Georgia is projected to grow moderately by 5% in 2024.

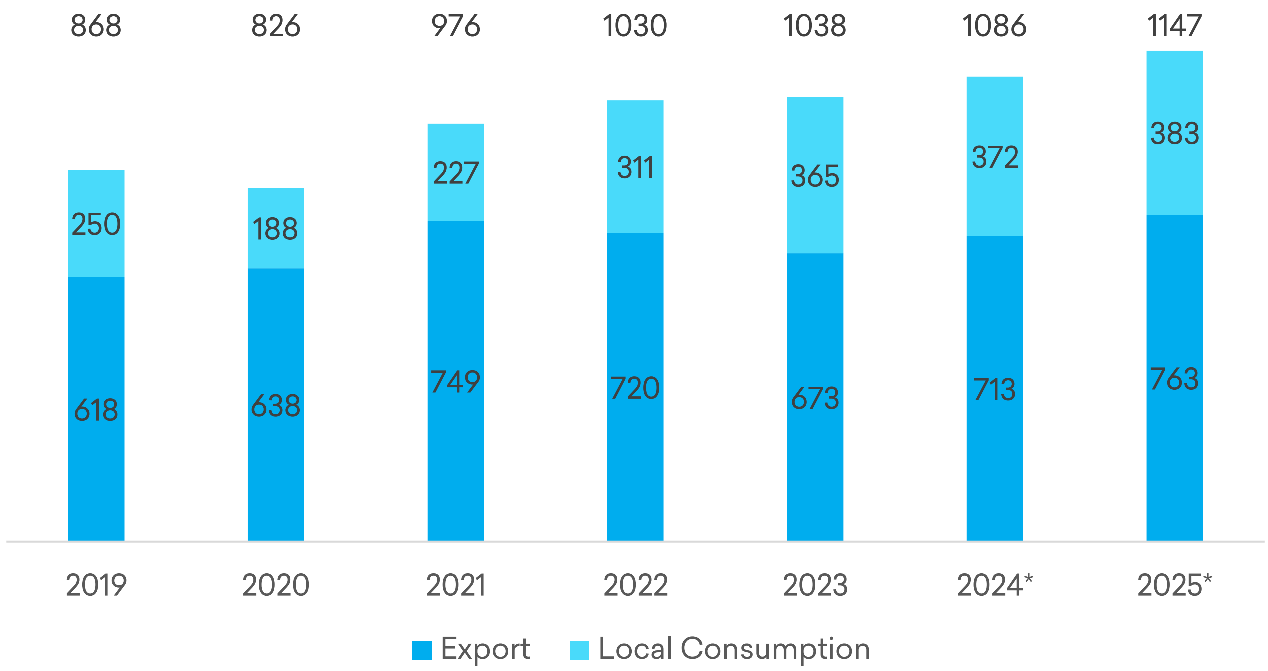
This forecast considers current export trends, which show a rising interest in Georgian wines in various international markets, as well as local consumption patterns, which continue to support steady demand.

The primary drivers of growth for the Georgian wine industry will be the expansion of exports to the Russian market and the increase in local consumption.

Growth in exports to Russia is expected to be a significant factor. The Russian market has shown even bigger interest in Georgian wines.

The growth of tourism is another key factor. As tourism numbers rise, there is likely to be greater demand for local wines from both international visitors and local consumers seeking to enjoy and showcase Georgian wines.

Figure 23. Wine producers' turnover (mln. GEL)



Source: Geostat, 2024

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