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GUIDELINES AND POLICY RECOMMENDATIONS FOR THE WINE SECTOR

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Sectorial Guidelines and Policy Recommendations for the Wine Sector

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INTRODUCTION

The present -interim version of the- Strategy and Policy Guidelines Paper aims to build upon Agoge Partners' strategic Framework for the Eastern Partnership (EaP) Countries Wine Sector. In this framework, country specific strategies will be developed towards improving the sector's competitiveness as well as small and medium-sized enterprises (SMEs). This Interim Strategy and Policy Guidelines Paper will be finetuned and elaborated upon in upcoming stages.

Boosting sustainable economic development and supporting job creation is at the heart of the European Union's (EU) contribution to stabilising its neighbourhood. This implies helping SMEs in the EaP – the backbone of the economy – to grow; attracting investment, promoting increased trade, fostering links with companies in the EU, and identifying opportunities by supporting access to international markets. This is an essential criterion to create more stabilityin the region, and establish closer relations with the EU -i.e., allow for the creation of alliances between EU and EaP businesses in the wine sector.

The strategy is therefore proposed to address the wine sector vertically and comprehensively. Consequently viticulture, agricultural land, wine producers, workforce, customers and other stakeholders, as integral parts of the wine sector, are referred to jointly as "Sector" or "Ecosystem" throughout the existing document.

Although global wine consumption and demand for high-quality wines and new wine products are increasing, competition is fierce. Old and New World producers are entrenched in key markets, and in most cases supported by respective teams and government initiatives. Opportunity for new players exists in differentiation, vertical integration, and technology, among other (*Agoge Partners White Paper*).

Furthermore, wine marketing has changed significantly, as it is not enough to produce good wine – one also needs to understand how to sell it. New consumption habits and patterns add to the complexity, as theyare shaping the future. Globalization and innovation in supply chains have leveled the game for anyone who is able to capitalise upon 'availability' and 'accessibility'.

For any new wine launch, especially from countries which do not have an established brand name, long-term strategies are a must. Business planning needs to be consistent and dynamic, following thorough market, trade, and consumer research. Investment across the entire wine sector will be necessary (*Agoge Partners White Paper*).

Statistics support the expansion of the wine case. Between 2010-2017 Western European wine consumption through e-commerce increased by 66%. The European region accounts for more than 50% of the global wine trade. The global online wine market is expected to grow at more than 30% annually. Wine consumption is growing rapidly (x4 since 2000) in the Asian markets. Asia-Pacific accounts for 16% of the value of global wine imports.

Wine is a growth area internationally, and Georgia's success case underlines the importance of the sector for both a country's GDP and a country's global brand building.

EaP countries are descending with respect to their wine sector maturity, as follows:

- **Georgia, Moldova, Azerbaijan, Armenia, Ukraine, and Belarus.**

ACKNOWLEDGEMENTS AND QUALIFICATIONS

This paper was written under the guidance and with the resources of Agoge Partners LLC. Notable such resources include: Theo Theoharis and his Agoge organisation (a) have conceived, structured, and concluded a market and product extension merger of the Cyprus wine industry -with Theo Theoharis acting also as the Co-Founder and CEO of the resulting company; (b) have founded a U.S. based non-profit organisation, active with climate risk mitigation in the agriculture sector; (c) have consolidated the commercial operations of wine companies in South Europe through a CDU, which they have founded and managed as well -developing and operating also a respective retail concept; (d) have invested in and/or advised wineries in Italy and Spain; (e) have co-founded and structured a vertically integrated agri-industry -Chios Fruits SA-, where Theo Theoharis also served as the Chairman and CEO; (f) have structured and developed the vertical integration of a leading Spanish agricultural concern with the deployment of a 6,000 sqm state-of-the art production facility in Murcia, Spain; Theo Theoharis served as the CEO International; and other.

Considering the already existing large-scale activities undertaken by the EU/other countries/international donors/domestic bodies in the EaP, the author and his team have decided to direct the effort herein around the EU addressing the SMEs directly at a micro level. BSOs are not excluded, but they are envisioned as offering support rather than implementation, conditioned upon a well-documented and hands-on expertise in the EaP Wine Sector.

Accordingly, the author and his team advise the EU to select the champions among SMEs and create a dynamic core of wine SMEs for each EaP country. With the EU's support, these SMEs would both optimise their own operations and spearhead their respective country's wine sector development.

The author of the paper is Mr. Theo Theoharis. The project was managed by Mr. Theo Theoharis, with valuable help in expert analyses, drafting, reviewing, and editing provided by Mr. Ulysses Theoharis and his Agoge Ventures F&B expert team.

Representatives from several EaP institutions and other EaP stakeholders should be acknowledged for their willingness to meet with Theo Theoharis and his team and/or share valuable insights for the development of this publication. However, their more active involvement and their availability to meet should be encouraged and language barriers should be overcome, for the project specifications to be addressed in their entirety. Diligence should also be exercised in order to mitigate potential bias and/or inaccuracies of the information provided by EaP sources.

The author suggests that it would be imperative to receive detailed and quantitative SME-specific feedback pertaining to various business and cultivation metrics (described in author's related Questionnaire, among other), as well as to sponsorships and projects funded by international sponsors to date. Such information, whether already existing or to be assembled, would assist with a very targeted SME approach within the scope of the project.

In particular, the author would like to extend his gratitude to Ms. Elnaz Gahramanova, Department Head at the Azerbaijan Chamber of Commerce, who has provided timely and comprehensive feedback and responses throughout the effort.

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1. EXECUTIVE SUMMARY AND ACTION PLAN

Using the SME Eligibility Criteria, presented herein, and a thorough mapping of the SMEs in terms of business structure and subsidies/sponsored projects involved with to date, as outlined, the EU should target the 80% of the winemaking SMEs in each EaP country. In case there are not enough SMEs to fit the profilewithin the target, the EU should work with those that fit the profile.

The EU should also focus its thinking on incremental growth. Which channel segments will do better with (post-pandemic) reopening and which will recede? Where can the EaP Wine Sector find incremental growth overthe next two years as the new normal takes hold?

The EU should approach the selected winemaking SMEs in each EaP country in a discretionary manner, and by taking into consideration each country's wine sector status, as analysed herein. As such, the EU should offer targeted assistance, which would largely differ among the EaP countries. The latter is particularly supported by the strategy and country analyses herein (Sections 5, 6 and 7; and Annex III).

GEORGIA

The next step for Georgian SMEs is to attract investment to grow further, reach critical mass, and compete internationally with mainstream competitors (i.e., structured sales beyond the ethnic markets). By selecting the SMEs with leading potential, the EU will create a dynamic business core, which will in turn drive thecountry's COO status and the country's SME sector development -having significant multiplier effects in every direction of the supply chain. As such, the EU should fund the key competencies and/or the key deficiencies of these leading SMEs, including wine making and own cultivation capacity expansion (capex), towards establishingtheir capacity to attract and manage financial and/or strategic investment and/or engage in strategic partnerships/joint ventures. It should be noted that developing the risk capital environment and structures of the country in parallel would be beneficial (accelerate the process) and in certain cases a prerequisite.

Furthermore, the EU should:

- Facilitate SME growth around a few indigenous varietals -i.e., prioritise those monovarietal or blend wines, which are made from varietals that possess the qualities and the volume to support sustainable growth;
- Support the development of the Georgian ultra-premium and luxury wine categories;
- Facilitate investment in sales channels other than the tasting room, including data-driven approaches and internet sales;
- Support the employment of professional digital marketers, e-commerce directors and digital consultants to train wine people and/or implement best practices in e-commerce.

MOLDOVA

Moldova is at a lower readiness level than Georgia in terms of competing internationally. In order for Moldova to target investment, which would allow the country to propel towards positioning itself among the established mainstream wine producers, it needs to continue modernising and restructuring its wine industry.The EU should focus on and strengthen the Small Winery category within the country's PGI Associations, equallyenabling the PGI Associations -primarily, funding technology and wine quality upgrades, areas under vine consolidation in order to reach economies of scale and critical mass, and business structures optimisation. The PGI Associations can serve as accelerators towards the EU establishing a dynamic business core, which will eventually have the multiplier effects as expected in Georgia's case. It should be noted that developing the domestic high-quality wine consumption in parallel, would provide a safety net for advancing SMEs' experimentation, indigenous varieties evolution, and cash flows.

