

## The Hungarian wine sector in the turn of the XXI<sup>th</sup> century

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### 1. Characteristics of the Hungarian wine market

#### 1.1. Privatised wineries, producers

In the course of privatisation the state employed the following privatisation strategies, which were adopted in the wine sector and in the wine market with different objectives and at different scales:

##### *a. Joint ventures*

An operating company is formed as a joint venture between an outside organisation that contributes working capital and management, and the Hungarian enterprise that contributes raw product, facilities, and other assets. This is a popular arrangement in Hungary because it involves local partners.

##### *b. Complete buy-out*

The Hungarian winery is sold entirely to an outside organisation. The buying organisation acquires the assets of the Hungarian enterprise, negotiates for raw product or other in-outs, and maintains complete management control provides all the capital and management required. The governments or other previous owner, receives all of the purchase price for the enterprise, and no part is made available tot he new owner as a capital subsidy.

##### *c. Conditional buy-out*

This is the type of arrangement considered in the area (e.g. Tokaj) where the government permits part or all of the purchase price to be retained in the local area for infrastructure improvements. It is conditioned variation of strategies „a” and „b” above.

##### *d. Subsidised buy-out*

The Hungarian enterprise is sold entirely to an outside organisation but the payment for the enterprise remains with the enterprise and can be used, subject to control, for capital improvements or operating capital by the new owners. This arrangement has not been used in its pure form, but has been used to provide partial subsidies in the complete buy-out scenario noted above.

##### *e. Member buy-out*

The Hungarian winery is sold or in part to members of the co-operative and/or members of current management. The strategy effects primarily those who common property must be evaluated and allocated to active and retired members. The result will be a group of grower-owned and -operated co-operatives or companies which may not integrate directly with winery.

##### *f. Partial re-compensation*

This programme was designed to compensate pre- 1948 land owners for the nationalisation of their land. Payment is made in coupons that can be exchanged in auctions for specified government assets such as land, other real estates, as share in privatised enterprises.

## 1.2. Privatised distribution channels

Currently the following forms of distribution are prevalent.

### a. *Own consumption*

The wine is consumed by the producer and his extended family. Such wine never enters the commercial consumption channels. This was very important in previous decades and it still retains some of its significance.

### b. *Local consumption*

The wine produced is sold in the wine district concerned directly from the winery bypassing all or almost all commercial distributors. This distribution channel is significant in every wine district.

### c. *Small grocery stores*

These used to be very significant sales channels in previous decades with a stable, well defined clientele. There were very strong links between the clientele and the store. By now the number of such stores has declined considerably as many of them cannot withstand market competition. Their role in wine distribution is diminishing. However, one type of store, those with round-the-clock opening hours, has strengthened their market position.

### d. *Medium sized food stores*

These correspond to the former “ABC’s”. Some of them have been remodelled, changed their ownership form or strengthened their co-operative nature. Competition has forced some of them to close, while others survive. Some new members have been added to this category; some Hungarian sole proprietors who opened stores in the early 90’s have made their way up into this category.

### e. *Supermarkets and hyper-markets*

This is the category that produced the most conspicuous changes. The emergence of shopping malls, supermarkets and hyper-markets has resulted in fundamental changes in the Hungarian wine market and the relative significance of distribution channels. Their main characteristics include their continuously increasing market share and a uniform pricing policy applied all through Hungary. They are present or about to appear in almost every major town in the country. The most significant chains include the following:

- TESCO
- Auchon
- Penny market
- METRO
- CORA
- Kaisers
- Plus
- Spaar
- Julius Meinl

### f. *Shops at filling stations*

This wine distribution location is a new development as there used to be no food and drink shopping facility at filling stations. By now almost every large multinational oil company has opened filling stations and they all have a broad selection of drinks, in particular wines. This distribution channel features a limited amount of imported wines and sparkling wines as well. The following companies operate filling stations in Hungary: MOL (Hungarian),

ARAL, AGIP, OMV, TOTAL, SHELL, BP, TEXACO, AVANTI, Q8, CANADA PETROL, ESSO. There are no significant differences between the various firms in terms of the wine selection carried or the prices applied.

*g. Specialised wine shops*

Another previously non-existent form of distribution, they are now present in practically all major towns. There are no chains; each shop is operated by local owners. Their market share is small, but they carry a select range of the most expensive wines. The best Hungarian wines are offered for around 800-5,000 HUF (1 EURO = 245 HUF), while imported wines cost 1,200-10,000 HUF (1 EURO = 245 HUF). There is a limited volume of imported wines represented in these shops. The delicatessen shops also fall into this category; most of these were purchased by Bonbon Hemingway during the privatisation process. Their wine selection is comparable with that of specialised wine shops, though it is somewhat more limited and they carry other products as well. There are 20 wine shops in Budapest, and 1-2 in other major towns.