Furthermore, the EU should:

- Facilitate SME growth around a few indigenous varietals -i.e., prioritise those monovarietal or blend wines, which are made from varietals that possess the qualities and the volume to support sustainable growth;
- Facilitate vineyard consolidation at levels above 11 ha, which is estimated as the minimum level for vertically integrated sustainable export-oriented wine production;
- Facilitate investment in sales channels other than the tasting room, including data-driven approaches and internet sales;
- Support the employment of professional digital marketers, e-commerce directors and digital consultants to train wine people and/or implement best practices in e-commerce.

AZERBAIJAN

Azerbaijan presents a positive asymmetry between its viticulture history, thriving varietal numbers, and size, and its (small) wine production capacity. The EU should enable bridging this gap by supporting expansion of both the area under vine and the wineries before anything else. Small wineries, as the main target group and proposed business core, should be assisted to vertically integrate and to invest in production and technology. At the same time, these wineries should build up the domestic wine consumption -to channel sales by also capitalising upon the country's wine storytelling. In parallel, the EU should enable investment in alternative sales channels for a very targeted and narrow market penetration, which will serve as the absorption mechanism of the desired increased capacity, as well as building block of a wider structured brand building when the SMEs' production permits.

Furthermore, the EU should:

- Support the development of PGI Associations;
- Further the research on the country's indigenous varietals;
- Facilitate SME and startup growth around a few indigenous varietals -i.e., prioritize those monovarietal or blend wines, which are made from varietals that possess the qualities and the volume to support sustainable growth;
- Facilitate vineyard consolidation at levels above 11 ha, which is estimated as the minimum level for vertically integrated sustainable export-oriented wine production;
- Facilitate investment in sales channels other than the tasting room, including data-driven approaches and internet sales;
- Support the employment of professional digital marketers, e-commerce directors and digital consultants to train wine people and/or implement best practices in e-commerce.

ARMENIA

Armenia is making an effort to evolve its wine industry and has taken steps by establishing institutional support and setting broad guidelines. Although the country is not ready to compete internationally with a major reason being the currently very small area under vine, it can target its diaspora as both a sales channel and an ambassador. The EU should assist winemaking SMEs to expand their cultivation and improve their technology for specific wines. In parallel, it should enable winemaking start-ups focusing on high-quality lines. The associated branding and marketing effort, which the EU should assist developing, should target the Armenian diaspora at first, irrespective of geography. This three-dimensional EU effort (cultivations – technology / boutique start-ups – diaspora focused sales and marketing), would yield a business core with the capacity to follow through with increasing the high-quality production volume, communicate a promising brand, structuring the first export markets, and eventually attracting investment to grow and compete at par internationally.

Furthermore, the EUshould:

- Encourage SME focus on cultivating and increasing the area of the country's main white varietals Kangoun and Voskehat, and main red varietal Areni -as the varietals with the potential to support sustainable wine growth;
- Build SMEs' DtC channel operations and the associated logistics;
- Assist elevating or facilitating the VWFA's or other expert organization's role to function as the go-to marketing organization for fragmented industry's voice, providing data or properly leveraging and supporting current consumer marketing trends.

UKRAINE

Ukraine is at an early stage of trying to rebuild its wine industry. The country needs to improve its wine quality and shift from the currently dominant bulk wine production. The EU should assist winemaking SMEs to transition to a vertically integrated branded wine production model, and at the same time, enable winemaking start-ups. The EU should fund modern cultivations of international varietals targeting to produce well-accepted wines with a value-for-price model and as part of vertically integrated SMEs, as well as technological and quality upgrades that will eventually enable the transition from bulk to branded wine. In parallel, the EU should fund early-stage efforts targeting to build branded wines not limited to grapes from own cultivations. Establishing the SME base's capacity to trade in higher-quality private label wines, while at the same time developing winemaking practices and structures, shall render these SMEs capable of proceeding to the next phases of the Ukrainian COO status.

Furthermore, the EU should:

- Enable SMEs' capacity to report and stand out from wine fraud;
- Explore facilitating spin-offs from State owned winemakers to enable targeted startupentrepreneurship.

BELARUS

Belarus needs to invent its wine industry. In this very early stage and as a first step, the EU should support a negociant model for the country's frontrunner/s. Collecting bulk wine and/or juice and/or grapes from the other EaP countries and possibly from one or more EU countries to create blends (and thereafter characteristic blends) for export, will provide with valuable insight, experience (incl. new equipment and technologies), and exposure. In parallel, the EU may enable startup winemakers to establish boutique wineries focusing on quality. The EU will enable this seed ecosystem with know-how transfer and skills.

Furthermore, the EU should:

- Facilitate minimum viable viticulture for vertical integration purposes;
- Facilitate the existing Wine Association, as the catalyst for institutional and business matters pertaining to the potential wine sector;
- Facilitate partnerships and joint ventures with more advanced EaP counterparties;
- Explore facilitating a "Minsk Grape Wines Factory JSC" spin-off to research and target quality improvements.

Note: It should be noted that the analysis herein is subject to more in-depth assessments at the individual SME level. Such assessments need also on the ground presence and the educated involvement of local BSOs and/or expert teams.

2. VISION

Enable and support sustainable economic development and job creation in the EaP countries by helping SME competitiveness and growth in the Wine Sector - especially by promoting increased trade, encouraging inward investment, and fostering business links with companies in the EU. Unlock long-term value and drive sustainable growth by supporting and creating long-term value for SME stakeholders while meeting the needs of a changing consumer landscape.

3. GOAL OF THE EaP STRATEGY

Deepen and strengthen trade relations between EU SMEs and SMEs in the wine sector of the countries part of the Eastern Partnership Policy: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The winesector is one which has been identified as having the most potential to enhance the trade and investment relations between the EU and the EaP countries. The EU aims at improving the operational environment and suggesting specific support policies for SMEs and addressing the specific needs and opportunities of the EaP wine sector in each of the EaP countries, so as to allow for the creation of alliancesbetween EU and EaP businesses in that sector. This includes progress with the adoption of the EU acquis communautaire involving significant regulatory changes, which will require new investments and capacity for SMEs to comply with the new standards. To that effect, the EU aims at supporting 20% of each EaP country's SMEs with EU funds. The funding and overall support will increase the capability of SMEs in the EaP countries wine sectors to access and face competition on the EU market, through facilitating the implementationof the EU standards at SME level, and will optimise the capacity of the EaP SME Wine Ecosystem to prosper by trading and cooperating with the EU and the world.

3.1 MISSION FOR GEORGIA

Enable the eligible SMEs to optimise their wine exports. Facilitate the SMEs cooperation with EU and international counterparties through promoting international funding and investments for the SMEs strategic expansion. Support further through the development of rural wine tourism in Georgia, and the continued research pertaining to the distinct Georgian germplasm from the cradle V. Vinifera. The latter may prove an asset for viticulture and the associated work to fight climate change.

3.2 MISSION FOR MOLDOVA

Enable the eligible SMEs part of the country's four PGI Associations, through know-how transfer and innovation, to improve their vine cultivation and wine quality further, resulting in premium and super premium characteristic wines able to demand higher price points. Facilitate the related expansion of the SMEs sales and export capacity to non-traditional high-value markets, by improving their marketing strategies, branding, governance, sustainability, and digital operations.

3.3 MISSION FOR AZERBAIJAN

Enable the eligible SMEs to improve upon their technology and business skills, to take advantage of the country's indigenous grape varieties and tradition in wine production and establish their competitive advantagetowards positioning themselves in the EU and international markets. Complement the effort by encouraging wine entrepreneurship towards expanding the wine sector's SME base.

3.4 MISSION FOR ARMENIA

Enable the eligible SMEs to create their wine identity and build their resources. Facilitate wider cooperation among them to address de facto limitations of the sector such as its very small size and geographical isolation. Complement the effort by encouraging wine entrepreneurship and local market development towards establishing the wine sector's SME base.

3.5 MISSION FOR UKRAINE

Enable the eligible SMEs to reduce their dependency on sales to the local market through active international business development and consolidation, targeting synergies in terms of cost, know-how, and volume. These synergies shall mitigate to a great extent and help the industry rebound from the loss of its main wine region. Eradicate the wine fraud phenomenon to be able to build the Ukrainian wine brand name.

3.6 MISSION FOR BELARUS

Enable wine entrepreneurship and support the structures necessary for a wine economy at the SME level. Since the country's wine industry is in the making, this provides a great opportunity to structure the wine value chain within a coherent strategic plan. Startup winemaking and viticulture ventures should abide by medium- and long-term goals towards creating an identity, which would both enable domestic wine drinking habits and the eventual international exposure. Dissemination of knowledge to aspiring wine entrepreneurs and wine consumers, as early adopters, and potential multipliers, is imperative.

4. STRATEGIC OBJECTIVES

To benefit from new export opportunities offered by the AA/DCFTA and/or the expanding international wine scene, EaP SMEs in the wine sector will need to invest in and modernise their businesses to improve their competitiveness. To enable and maintain a competitive EaP Wine Sector, the EU shall support entrepreneurs' capacity to start and maintain profitable businesses, including enabling ESG and increased economic opportunities for women and young people, and providing financial mechanisms to wine producers to meet seed or growth needs, adverse conditions, and other. The EU shall further enable R&D to continue to introduce technology at various levels and integrated management options that increase the efficiency of production practices and of the supply chain. Finally, the EU shall provide tools to wine producers so that they are well-positioned to secure a share of a growing market for wines.

The Overarching Objective pertains to transfer strategic know-how and raise awareness of the EU Directives, in order to contribute to increasing the capability of SMEs in the wine sector in Georgia, Moldova and Ukraine and to support (actual or potential) export-oriented SMEs operating in the wine sector in Armenia, Azerbaijan and Belarus which choose to upgrade their operations to EU standards, as well as raise awareness of green technologies and their adoption over incumbent technologies. Strengthening backward and forward linkages will enable EaP SMEs' full integration into the wine value chain.

We have segmented the Overarching Objective into five key strategic objectives and have identified respective key actors at the greater government level operating to date, for each EaP country.

Strategic Objective 1: Improve the Institutional Framework and Operational Environment

Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
Working Group for the design of the SME development strategy; Department of Economic Analysis & Policy of the MoESD responsible for implementation; Enterprise Georgia	Moldova Competitiveness Project	State Program for the Development of Winemaking in Azerbaijan (2018-2025); State Program for the Development of Viticulture in Azerbaijan (2012-2020); Agency for the Development of Small- and Medium-Sized Enterprises	Communities Association of Armenia; State Program for the SME Development Strategy (2020-2024)	SME Development Office (SMEDO)	State Program for the SME Development Strategy 2030

Strategic Objective 2: Ease SME Access to Funding

Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
AA/DCFTA; Enterprise Georgia	AA/DCFTA	Mortgage and Credit Guarantee Fund; Entrepreneurship Development Fund; Azerbaijan Export & Investment Foundation (AZPROMO)	State Program for the SME Development Strategy (2020-2024)	AA/DCFTA; SME Development Office (SMEDO)	

Strategic Objective 3: Promote SMEs' Skills Development and Entrepreneurial Culture

Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
Enterprise Georgia; flagship European School	National Office of Vine and Wine (ONVV)	Agency for the Development of Small- and Medium-Sized Enterprises; Baku Business Training Centre (BBTC)	SME DNC (the Armenian SME Agency)	SME Development Office (SMEDO)	State Program for the SME Development Strategy 2030; Presidential Decree No7 "On the Development of Entrepreneurship"

Strategic Objective 4: Support SMEs' Internationalisation

Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
"Enterprise Georgia" is mandated to cover both the development of entrepreneurship and the export promotion	Association of Small Winemakers (ASW)	Azerbaijan Export & Investment Foundation (AZPROMO)	Vine and Wine Foundation of Armenia (VWFA)	Association of Winegrowers and Winemakers of Ukraine (AWWU); AIC Ukraine Corporation of Viticulture and Winemaking "Ukrwineprom"	State Program for the SME Development Strategy 2030

Strategic Objective 5: Facilitate SMEs' Innovation and R&D

Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
"Georgia 2020 Innovation Strategy" - drafted under the oversight of the "R&D and Innovation Council", includes several measures to promote innovation; GITA		Azerbaijan Scientific-Research Institute for Viticulture & Winemaking	SME DNC (the Armenian SME Agency)	National Scientific Centre «V.Ye. Tairov Institute of Viticulture and Winemaking» National Academy of Agrarian Sciences of Ukraine	State Program for the SME Development Strategy 2030

An analysis is provided in **Annex II** herein.

5. REGIONAL ACHIEVEMENTS – CHALLENGES – COMPARATIVE ADVANTAGE

As regards the Wine Sector maturity, the EaP countries are ranked based on the following criteria:

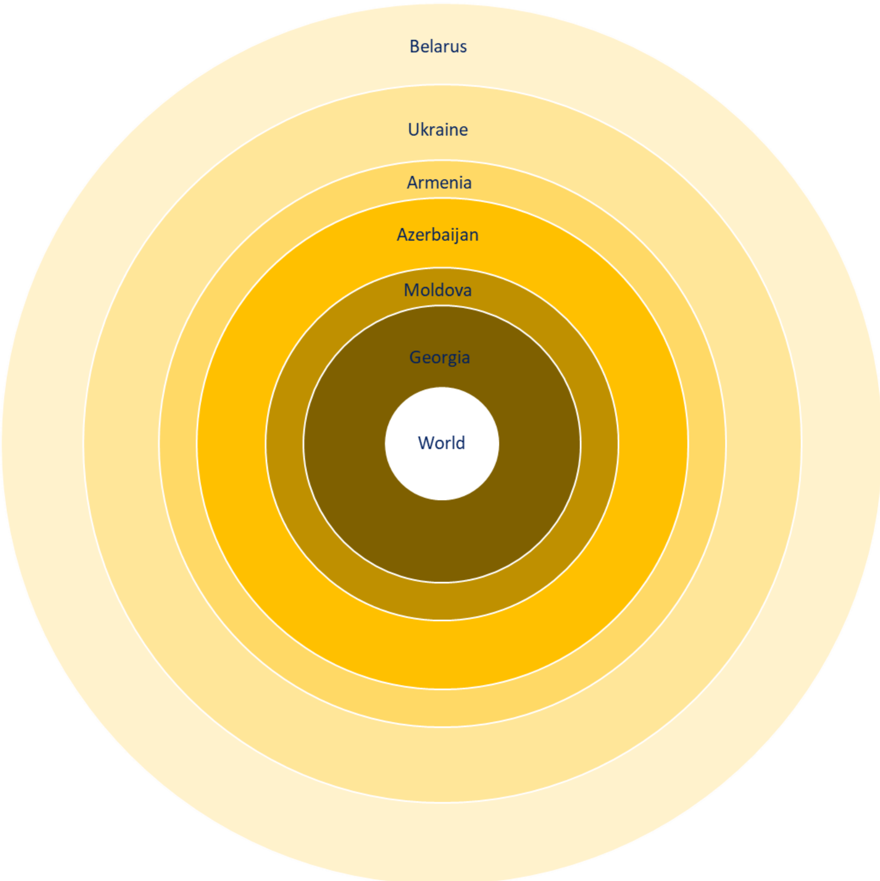
- Progress in establishing an internationally competitive wine sector;
- History in viticulture and winemaking;
- Effort and Investment in the wine sector;
- SME environment;
- EU affiliation;
- Overall country situation

Accordingly, and taking also into consideration, the country specific Analyses presented in **Annex III** herein, the EaP countries are ranked as follows:

Rank	Country	Wine Sector Maturity		
1	Georgia	Invested and marketed wine sector with international sponsor support; AA/DCFTA	3/5	Widely recognized brand but with still limited market penetration largely ethnic
2	Moldova	Same as Georgia but not as branded yet; AA/DCFTA	2/5	Recognized brand with limited and largely ad hoc market penetration
3	Azerbaijan	Building upon its wine legacy, this country follows	1/5	Incubating wine industry with extravert orientation
4	Armenia	Forward looking with intent to build its wine economy	1/5	Incubating wine industry with awareness among the diaspora community
5	Ukraine	AA/DCFTA; extensive wine fraud; loss of the Crimea main wine region	0/5	Incubating wine industry after the loss of Crimea -its main wine region
6	Belarus	By far the less developed country, it will be breaking ground	0/5	Absence of wine industry

Note: Country of Origin is ranked between the lowest '0' and the highest '5' grade

The EaP countries' COO schematic proportional distance from an established COO



6. ALTERNATIVE STRATEGIES

New and Old World have followed diverse successful strategies in building their brand as wine producing countries. In connection to this, independent wine producers have capitalised upon their respective countries' business development efforts and have implemented diverse successful marketing and market penetration strategies. The investment required for starting a winery or producing high-quality branded wine for retail and export sale, as well as for sustaining and developing the brand, is sizeable and often prohibitive. Throughout this document, wepresent strategies which may bear a total or partial affiliation to the EaP SME Wine Ecosystem. The related purpose is to assist with distilling the EaP Overarching Strategy, as well as the EaP countries associated independent strategies.

Cyprus: After three years of strategy and business development and capacity building, Theo Theoharis and Agoge Partners LLC have successfully consolidated the Cypriot Wine Industry -a predominantly SME based Wine Economy. Theo has successfully orchestrated and implemented a market extension and product extension merger of the most important Cypriot winemakers to establish and promote the Cyprus wine brand (comprised of Cyprus as a wine producing country, the Cypriot indigenous grape varieties, and the Cypriot wines themselves).

Considering the maturity of the sector in Georgia, Moldova, and more specifically Azerbaijan and Armenia, the Agoge Partners effort and the Cyprus case provides valuable lessons particularly for these EaP countries - specifically the wine making SMEs' approach to a structured cooperation at a private/company level, the enhancement of corporate governance, and the branding and marketing strategy.

New Zealand: New Zealand plants around 1000ha annually. Marlborough is the main growing region with over 66% of total grape area. It is quite conceivable that within the next five to ten years the Marlborough region will be fully planted. Virtually all the new plantings now are being carried out by multi-national beverage companies such as Constellation, Pernod Ricard, and the large domestic wine businesses such as Indevin, Marisco, and Delegates. The major argument of the NZ wine is sustainability. Sustainable Winegrowing New Zealand is a voluntary set of standards that cover: soil, water, air, energy use, pests and diseases, bio-diversity, by-products, human resources, and business. Over 98% of New Zealand's vineyard area is certified under the standards, and it is virtually mandatory to be certified if a vineyard/winery wants to export. The standards have been based on adherence to the International Organization of Vine and Wine standards and guidelines and involve continuous improvement. One of the strengths of the wine sector in New Zealand is its unified approach to promoting the "New Zealand brand" first and individual winery brands second to that. Significant events include the International Sauvignon Blanc Celebration, and the Pinot Noir Conference, etc. The Geographical Indications (Wine and Spirits) Registration Amendment Act was passed by the Government and came into force in 2017.

Considering Georgia and Moldova's wine sector's maturity, the performance of the New Zealand's wine industry provides valuable lessons particularly for these EaP countries, specifically the wine industry's approachto a country brand, its focus on a competitive advantage (sustainability), and its strategic focus on certain varietals (Sauvignon Blanc; Pinot Noir).

Australia: Australian wine development between 1986 and 1999 is a good model for present day industry development global market conditions. The Australian wine sector export rose from about 10 million USD to about 1 billion USD in less than two decades. This success is the result of developing a high-quality product. However, it is also mostly a result of the government's policies encouraging the understanding of consumer needs, using expert wine marketing tactics, recognizing the importance of R&D, and incorporating an innovative approach to winemaking and sales. Some of the key factors for the success of the Australian wine industry exports relates to the quality of the product and effective marketing. These factors include the quality of value/price offer, consistency of the quality of the product, unity of the industry sharing the same purpose, and the industry structure. The structures that helped build the industry's unity include the formation of two major industry associations: the Australian Regional Winemakers Forum (ARWF), and the Australian Wine and Brandy Corporation (AWBC). The ARWF provides a forum for smaller winemakers. The AWBC seeks to provide an enhanced administrative and regulatory framework which, among other things, introduced mandatory testing to ensure that all exported wine is sound and merchantable – another first for the Australian wine industry. In addition, educational institutions such as Adelaide University, the Charles Sturt Campus at Wagga and the Edith Cowan University in Western Australia served an important role by conducting research and providing training in viticulture.

Considering the maturity of the sector in Moldova, Azerbaijan, and Armenia, the performance of the Australian wine industry provides valuable lessons particularly for these EaP countries, specifically the wine industry's quality approach to production, its organization and structure, and its marketing and sales strategies.

Chile: Chile is the second country in Latin America with most relevance in the global wine industry. Claiming around 7% of the global production, Chile boasts wine grape regions, similar to Argentina's, shielded from pests and diseases by high altitude and low humidity. Cabernet sauvignon, sauvignon blanc and merlot are the three varietal wines were Chilean wine producers focus. Between 2000 and 2013, wine production in Chile increased by an average of 12% a year (FAO 2016). This fastest rate of growth among the world's top wine-producing nations was a result of two decades of investment in the industry. Doubling the area planted to wine grapes and importing technologies such as stainless-steel fermentation tanks, trellis systems and drip irrigation assisted grape yields from 11.5 tons a hectare in 2000 to 15 tons a hectare in 2013 (FAO 2016).

Chile has the lowest per person wine consumption of all the major wine-producing and wine-exporting countries, at around 17 liters a person a year (USDA–FAS 2015b), that is why also the Chilean wine industry is export focused. That compares with 29 liters a person in Australia, 40 liters in Argentina and 55 liters in France (ABS 2015). 79% of Chile's wine exporters are small and medium sized wine producers that export to 150 countries (Herrera, 2009) In 2015 Chile was the fourth-largest exporter of wine globally, bottled still wine, bulk wine and sparkling wine, shipping 877 million liters valued at US$1.85 billion (Cameron, 2020). In 2015, the European Union, was Chile's most important market by value, totaling US$630 million, with the United Kingdom accounting for a third of that value. The United States receives 14% of Chile's wine exports, followed by Chine and Japan (6%) and Brazil (6%) (Cameron, 2020). Bulk wine is often bottled locally or blended with domestic production in China (Hornby 2016).

The Chilean Government's support for free trade has delivered significant benefits to Chile's wine exporters. Free trade agreements were signed in 2003 with the European Union that led to the elimination of the EU's tariff of €3.2 a liter by 2008 (European Commission 2003), resulting to a 60% increase between 2003 and2015, in 2005 with China, phasing out the 14% tariff on bottled and sparkling wine and the 20% tariff on bulk wine by 2015 (China FTA Network 2005), resulting to a twentyfold increase between 2005 and 2015. Chile is onlythe second country, after New Zealand in 2012 (NZ Foreign Affairs and Trade 2008), to obtain tariff-free access tothe Chinese wine market. Chile has also established free trade agreements with the United States (2004), Japan(2007) and Australia (2009) (Cameron, 2020).

Chile's wine growers and producers focus on improved quality, reaps its results with export growth but also a visible changing mix of wine exports to China. The increase, from 40% in 2005 to 70% in 2015, Chilean bottled wine exports to China, reflect the Chinese consumers growing appreciation for high-quality Chilean wine. The growing status of Chilean bottled wine, fueled by increasing quality and combined with a lower relative price, will continue to support Chile's global competitiveness.

Considering the sector's maturity in Georgia, Moldova, Azerbaijan, and Armenia, the performance of the Chilean wine industry provides valuable lessons particularly for these EaP countries, specifically the wine industry's export orientation, relationship with the EU, and value-to-price ratio.