*h. HORECA*

Their significance increases slowly but continuously. With the differentiation of restaurants and the improvement of restaurant services wine consumption in restaurants has increased, not so much in terms of volume (though this is also true in all probability) but rather in value terms. Every class of restaurant offers an appropriate selection of wines. The same applies to hotels where, as a result of the emergence of medium and small categories, the wine selection has become more varied and more colourful. There is no strict regulation on wine sales excepting fast food chains. Accordingly, the following restaurant categories emerge in terms of wine consumption:

- Fast food chains (McDonald's, Burger King, Kentucky fried chicken, Pizza hut and Wendy's). Only Pizza hut serves wine.
- Grill restaurants
- Café restaurants
- Beer halls
- Anglo-Saxon type pubs
- Ethnic restaurants (mostly Chinese, Italian, Mexican, Indian and Greek)
- Pizzerias
- Restaurants and inns with typical Hungarian cuisine
- Luxury or elegant restaurants
- Roadside cafés
- Hotel restaurants.

In terms of the drink menu we can differentiate between restaurants with and without wine lists.

Drinking saloons and bars continue to sell mainly cheap wines (mostly meaning bulk wine). They are specifically linked to a clientele of regulars and to a social category.

### **1.3. Wine market size in volume and in value**

Recently, app. 3 million hl of wines are distributed in the Hungarian wine market. It may represent as much as 2 million USD. Another development on the wine market can be classified as transitory, though the transition will not be fast. The share of wine trade in the

distribution of wines has fallen from 60% to 35% in late 1990s. At the same time sales on the short circuit wine sale market have increased, mainly due to local consumption and the sale of cheap wines in the bulk. This is unfortunately a less controlled market. The proportion of consumption by the producer has also increased. Today the proportion of these three categories is approximately 33% each. A slow shift towards commercial channels is expected as new distribution channels of wine have been established and started effective operation. In other words, following a temporary heavy de-concentration a slow but certain concentration process is expected in the distribution channels of the Hungarian wine market.

The Hungarian wine sector has always been export oriented, selling most of the wine produced to overseas markets. Exports used to amount to 60 %, while today it is around 25-35 %. A serious setback occurred around 1990 upon the collapse of the COMECON market and the reunification of Germany. The barter trade based of state monopoly was then replaced by privatised wine trade based on daily exchange rates.

Following the lowest ebb in 1992, the volume of exports started increasing again, reaching 1.3 million hls in 1995. In the structure of exports the volume of bottled wines and sparkling wines is 50% higher than the volume of bulk wine. This growth is apparent mainly in the western markets. The exportation of condensed must is a peculiar and probably temporary phenomenon. It is attributable to market failures, and amounts to some 20-80,000 hls currently. Furthermore, grape juice is also exported, mainly in condensed form.

The export of wine has also increased, amounting to USD 127 million/year in late 1990s. The average price of exported wine is around 1 USD per litre or less, which is rather low. Within this, bottled wines are sold for about 1.2-1.4 USD, sparkling wines for 1.2-1.6 USD per litre. The price of bulk wine is around USD 0.5. The main markets for Hungarian wines include the CIS countries, Germany, the United Kingdom, the Nordic countries, the Baltic countries, Canada, the United States and last but not least the CEFTA countries (Poland, Czech Republic, Slovakia). The CIS countries are the largest export markets for certain products such as sparkling wine. Germany and the Nordic states are the primary markets for bulk wine.

Hungary's wine import is not significant; it has even declined in recent years to approximately 33,000 hls or 2.7 million USD also in late 1990s. Within imports, bulk wine outweighs bottled wine.

## **2. Wine consumption**

### **2.1. Per capita**

As the market of alcoholic beverages (including wine) is becoming increasingly complex, and the consumption of these beverages has strong effects on one other, therefore the consumption of the three beverage categories should be analysed together (1<sup>st</sup> figure).

Alcohol consumption is traditionally very high in Hungary, amounting to about 10-11 litres/person annually in pure alcohol, which ensures us a high rank on the world ranking list. In recent years alcohol consumption produced another slight increase. At the same time another significant change is also apparent that a traditionally wine consuming country is increasingly becoming consumers of beer and spirits. Today the proportion of the consumption of the three types of alcohol is one third each.

Wine consumption bottomed out in 1987 and has been growing slowly since then; in 1991 it was 35 litres again, and now it levelled out at about 30-32 litres. The growth in wine consumption was triggered by the wide spread availability of cheap and often uncontrolled wines. The price of wine in the cheap categories declined even further. That is because these wines were sold on the Hungarian market in order to address the export crisis; furthermore, the producers, having lost the integrating forces, also launched direct marketing efforts. The emergence of "wine in the can" contributed considerably to the alleviation of overproduction problems, but now several disadvantages have also become apparent.

The consumption of beer continues to rise, for three key reasons:

- ? there have been significant foreign direct investments in recent years (almost all of the sector has been transferred to foreign ownership, the new owners launching intensive marketing campaigns);
- ? in the past decade substantial production capacities have been established (partly owing to the foreign investors);
- ? the distribution and sales network for beer has been well established in recent years both in retail trade and in catering, and intensive promotion efforts are taken.

The consumption of spirits was especially high in the 1970's and 1980's, their significance declining now. Due to the high prices attributable to the high tax content, they are less competitive on the alcohol market, which is complemented with better control of production. However, the estimated share of the black market of the sales of spirits is approximately 30 %. The proportion of the consumption of the three types of alcoholic beverages is also apparent in the expenditure of consumers.

The highest amount is spent on beer in all income categories. It is rather peculiar that in the lower income categories expenditure on spirits is higher than, or almost as high as, on wine. This trend is reversed in the higher income categories. In spite of this we can conclude that currently in Hungary income levels play no significant role in the structure of alcohol consumption, but play an important role in the level of alcohol consumption including wine consumption of course.

The relative market positions of table wine, beer and ordinary brandy can also be analysed on the basis of the average retail prices of alcoholic beverages. While formerly the price of wine and brandy (calculated for the same alcohol content) was comparable, in the first half of the 1990's wine became cheaper. In the same period, beer became more expensive. We can conclude that the relative position of wine has strengthened recently on one hand, but on the other hand it also means that may loose market in higher priced market segments.

In terms of the amount spent on beverages, the most important types of beverages (coffee, sodas and beer) had approximately 20-21% share, followed by wine with approximately 16%. (This comparison does not include fruit juices, milk, etc., which are part of food expenditure in the Hungarian statistical system). From the point of view of wine the other alcoholic beverages (primarily beer) as well as soft drinks (carbonated and non-carbonated), fruit juices and mineral waters are especially interesting because these can be the best substitutes for wine in view of the occasions for and manner of consumption.

Foreign examples indicate that recently non-alcoholic beverages have become significant competition for alcoholic drinks. This is especially obvious in the expansion of the mineral water and soft drink markets. Even though the consumption of these categories (and of fruit juices) is on the rise in Hungary, they cannot be considered important competitors because of

the nature of consumption at this time.

## 2.2. Consuming groups

The changes of wine consumers is partly due to their social position and new living standards. Wine is fashionable in Hungary again. So many wine clubs have been opened, many universities have started to present wine lessons as voluntary subjects etc.

There are many ways of classified wine consumers but regarding the goal of the analysis it is useless to go through them. The impact of social-economic changes on wine consumers is significant as well.

What has changed,

- ✍ The location of buying wines.
- ✍ The location of consuming wines.
- ✍ The gap has increased among different groups of wine consumers.

## 3. Diversification and concentration of the market

### 3.1. Market developments

The 2<sup>nd</sup> figure shows the market developments in case of jug and table wine, white wine, red wine and sparkling wine.

? *Cheap wine (for table wines)*

Narrow price gap, minimum cost level, price sensitive consumers. Decreasing market in term of volume. Direct sale, some medium scale food stores are integrated in this market.

? *Pyramid (for bottled white wines)*

It is for white wine. The peak serves wine shops and HORECA. The consumers are related to segments. Increasing in terms of value, stabilised for quantity. The top is for HORECA and wine shops.

? *Egg (for bottles red wines)*

This is the red wine market, with very competitive medium segments. The value of the market has been increasing. Consumers do not cross market segments limits. In contrast of white wine here we can find lot of premium red wines in hyper and super markets as well.

? *Sand-glass (for sparkling wines)*

Sparkling wine market can be characterised by this market shape. The medium segment is almost missing and not the consumers but their consumption has been diversified. It stabilised in terms of both volume and value.

During the differentiation of the market we can distinguish phases as follows:

Market segments were diversified but the same products (priced at varied level) entered these channels.

1<sup>st</sup> phase. The consumers are diversified and in harmony with the distribution systems.

2<sup>nd</sup> phase. The wine products are diversified in accordance with the market segments and distribution channels following consumer trends.

## 3.2. Product diversification

### *Traditional wine designations on the wine market*

The Hungarian wine market related to wine labels does have traditions. For centuries the producers and the traders have agreed in using wine designations which maximised the market potential of different wines. As table 1. indicates the wine label was composed of major elements such as the variety and the appellation. It is important to describe the designations more precisely because the appellation was in most cases a local appellation. It had emphasised the geographical origin of wine with the combination of the variety created the highest identity. The brand as the indication of producers had not played an important role in traditional wine designations. The consumers searched for and consumed variety and appellation.