Argentina: Argentina's wine sector and its development in the last two decades is a model to study and a strategy to follow in the EaP. Small vineyards (5 ha or less) represent 63% of the wine sector in Argentina. As a guideline for the country, in order for a vineyard to be financially sustainable it should have a size of minimum 11 ha. The strategy in the country has focused on the production of low cost/fine wines, premium and ultra-premium wines. This has become possible through technological advancements and models that have targeted this specific development of the country's wine sector. In general, vineyards in Argentina follow specific guidelines related to the yield per hectare cultivated. The rule is that lower yield per hectare produces higher quality wines. A focus on varietals or on specific to the country/region grapes also added to the strength of the country's wine sector and eventually to the country's wine brand development. Yield of 15,000 to 20,000 kg per hectare produces high quality at medium price wines, whereas yield below 10,000 kg per hectare produces premium/ultra-premium wines with an average sale price per bottle of 40 USD to the consumer.

Considering the sector's maturity in Armenia, Ukraine, and Belarus, the performance of the Argentinian wine industry provides valuable lessons for these EaP countries, specifically the wine industry's fragmentation, its dual approach to value priced and premium wines, and its classification according to cultivatedland.

Several smaller countries (small populations and small domestic markets) have built their wine industry by attracting large international investments into a few of their large producers. Such large private investments (usually by a major wine company/brand as a strategic investor) have also established large high-quality production facilities in a country (-i.e., with the critical mass to dominate). The aforementioned have resulted in the consolidation of the local wine industries (as opposed to leaving room for SMEs to develop). Such consolidation hasled to success in international markets for these countries through the development of brands for international trade. Government support to the industry (through low taxes and creating a mechanism for industry promotion)also played a significant role speeding up this development.

The growth model of small to very small wineries financing their early-stage business with the assistance of government and donor programs, have achieved a development goal of "improving livelihoods of the population," but have not allowed explosive development of the industry or led to industry-wide sustainability.

Supporting the development of wine tourism may function both as a stimulus and a revenue/awareness generator for winemakers. The two interrelate. Wine tourism may stimulate the return of younger generations from migration to support the development of family businesses, which in turn may help to increase inflow of younger labor force in the wine industry (something that is much needed).

Based on a winery categorisation according to production size, the EaP countries SMEs relate as follows:

Medium Winery Size (50,000 - 499,999 cases produced annually) – relates mostly to Georgia. This category mostly has commitments to sell through wholesalers to one degree or another, compared to smaller-sized wineries, which rely on DtC sales to a greater extent. In the U.S. in 2020, medium-sized wineries underperformed the overall DtC shipping channel with a 20.9% increase in volume. However, by reducing prices only 3.3%, they saw a 16.8% increase in the value of their shipments. Their average sales price was $33.17.

Small Winery Size (5,000 - 49,999 cases produced annually) – relates to all EaP countries except Belarus. This category is usually where the average price per bottle shipped starts to move up significantly, making these wineries' products prime candidates for direct sales and DtC shipments. This category of winery outperformed the overall DtC shipping channel average in the U.S. Keeping their price drops to only 7.1%, wineries in this category in the U.S. were able to increase the value of their shipments by 18.5%, leading to $1.7 billion in wine shipments – representing 46.1% of the value of the entire U.S. DtC shipping channel. Their average sales price was $39.92.

Smaller wineries typically invest their own funds in increasing the quality of their products without significant increase in the production quantity. These businesses usually produce under 10,000 cases annually and constitute a middle ground between Small and Very Small Wineries -this sub-category of household businesses relates mostly to Azerbaijan and Armenia. Their model is sustainable as long as they succeed in claiming higher prices for their quality. They often start their business without any program assistance, just at a slower pace. This strategy is increasing the household revenue but does not increase the number of employees in the greater wine sector.

Very Small Winery Size (1,000 - 4,999 cases produced annually) – relates mostly to Georgia and Moldova. This category underperformed the overall U.S. DtC shipping channel average considerably, bucking the overall trend of producers trading increased volume at the expense of price. Because these producers ship wines of higher-than-average prices, this category only increased its volume of shipments 4.3% over 2019 in the U.S. This is likely the result of Very Small Wineries not seeing a significant decrease in average price per bottle (only 5%), especially when compared to the typically similarly priced Limited Sized Wineries, which registered a 16% decrease in average price per bottle shipped but were able to achieve a 64.9% increase in volume in the U.S., as noted below. Their average sales price was $58.89.

Limited Production Winery Size (Up to 999 cases produced annually) – relates mostly to Georgia. This category deals in scarcity, quality, and high prices. In 2020, customers saw these wineries reduce prices substantially, bringing the average price per bottle shipped down 16% to $59.05 in the U.S. Despite these still relatively high prices, this category of winery saw a whopping 64.9% increase in the volume of wine shipped over 2019 and a 38.5% increase in the value of their DtC shipments in the U.S. Several wineries within this limited production category sell wines well in excess of $100 per bottle. It seems likely that the more knowledgeable customers that support these producers know a good bargain when they see it. Their average sales price was $59.05.

The following are representative individual brand success stories, which can serve as examples for potential EaP SME strategies:

Louis M. Martini in the U.S.

- Faced significant competition from other wineries making wines from Italian varietals in California in the early 1990's;
- Developed a PR program designed to remind the trade and wine media of Martini's long success while also working with other wineries rather than in competition with them;
- The campaign targeted influential wine writers in major markets in the U.S. Each writer received pitch letter, wine samples, background information from each winery and contacts for additional information on the emerging trend toward Italian varietals in California;
- This program illustrates how significant press coverage can be obtained in the absence of hard news, such as a new product, a new winemaker or an acquisition, or even without a newly released wine;
- This program also earned the goodwill and appreciation of the target media, because it provided them with the tools for a good story.

Mionetto in the U.S. - one of Italy's most progressive Prosecco producers. Their goals in the U.S:

- ✓ Make the American wine trade and drinkers aware of Prosecco;
- ✓ Educate Americans about sparkling wine;
- ✓ Calibrate brand awareness with distribution, i.e., to support sell-in to trade and pull-through with consumers in focus markets,

- Today, Mionetto is the brand leader in the US market's Prosecco category. Core strategies of the public relations plan promoting Mionetto Prosecco in the United States were:

- Media relations: wine trend stories, features, business stories, pairings and occasions for drinking; and
- Limited advertising plan to achieve two objectives, which were to demonstrate support to the trade and create pouring opportunities at media-driven events.

Barefoot in the U.S.

- They used 'influencer marketing' = reaching and interacting with specific key individuals who have influence over potential buyers and are capable and willing to build buzz around a brand that results in increased sales;
- In the mid-1980s they built the brand with no advertising;
- Today, along with utilising cause marketing to generate word of mouth, Barefoot also makes effective use of social media to garner even more support -i.e., push content, and interact and engage with fans and followers

✓ Their claim: "*Reputations are built on heart and soul and a true commitment to 'doing the right thing.' Never dressing up clients to be something they are not. We build reputational capital through traditional and non-traditional public relations strategies. We focus on community investment, and incorporate such efforts into our clients' stories –while never losing sight of values, mission and objectives*".

Lodi wine region in the U.S.

- Employed public relations campaigns to enhance the image of the company;
- The campaigns incorporated an eye-catching logo and first-rate graphics for press packs and ad campaigns;
- They also consolidated various messages to increase demand for Lodi. As a result:
  - They were successful in legitimising Lodi as a source of high-quality grapes and wines in the media and the trade;
  - Lodi became a standalone region, rather than being categorized with the Central Valley.

✓ From a public relations perspective, a region must be known for one thing, or a very few things, that can help shower a positive impression on all the other things it does.

Bordeaux Supérieur in the U.S.

- Telling a compelling story helped Bordeaux Supérieur wine increase its reach in the American market;
- The key was to update not only the message, but also the medium for the messaging about Bordeaux wines;
- To reach new consumers, they needed to focus their efforts on conveying a fresher, more vibrant image of the wines and the region;
- Along with a new interactive website and blog, they utilized social media tools to promote wines generating a positive buzz within the target market.

Yellow Tail in the U.S. - Yellow Tail, one of the best-selling and profitable imported wine in the United States, is recognized and acknowledged as an Australian brand. The company accounted for 11 percent of all U.S. imports. Key factors of success:

✓ The quality of the wine;
✓ The label – the brand was the first with a funny moniker. Not a wine per se but rather a social drink for everybody;
✓ The story: a family behind the brand with a moving story which echoes in the American imagination (Resnick, p. 173).

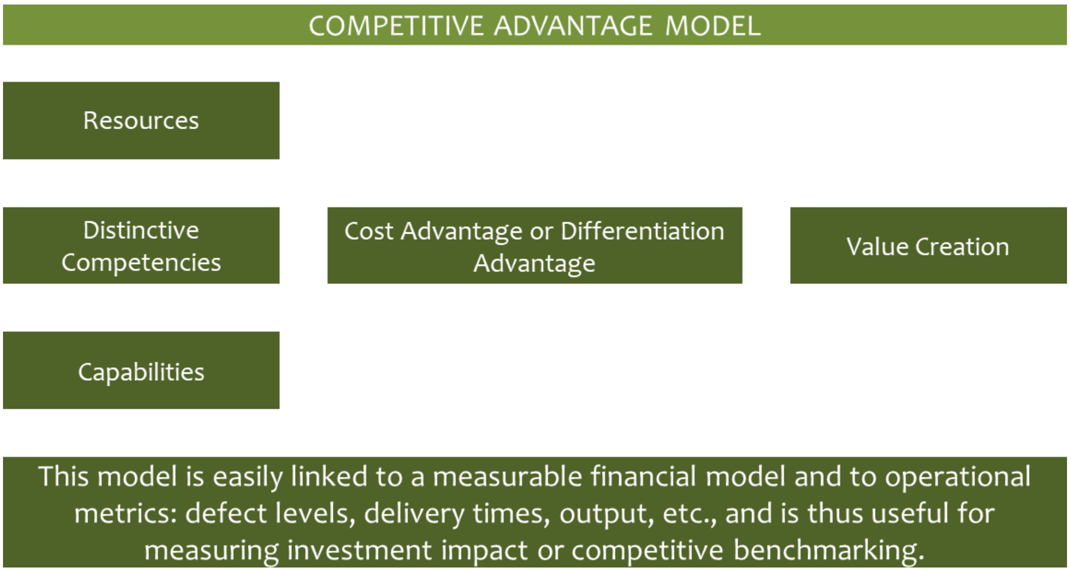
The Competitive Advantage Model for the EaP SMEs is described below. The Model entails for the EaP SMEs in the Wine Sector to use Focus strategies.

The Cost Leadership strategy requires to be the leader in terms of cost. Countries enable their SMEs to be successful in achieving Cost Leadership by supporting:

- Access to the capital needed to invest in technology that will bring costs down;
- Very efficient logistics;
- A low-cost base (labor, materials, facilities), and a way of sustainably cutting costs below those of other competitors.

On the other hand, Differentiation involves making wines different from and more attractive than those of the competitors. It will typically involve grape varieties, functionality/character, terroir, support, and brand image that customers value. Countries enable their SMEs to be successful in achieving Differentiation by supporting:

- Good research, development and innovation ecosystem;
- The ability to deliver high-quality products or services;
- Effective sales and marketing, so that the market understands the benefits offered by the differentiated offerings.



The greatest risk in pursuing a Cost Leadership strategy is that these sources of cost reduction are not unique, and that other competitors copy these cost reduction strategies. This is why it's important to continuously find ways of reducing every cost. Organisations pursuing a Differentiation strategy need to stay agile with their new product development processes. Otherwise, they risk attack on several fronts by competitors pursuing Focus Differentiation strategies in different market segments.

7. THE OVERARCHING STRATEGY

Adopt a more strategic approach to the development of EaP SMEs in the wine sector by identifying strategic direction and objectives for future development. The overall business environment is the most important determinant of SMEs' competitiveness and growth, as well as a necessary condition for the success of targeted assistance programs. Necessary reforms to improve the business environment go beyond macroeconomic and structural adjustment to the alleviation of microeconomic and institutional constraints that discriminate against small firms and reduce their growth and competitiveness. EaP winemakers shall benefit from the overall support environment, towards structuring their export strategy and sales.

The EaP domestic markets need to be built successfully to support effective international campaigns.

The small size of the EaP wine producers as well as the countries themselves can be overcome through building alliances. Joint ventures, partnerships, co-branding, horizontal mergers, market extension mergers, product extension mergers,just to name a few possible alliance structures, can create significant synergies and meet threats. The respective EaP States should enable cooperation, assist in forming regulating, legislative, promotional, and other industry related bodies. Enabling entrepreneurship will be pivotal for success.

SME wine producers in the EaP countries are proposed to concentrate on diligently selected niche export markets using Focus strategies -both Cost Leadership and Differentiation in tandem or independently. These markets should be high wine consuming countries where New World wines already have gained good positioning due to their value-to-price ratio (see Chile, Argentina, etc.). EaP wine producers may take advantage of opportunistic sales, as long as these meet the desired price points and do not put a strain on the available product. The Focus strategy for the country's SMEs is proposed within the country-specific strategy developed throughout the document, also by virtue of the EaP country/environment in which the SMEs operate.

Moreover, the strategy calls for high-quality wines primarily from indigenous grape varieties, higher and increasing ex-cellar prices, and consistent sales & marketing throughout all channels and stakeholders. Incubation and implementation are initially budgeted within three- and five-year plans. One of the main aims would be to directly target the consumer (DtC) and increase awareness and price points globally.

Wine tourism (both inbound and domestic) would offer significant synergies including but not limited to branding, if developed sustainably.

An important consideration to be factored in has to do with market consolidation (ongoing) and climate change leading to a subtle shift in the market for both smaller-scale and startup winemakers. A lot of smaller wineries are struggling with sales because of consolidation, so while they want to maintain their brand, they know they will face challenges in selling internationally. So, they sell at least part of either their juice or their finished wine to negociants.

The creation of a (named indicatively) EaP Wine Association could serve as the institutional and marketing body for the development and protection of the wine industry in each EaP country and of the EaP wine industry as a whole. The Association and its leadership would rotate among the EaP countries. The Association's Trustees and Management would include respected scientists, entrepreneurs, and other prominent figures, all related directly to the wine industry and with great knowledge of the international environment. Broadly defined in the present paper, the Association's scope would be in effect to establish and set the standards for one EaP wine industry without eliminating the countries' individual brands.

Lastly, as Country of Origin (COO) drives wine markets and consumers, the EaP countries' COO statusshould serve both as a benchmark and a guideline. Associated with this is the winemaker's story sought after byconsumers - especially grapes-to-glass advocates in the U.S. The EaP countries, anchored around flagship wines and wine producers, should increase their COO status -especially in the selected niche markets.

7.1 STRATEGY FOR GEORGIA

SMEs play a significant role in Georgia's economy - they account for about 94% of all active enterprises. However, their share of value added remains low, at about 21%. As such, the country needs to develop its SME sector further, especially in view of the signed Association Agreement with the EU, which brings about important challenges and opportunities for Georgian SMEs. Additional positive economic and policy developments in Georgia, such as the improvement in the business environment, further underline the need to strengthen SME competitiveness.

41.7% (1,554.8 thousand people) live in rural areas (as of 01.01.2018). According to the forecast of the UN World Urbanization Prospects, the share of rural population in Georgia will decrease up to 27% by 2050.

The number of agriculture farms of all the categories, with agriculture lands, is 574.1 thousand units, and the average area of farms is 1.4 ha. Most part of the farms own small land. Namely, 93.7% of households own less than 2 ha agriculture land. There is only 4.8% of households that own the land with the area of 2-5 ha, and only 1.5% owns more than 5 hectares of land.

FDI plays an important role in the Georgian economy. The inward stock reached 72% of GDP in 2013. Concentrated in the energy (26% of total FDI in Georgia) and financial sectors (17.7%), increasing FDI in manufacturing -incl. winemaking, would be key to boosting the development of SMEs.