The traditional labels have faded in the last few decades for some reasons. The large scale co-operatives and state wineries have purchased grapes from more extended areas than the local appellation represented. The traditional varieties have partly been replaced by international varieties in the Hungarian domestic market as well. Further reason was that the leading wineries being extremely interested in export as well and so they did not adopt the traditional designations for the export market whose markets were not familiar with these designations.

Table 1.

### **Traditional way of wine designations in Hungary**

| <b>Local appellations</b> | <b>Variety</b> |
|---------------------------|----------------|
| Debroi                    | hárslevelu     |
| Tokaji                    | furmint        |
| Badacsonyi                | kéknyelu       |
| Somlói                    | furmint        |
| Somlói                    | juh fark       |
| Pusztamérgesi             | rizling        |
| Hajósi                    | merlot         |
| Izsáki                    | sárfhér        |
| Soproni                   | kékfrankos     |
| ...etc.                   |                |

### 3.2.1. Brands

This element of the wine label has developed the most in Hungary as a result of privatisation and the field has become very colourful with the help and activity of the new wineries' owners. The following types of brand could be identified in the Hungarian wine market:

#### *a. One winery more brands strategy*

The biggest wineries such as HUNGAROVIN, BB etc. have leading brands and second brands as well. Of course they have built up different brands in domestic markets and for

export.

*b. One winery one brand strategy*

The smaller but quality orientated producers use one brand for the total selection of their products so as to have a sufficient amount of wine behind one brand.

*c. One brand what is the name of producer*

It is almost the same case as "b" but the producer trying to achieve higher identification uses his family name. In this case the brand and producers' (or owners') or winery name are the same (there are examples Tiffán, Thummerer, Gere, Polgár etc.).

*d. Brand with linked appellation*

Above all in Tokaj but there are other cases as well (e.g. in Etyek wine district the brand of "Öreghegy" produced by Báthori) the local appellation and the brand are the same. It is a strategy working well if the brand represents exclusively the production from that particular local appellation and its guarantee is high. In Tokaj many new companies follow this practice such as Oremus, Disznóko, Hétszolo, Pajzos-Megyer etc. taking advantage of well known local appellations related to vineyard sites.

*e. Distributors' brand*

This form gets more and more popularity in the practice. There are two types of it building up the brand by an importer (such strong brands are exported to the USA and UK markets) or by a local distributor (usually with the aim of distributing a special selection for restaurants e.g. "Corvinum-Gastrovin" in Budapest) or a supermarket chain (e.g. Julius-Meidl all over the country).

### **3.2.2. Grape-Vine varieties**

In Hungary we could distinguish the following groups of varieties from marketing point of view:

*a. Premium varieties*

They are such as Chardonnay, Sauvignon blanc, Cabernet sauvignon and Merlot. These are the same as the international wine market regards as premium varieties but one or two traditional Hungarian varieties have got a very similar market position (e.g. Furmint) but only in the Hungarian wine market. They can reach the highest prices, they are dominant on the label, best selling wines in restaurants and wine-shops.

*b. Other international varieties*

These varieties (such as Zweigelt, Riesling, Blaufrankish etc.) are not so highly positioned in the market as premium varieties, but are also well known in some other wine producing countries (mainly in Central-Europe) and have been under cultivation for a long time.

*c. Traditional varieties*

Traditionally planted and cultivated varieties (Furmint, Hárslevelu, Juhfark, Kadarka, Kövidinka, Izsáki sárfehér etc.) well known but only in the Hungarian wine market they may represent both mass and premium production. The traditional (older generation) consumers resist drinking wine made from these varieties. The market share of these traditional varieties are really very different.

#### *d. New varieties*

The group is composed of recently bred new varieties (Zala gyöngye, Cserszegi füzères, Zenit, Zengo, etc.) having still a limited market share and the consumers are just about to become acquainted with some of them. A few representatives of the group have already proved to be competitive with traditional varieties some others will be out of production or have reduced surface. The group needs a long time to have a return after promotional investment in the market.

### **3.3.3. Appellations**

Appellation (indication of the geographical origin) is one of the most important factors to describe wine in Hungary as it is a traditional wine producing country in Europe. The marketing role of appellation varies very much in spite of very simple practice and strong position in traditional ways. Nowadays the marketing role of appellation has been diversified and the market has become very colourful in this sense.

a. The name of the *region* which has a larger extension than the wine districts is used for table wine and country wines according to the European definition (which is different i.e. from the US definition). It does not have strong marketing power.

b. The name of *wine districts* as an appellation is the most common for wines and on the market is a good guideline to most consumers. The different wine districts of course have different marketing strengths depending on their characteristics.

c. *Sub-appellations* are rare in the Hungarian wine market despite more wine districts (Csongrád, Szekszárd, Villány-Siklós etc.) already have or may have officially limited sub-appellations so as to indicate different potential inside wine areas on the label for marketing purposes too.

d. *Local appellation* have made the most significant progress in the past few years. Probably it is in connection with privatisation and with the recently again stressed individuality also in the wine business. The producers want to establish as much individual and special characteristics in their wine product as possible. It leads them to use local appellations because it belongs to the producers rather than appellations and varieties.

#### *Marketing aspects and market segments by wine categories*

Wine designation is considered category by category. These categories may be regarded as product categories, but also represent market segments, which may belong to consumer groups and we can also find certain linkage with differently orientated groups of producers.

#### *a. Cheap wines*

This category includes wine sold in bulk, and cheap bottle table wines in 1.0 l. These wines can be characterised as unimportant appellation, medium strong variety designation and the most important factor is the brand itself.

#### *b. Medium wines*

This category is composed of very different products. They intend to occupy the biggest share of the market and this is the medium category for the time being. It includes bottled red and white. There is not only one leading element but all of them are relatively important. In

spite of it none of them can reach 100% of its importance on the scale. It is typical that the marketing approach is not stable and within the short term these factors have opportunities to improve or fall. This is the category where the producers have the highest potential and also risk to build up a well working designation in harmony with the market.

#### *c. Premium wines*

The premium wines are very much linked to the premium varieties. The second factor is the geographical origin because the consumers want to know not only the grape but where was it grown too. Brands are also important perhaps not as much as the first two factors but without brand the premium wines not selling well in the market.

#### *d. Tokaj wines*

Under this term we understand now only the Tokaj szamorodni and aszú wines. The variety does not appear on the label so only appellation plays an extremely important role and brand less but a continuously increasing role. It is important that these wines are designated more and more times by local appellations of vineyard sites too.

#### *e. Sparkling wines*

Sparkling wine market was brand orientated as it is still the same. This sector has traditionally a few leading brands which occupy two-thirds of the market. Variety may be important only if the production varietal sparkling wine is indicated.

#### *f. Blend red wines*

There are red wines in Hungary which are similar to mediterranean types of red wine these are blends such as Bulls blood from Eger and Szekszárd. These wines are sold after their appellation above all and their brands after that. The brand will have increasing importance already in the near future

## **4. Economic circumstances**

### **4.1. Taxation on wine**

#### *The reasons of the new tax act on wine*

There are several reasons why the administration had decided to introduce this new excise duty. Among these are some very sound ones, some others are related thoughts and expectations.

- a. There is a considerable amount of illegally marketed, smuggled alcohol produce in the market including wine.
- b. There are counterfeit alcohol products on the market, including wine.
- c. There are alcohol products on the market without paid tax including wine.
- d. There is strong will from the administration to increase the control on alcohol products including wine to make the market fair.
- e. As we can see the intention of increasing the tax revenue is not included in the administration's list (it really is not), they focused on tax control. It may be important to know the situation what was described above was created by two medium term factors, one of them is inside, the other is outside factor.
- f. The inside factor is that during the privatisation the number of producers and new owners, the fragmentation the sector has dramatically changed and formerly operated control system could not adjust to the new situation. The other reason what is from

outside, is the economic and market characteristics of the neighbouring countries. From this point of view probably the most important matter to be mentioned is the Balkan war, characterised throughout the decade by trade bans from time to time, illegal trade, smuggling, to increase illegal fund invested in alcohol business at least.

*The new tax act can be characterised as it follows:*

- g. The type of tax is "ad volumen" which is calculated on the volume of sold wine and not on value of wine.
- h. The scale of the tax is not high 5 HUF/ litre on still wine.
- i. The wine cellars operate as registered and authorised bonded warehouses
- j. Very detailed registration is introduced both on grape and wine production as well as transport and wine cellars.
- k. Grape is also included in control carried out by the Custom and Finance Office, but not the object of excise duty.
- l. The Custom and Finance Office do the strict control on production.
- m. The control is based on detailed grape and wine production registration, grape and wine producers are obliged to maintain it.

*Different impacts on the Hungarian wine sector by new tax system*

During the public debate everyone tried to make a list of possible impacts of the new excise duty. There is no one precise forecast but there are some possibly consequences of the process worth to looking into.

- a. Most probably the number of illegally distributed, counterfeit wines will be reduced in the market.
- b. The tax revenue paid by the wine sector will be almost the same as it is now.
- c. The excise duty and its control need more bureaucracy, more administrative work so a very small scale grape and wine producers may give up their business temporarily or forever.
- d. The new taxation may cause political and social tension because the recent government is very keen on towards supporting small scale producers creating opportunities to develop, but this step might produce contradiction.
- e. Wine will be regarded as an industry rather than an agriculture product staying much closer to tobacco, beer and spirit.