Georgia has performed well in promoting its wine culture and establishing its brand as a high-quality wine producing country. Long-standing tradition such as the qvevri wines, and innovation such as the natural wines, have contributed significantly to catapulting Georgia to an international contender status. At the same time, these arguments will support a sustainable wine tourism model, targeting to offer long term synergies along the country's entire wine value chain.

Georgia has used the differentiation strategy so far and should continue doing so, aiming at increasing awareness further, increasing price points for its wines (incl. increase in value added), and increasing its bottled wine production volume in order to achieve an EU and internationally sustainable critical mass.

To that effect, Georgia is currently at a level to increase its inward investment (FDI), targeting to both expanding its SME winery base and increasing its current SME winery sizes -Limited Production to Very Small, Very Small to Small, and Small to Medium. This would enhance the country's global presence and allow the individual SMEs to strengthen their brands through marketing, business, and technology investments. Vertical integration should be also favored in order to ensure traceability, F2F arguments, and control over ESG and high quality.

7.2 STRATEGY FOR MOLDOVA

Management of the ONVV and larger producers have stated that the Moldova Competitiveness Program project has focused too heavily on small producers -the development of these producers (10,000 to 50,000 bottles per year output) will not impact the industry as a whole but will only impact and augment their own livelihoods. As such, there is a need to both scale up and drive the wineries' size higher.

Accordingly, the EU should focus on the Moldovan Small Wineries category (5,000 - 49,999 cases produced annually). In the U.S. and in other prime wine markets, this category is where the average price per bottle shipped starts to move up significantly, making these wineries' products prime candidates for direct sales and D2C shipments (this category of winery outperformed the overall D2C shipping channel average in the U.S., and recorded an average price of US$39.92 in 2020).

Nonetheless, the categories of (a) Limited Production Wineries (up to 999 cases produced annually) and (b) Very Small Wineries (1,000 - 4,999 cases produced annually), could be also targeted conditionedupon very high wine quality and premium marketing. These could support the expected trade-off between smallsales and high profitability due to very high unit prices (in the 2020 D2C channel in the U.S., the average price was almost US$60 per bottle).

Moldovan wines are considered New World and as such, they are competing directly with Australian and Chilean wines, among other. In order to achieve the Overarching Strategic Goal and the country-specific Strategic Goal, Moldova should focus on Differentiation strategy -in addition, the EU should at SME company level, as part of the EU Strategy herein:

1. Promote research on and wines from indigenous grapes.
2. Fund planting of local wine grape varietals (e.g., Fetească albă, Fetească regală, Rară Neagră, Fetească neagră, Viorica).

There is currently a government subsidy of €1,500 per hectare for planting of wine grapes. However, the way the subsidy is structured promotes planting high-yield, lower-quality wine grapes. Shifting the emphasis of this subsidy to fund planting of indigenous wine grape varietals would support the transition of the wine sector to new, locally inspired wines.

3. Enable vertical integration.
4. Drive the quality of the wines further and secure the quality's consistency across vintages and wine labels.
5. Embrace and strengthen the Protected Geographic Indication (PGI) designation to help winegrowers meet international standards and position Moldova as a quality wine producer in the international marketplace.

The four PGI associations – Valul lui Traian, Stefan Voda, Codru, and Divin - have a leading role in promoting high-quality wines and the regional wine traditions. However, with limited experience and low capacity, Moldovan PGI wine associations need support to organize their internal control procedures, and to clarify and adjust their PGI technical specifications aimed at promoting the specific features of each wine region.

6. Encourage the eligible SMEs' active participation with the institutional bodies in place -such as the ONVV, ASW, ministerial and governmental committees for wine sector policy and Strategy 2030
7. Encourage innovation across the entire value chain
8. Educate SME owners and management, and start-up entrepreneurs on governance, modern management practices, and digital transformation
9. Address ESG and climate risks issues pertaining to the companies' strategy and growth
10. Emphasize and support e-commerce, digital marketing, expert marketing, branding, and online promotion to facilitate SMEs' ability to reach high-value markets
11. Streamline e-commerce and logistics -and hence facilitate also D2C
12. Develop Differentiation Focus strategies coupled with increasing value/higher-price offers
13. Identify target EU markets in terms of consumer needs, market fit, and sales potential

Furthermore, wine tourism has potential to be developed with a sustainable model, offering long term synergies along the country's entire wine value chain.

Lastly, the country is already supporting the idea of creating a buying consortium through ONVV and/or the ASW for bottles, corks, and labels to take advantage of purchasing larger quantities at lower prices and shipping rates (e.g., for container loads vs, pallet loads).

7.3 STRATEGY FOR AZERBAIJAN

The country has made significant effort towards advancing its wine sector. Pushing forward and due to the presence of a significant number of indigenous grape varieties, the country should establish a set of European Union geographical indications and traditional specialties to promote and protect its names of quality vines.

The government and the wine industry are working towards developing the Azerbaijan wines and the country's international wine presence. However, they need financial resources and capacity in order to be able to undertake actions. The EU Programs can support with financial resources, but at the same time, SMEs need skills in order to use the funds effectively. It should be noted that Azerbaijan is pursuing actively SME development and support.

Increase the supported Interventions in the form of further supporting organisations -these associations will be the catalysts for SME collective action. Such collective action could enable, among other, SMEs' capacity building. Business associations in Azerbaijan are still at an early stage of development.

The country, although triple the size of Armenia and despite its richness in indigenous and foreign grape varieties, has only about 17 wineries (by comparison, Greece with similar population has about 700 wineries, and Cyprus with about less than a million population has over 60 wineries). This gap is a growth indicator and accordingly, developing the domestic wine consumption culture for high-quality wines should become a priority; this would:

- Create a steady demand for local wine, supporting cash flows for healthy operations of domestic wine producers;
- leverage new brands and wine varieties, and awareness before targeting international markets; and
- assist with building up branding and differentiation to help compete internationally.

This country's richness along with its efforts to promote the SMEs' ecosystem, should prompt the EU to encourage, facilitate, and support wine entrepreneurship targeting to increase the wine sector depth -with quality-oriented SME winemakers. The EU should focus on the Azerbaijan Small Wineries category (5,000 - 49,999cases produced annually), and Very Small Wineries (1,000 - 4,999 cases produced annually), targeting very high wine quality and premium marketing.

During this early growth stage, the Azerbaijan SMEs should target the EU and SE Asia as their key export markets to build systematically, and the U.S., Canada (State monopolies), the U.K., and China, for opportunistic sales. Associated wine tourism could be developed within a sustainable model, offering multiple synergies along the country's entire wine value chain.

In order to achieve the Overarching Strategic Goal and the country-specific Strategic Goal, Azerbaijan should focus on Differentiation strategy. The EU should be part of and assist in establishing Azerbaijan as an internationally acknowledged wine producer, as well as in establishing Azerbaijan Wine as one of the exceptional wines of the world. In addition, the EU should at SME company level, as part of the EU Strategy herein:

1. Support and promote wines produced under a PGI -Protected Geographical Indication
2. Increase the area under vine

3. Facilitate improved marketing of higher-quality bottled wine
4. Support extensive branding strategy and brand development
5. Enable and support a consistent increase in the production volume of high-quality wines through new wineries and capacity expansion of existing ones
6. Facilitate know-how transfer to enable modern business practices and innovation in viticulture and winemaking

7.4 STRATEGY FOR ARMENIA

The government and the wine industry are working towards developing the Armenian wines and the country's international wine presence. However, they need financial resources and capacity in order to be able to undertake actions. The EU Programs can support with financial resources, but at the same time, SMEs need skills in order to use the funds effectively.

Creating supported Interventions in the form of supporting organizations (see other EaP countries stakeholders above), will enable cooperation among the SMEs. Such collective action could mitigate production volume and resources limitations to a great extent.

Developing the domestic wine consumption culture for high-quality wines would:

- Create a steady demand for local wine, supporting cash flows for healthy operations of domestic wine producers;
- leverage new brands and wine varieties, and awareness before targeting international markets; and
- assist with building up branding and differentiation to help compete internationally.