As it was mentioned earlier the administration did not count on increased tax revenue from the sector in case of new excise duty, but they did not also count on decreased tax revenue from the sector either. Excise duty 5 HUF/litre wine is less than 11% consuming tax according to the recent market situation. What the administration expects is the illegal black market will be narrowed, more wine will pay tax. In this way the tax revenue at least will be maintained not due to excise duty but to more value added tax paid. V.A.T. is 25% which is high and is supposed to compensated for loss of lower rate of excised duty.

## **4.2. Tariffs, wine import**

*Wine taxes*

Below we are going to describe the taxes on wine in comparison with the similar taxes

applied in EU member states. The table also includes taxes on beer and spirits. This is necessary because it is worth monitoring the tax policy regarding the other two types of alcoholic beverages, and also because price sensitive or price minimising alcohol consumers choose between the three products, considering them to be competing with each other.

In Hungary the VAT rate is 25% for wine, the same as for beer and spirits. However, this tax rate is higher than in the EU member states, even in wine importing countries. Excise duty on wine is 11%, stable for a number of years, while the excise duty on beer and spirits was increased two years ago. The excise duty on sparkling wine is 20%, on liqueur wine 45%. The excise duty rate on wine is higher than in the wine producing EU member states, where it is 0% in most cases, while it is lower than in the wine importing EU countries. It should be noted that in most EU member states the excise duty on wine has been reduced or kept level in recent years.

The customs duty on wine and sparkling wine is a uniform 80.1%. The custom fee of 2% and the custom surcharge of 8%, both introduced in 1995, have been eliminated as the Hungarian government considered them to be temporary measures at the time of their introduction.

It is worth looking at the table comparing the taxes and customs tariffs applicable to wine in Hungary and the EU member states. We have calculated the customs duty, excise duty and VAT separately as well as in aggregate. The picture that emerges is very interesting. The total tax burden on Hungarian wine is higher than in wine producing EU countries, but understandably smaller than in wine importing countries.

What are the ways forward from this situation? One possibility lies in the area of customs duties. Hungarian customs duties applied to wine are substantially, approximately 6 times higher than the ones in the EU. In a few years this will have to be reduced to the EU level of 0.16 EURO/litre. On the other hand, the excise duty and the VAT rates could also be lowered in comparison to the average of the EU wine producing countries. This, however, appears to be unlikely for some time. On the one hand, there are reasons related to the national economy: the state budget cannot afford such tax cuts. There are also other reasons: for the time being it is unlikely mainly for political reasons that the tax on wine could be reduced while taxes on beer and spirits are increased.

Let us consider what the situation will be like when the import duty on wine has been reduced to the EU level while the total of tax burden on Hungarian wine remains higher than in the EU wine producing countries. Obviously the competitive position of Hungarian wine on the domestic market will become worse. Very detailed and comprehensive calculations would be needed to establish which wines will lose market shares in this new situation. The scope and format of this paper does not allow us to investigate that subject.

#### *Further expectation in the field of tariffs and taxes in Hungary till EU membership*

It is interesting if we take a close look at the table of wine taxes so as to compare the current Hungarian tax rates on wine to EU members' tax rates. As we may conclude the Hungarian excise duty rate is higher than it is in the EU producers countries, where in most cases it is zero excepting France where it is still very limited. The EU importer countries operate a higher rate of tax on wine than Hungary. There is six times the gap between Italy and Sweden representing the least and the most taxed alcohol markets. There is a little hope if the new tax bill can achieve the expected goals by introducing the new excise duty, further

reduction will be on the rate of excise duty according to the administration's long term intention.

On the process of EU integration the above analysed excise duty is the first but not the only necessary step which the Hungarian wine sector will face. Customs will change as well in accordance with the EU standards. Currently the custom charge is 0,81 EURO/litre what will go down to 0.16 EURO/litre rate. This will be a dramatic change which concerns EU outside exporters because we have a double "0" quota bilateral agreement with EU so the situation practically will not change at this point. The third countries will get a better position and will be more competitive then they are now.

Table 2.

### Calculated tax burden of wine in Hungary and in the EU countries

in: EURO/litre

| Country           | Tarrifs<br>Customs | Excise<br>duty | VAT          |                            |                         | Total tax                  |                         |
|-------------------|--------------------|----------------|--------------|----------------------------|-------------------------|----------------------------|-------------------------|
|                   |                    |                | Value %      | Without<br>customs<br>duty | With<br>customs<br>duty | Without<br>customs<br>duty | With<br>customs<br>duty |
| <b>Hungary</b>    | <b>0,81</b>        | <b>0,02</b>    | <b>25,00</b> | <b>0,28</b>                | <b>0,46</b>             | <b>0,30</b>                | <b>1,27</b>             |
| Portugal          | 0,16               | 0,00           | 5,00         | 0,05                       | 0,06                    | 0,05                       | 0,22                    |
| Luxembourg        | 0,16               | 0,00           | 12,00        | 0,12                       | 0,14                    | 0,12                       | 0,30                    |
| Germany           | 0,16               | 0,00           | 15,00        | 0,15                       | 0,17                    | 0,15                       | 0,33                    |
| Italy             | 0,16               | 0,00           | 16,00        | 0,16                       | 0,19                    | 0,16                       | 0,35                    |
| Spain             | 0,16               | 0,00           | 16,00        | 0,16                       | 0,19                    | 0,16                       | 0,35                    |
| Greece            | 0,16               | 0,00           | 18,00        | 0,18                       | 0,21                    | 0,18                       | 0,37                    |
| Austria           | 0,16               | 0,00           | 20,00        | 0,20                       | 0,23                    | 0,20                       | 0,39                    |
| France            | 0,16               | 0,03           | 20,60        | 0,21                       | 0,25                    | 0,24                       | 0,44                    |
| Belgium           | 0,16               | 0,33           | 21,00        | 0,28                       | 0,31                    | 0,61                       | 0,80                    |
| Netherlands       | 0,16               | 0,51           | 17,50        | 0,26                       | 0,29                    | 0,77                       | 0,96                    |
| Denmark           | 0,16               | 0,90           | 25,00        | 0,48                       | 0,52                    | 1,38                       | 1,58                    |
| United<br>Kingdom | 0,16               | 1,70           | 17,50        | 0,47                       | 0,50                    | 2,17                       | 2,36                    |
| Ireland           | 0,16               | 2,65           | 21,00        | 0,77                       | 0,80                    | 3,42                       | 3,61                    |
| Finland           | 0,16               | 3,02           | 22,00        | 0,88                       | 0,92                    | 3,90                       | 4,10                    |
| Sweden            | 0,16               | 2,94           | 25,00        | 0,99                       | 1,03                    | 3,93                       | 4,13                    |
| <i>EU average</i> | <i>0,16</i>        | <i>0,81</i>    | <i>18,11</i> | <i>0,36</i>                | <i>0,39</i>             | <i>1,16</i>                | <i>1,35</i>             |

Note: calculated for wines priced at 1 EURO/l, with an alcohol content not higher than 13 %

Source: FIVS

## 5. Impact of EU integration on the wine market

### 5.1. EU-Hungarian bilateral agreement

Hungary has a bilateral agreement with EU on trade as well as on mutual recognition of appellations, has been running for almost a decade. According to this both sides can export and import at reduced tarrifs level up to certain quota. Hungary did not used up this quota

only in the last year, EU producers has never taken the favourite of this opportunity entirely.

## 5.2. Tariffs reduction and increased import

When Hungary joins EU, tariffs on wine should be reduced by around 6 times. It will increase the competitiveness of the third countries' wines such as California, Australia, South-Australia, Chile etc. In this case the import from these countries may increase targeted the medium segment of the wine market where they can introduce very nice wine with reasonable price, with good value-price rate.

## 6. Expectations in the Hungarian wine market in the near future

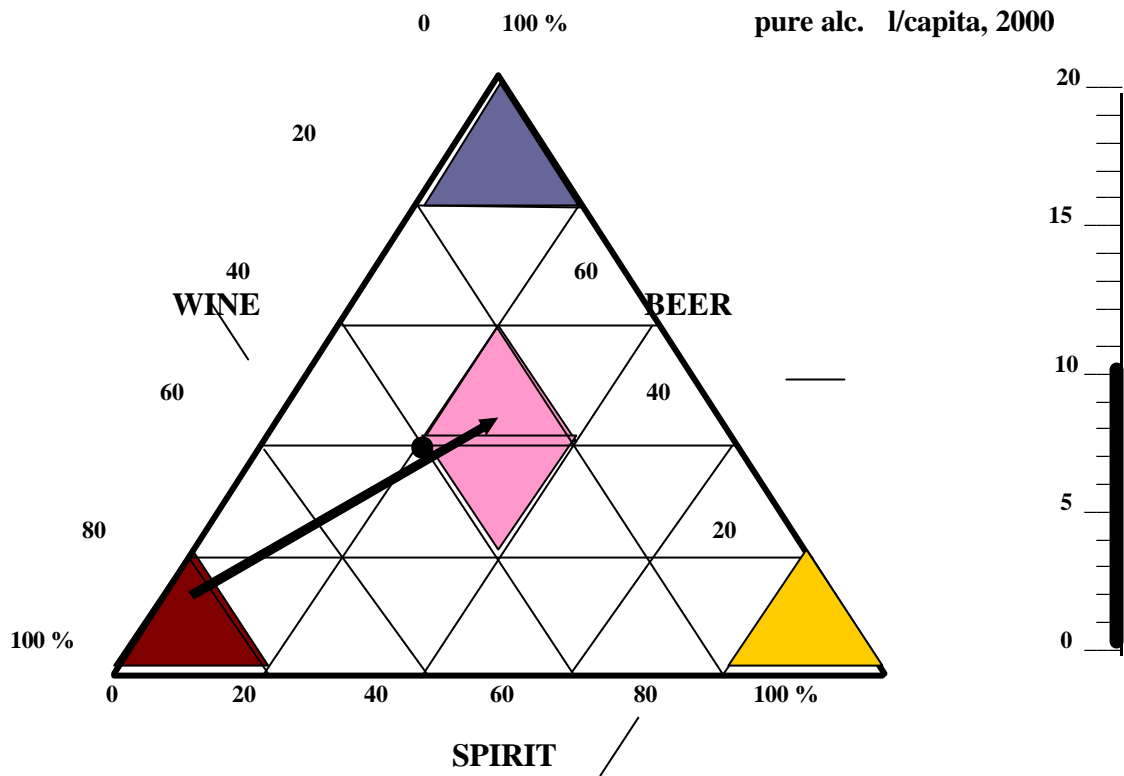
The possible expectations are in the Hungarian wine market are:

- ? Further concentration of the market mainly at supermarkets.
- ? Stabilised volume, but slight increase in value, year by year.
- ? Further differentiation of the wines.
- ? Certain increase of wine import after EU integration.

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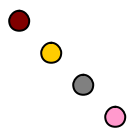
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**HUNGARY**

- Converge point of International alcohol Consumption

Red  
Gold  
Grey  
Rose



alc. Cons. in 2000



alc. cons. in 1950

Wine consuming area, corner  
Beer consuming area, corner  
Spirit consuming area, corner  
Mix alcohol consumption area

Figure 1.

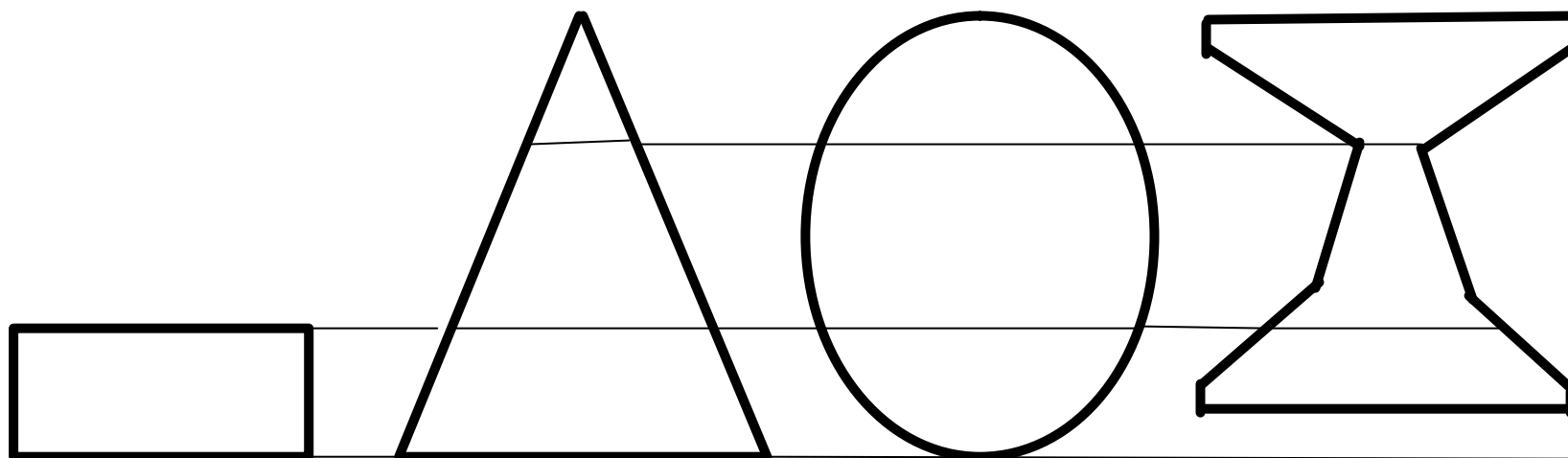
**Alcohol consumption trend in Hungary 1950-1998**  
From wine drinking to mix alcohol consuming country

Market segments

a. premium

b. medium

c. cheap wines



Market forms

Cheap wine

Pyramid  
bottled white wines

Egg  
bottled red wines

Hourglass  
sparkling wines

Figure 2.

**Developments of wine market in Hungary**