Encourage, facilitate, and support wine entrepreneurship targeting to increase the wine sector depth -in particular with quality-oriented SME winemakers. In that respect focus on branded activities and business acceleration.

In specific, the EU should focus on establishing or developing (a) Limited Production Wineries (up to 999 cases produced annually) and (b) Very Small Wineries (1,000 - 4,999 cases produced annually) with a potential initial size of no more than 2,000 cases, targeting very high wine quality and premium marketing, irrespective of own vineyards at first.

During this early growth stage, the Armenian SMEs should target the EU and the U.S. (the ethnic channels because of the diaspora) as their key export target to build systematically, and Canada (State monopolies), the U.K., China, and SE Asia, for opportunistic sales. Associated wine tourism could be developed within a sustainable model, offering multiple synergies along the country's entire wine value chain.

Considering the geographical and political particularities of the country, it seems that the DtC channel (Armenian wineries to EU consumers) could provide sales and exposure to the Armenian wine SMEs. The EU should support the DtC development and the necessary logistics for its smooth operation.

In order to achieve the Overarching Strategic Goal and the country-specific Strategic Goal, Armenia should focus on Differentiation strategy. The EU should be part of and assist in establishing Armenia as an internationally acknowledged wine producer, as well as in establishing Armenian Wine as one of the exceptional wines of the world.

In addition, the EU should at SME company level, as part of the EU Strategy herein:

1. Support the establishment of the vineyard cadaster and the local grape varieties registered
2. Support the registration of Armenian grape varieties in international atlases and registers (the register of grapes of the International Organization of Vine and Wine)
3. Champion for Armenia to join the International Organization of Vine and Wine (OIV)
4. Facilitate the adoption of technical regulations for wines and acceptable methods of wine production; development of guides and standards for viticulture and winemaking; adoption of quality control mechanisms
5. Assist the marketing of higher-quality bottled wine, targeting attention from EU and international market actors
6. Support the expansion and the consolidation of the area under vine
7. Support the selection of the key markets for Armenian SMEs to target and for the country's marketing effort to focus on

7.5 STRATEGY FOR UKRAINE

Ukraine has a substantially developed support organisation network -this is not at par with its current low wine sophistication levels, and when compared to other more advanced EaP countries. This network may be in position to enable transformation and eventual transition to an internationally competitive SME high-quality wine economy.

These BSOs and academic/research institutions should support efforts to target the large-scale post-Soviet wineries with a "Product Quality Upgrading Program" in order to help them achieve a transformational switch to the "quality over quantity" paradigm. This is a group of wineries producing a commanding percentage of the industry's output.

In order to achieve the Overarching Strategic Goal and the country-specific Strategic Goal, and until the industry rebuilds and mitigates current practices, Ukraine should focus on Cost Leadership strategy. Moreover, a cohesive, holistic promotional approach is needed to combat these market conditions and to ensure that the winemakers in the country can use the current advantages that they have -free trade with the EU, knowledge and expertise trading in former Soviet markets, and growth of new markets in China.

In addition, the country's increasing wine production -even if channeled primarily to bulk wine, provides quantities for commercialisation. As such, upgrading the wine quality, even within existing inadequate structures (according to international standards), within Cost Leadership, will allow Ukrainian winemakers to operate as follows:

(a) Bid for private label contracts in the EU. Private label at all levels is experiencing growth as supermarkets are trying to differentiate, capitalize on their brand, and increase margins; and/or
(b) Sell to negociants that buy finished wine and put their own label on it; and/or
(c) Sell to negociants that take finished wine and then make changes to it.

The latter three options will provide Ukrainian SMEs with wine production experience, commercial exposure, testing grounds, and cash flows, on their way to defining and building their brand in a systematic way.

Wine tourism might be developed in parallel following the Chinese model, whereby the emphasis is on entertainment and leisure activities.

In addition, the EU should at SME company level, as part of the EU Strategy herein:

1. Encourage new wine entrepreneurship -to serve as the “fresh start” for the industry
2. Promote research on internationally known (and as such easier marketable) varietals giving best results in different areas of the country
3. Support cultivation and cultivation techniques yielding higher quality wine grapes
4. Support the development of anchor state-of-the art wineries, which will engage in medium- to long-term programs
5. Facilitate know-how transfer across the entire wine value chain

7.6 STRATEGY FOR BELARUS

The country is at a disadvantage, as it does not have a wine industry and a wine culture. However, this also presents an opportunity, as the country could utilise the existing vast international experience and learn from failuresand successes, thus entering the wine universe on the right foot.

It is highly unlikely that the country will shift its alcohol drinking culture to wine in the foreseeable future. Moreover, viticulture is a long-term and complex activity until it reaches a mature enough stage to yield quality wines. As such, Belarus and its aspiring wine entrepreneurs should consider own grape cultivation as not relevant at this stage, but may pursue it in terms of research and experimentation.

Accordingly, in order to achieve the Overarching Strategic Goal and the country-specific Strategic Goal, Belarus should, as a first step, focus on Cost Leadership strategy within a negociant and/or negociant-éleveur model, to make and export wines for private label. Belarus should build up its import activity of bulk wine and/or juice and/or grapes from the other EaP countries to produce value-for-price blends for third parties, capitalising upon its strong overall export culture.

In parallel, the EU could support the development of (a) Limited Production Wineries (up to 999 cases produced annually) and (b) Very Small Wineries (1,000 - 4,999 cases produced annually) with a potential initial size of no more than 2,000 cases, targeting branded high-quality value-for-price blends, irrespective of own vineyards at first.

Wine tourism might be developed in parallel following the Chinese model, whereby the emphasis is on entertainment and leisure activities.

The EU should at SME company level, as part of the EU Strategy herein:

1. Facilitate know-how transfer for the Belarus wine entrepreneurs to upgrade their equipment, technologies, and winemaking skills
2. Encourage new wine entrepreneurship to serve as the seed of the industry
3. Facilitate the development of SME and wine entrepreneurs’ associations to act as representative and promotional bodies for establishing the structures of the Belarus Wine Sector

8. KEY FINDINGS AND POLICY RECOMMENDATIONS FOR THE EAP SME WINE ECONOMY (that contribute towards a Sustainable SME Development Model)

8.1 INTRODUCTION

Develop coherent Policy for sustainable EaP SME growth and trade with the EU as an integral part of the EaP Wine Economy.

The development of the SME Wine Economy in the EaP countries is particularly complex from a policy perspective. Developing the respective Strategy is an essential first step towards policy coherence and co-ordination at EU, regional, national, and cross-border levels. Due to the EaP geography, the wine industry's characteristics, the importance of viticulture, environmental and climate concerns, and the wine globalisation and growth, the wine economy encompasses a wide range of stakeholders and its advancement depends on efforts across a wide spectrum of policy spheres. Policies offering guidelines and incentives for different wine related development models – including sustainable agriculture, tourism, culture and education, all associated to the SME growth, need to be aligned with the strategic goals for the EaP Wine Economy.

The development of the EaP SME Wine Economy demands a coherent policy approach that enhances synergies. Coherence needs to be sought across domestic and international wine trade and consumption, viticulture, food safety, rural and local development, environment, energy conservation, research and innovation, waste, and climate change policies, all associated to the SME development, and perceived as very important to foster the development of the greater EaP wine economy. The EU suggests and wishes reinforcing policy interaction and stakeholder engagement, and increasing dialogue between the different actors related tothe EaP wine economy. The creation of dedicated bodies or working groups in charge of ensuring policy coherence and monitoring is also part of the greater Strategy.

The EaP SME sector and the SME sustainable growth will prove pivotal for the EaP Wine Economy development. The sector interweaves with the greater EaP wine ecosystem, constituting the EaP Wine Economy.

The rate at which the EaP SME wine economy will grow is substantially determined by (a) its ability to integrate with the EU and the global wine economy through trade and investment; (b) its capacity to maintain financial sustainability; and (c) its ability to put in place an institutional environment in which contracts and rights can be established and enforced. As globalisation proceeds, the EaP SMEs face major challenges for strengthening their human and institutional capacities to take advantage of trade and investment opportunities. While EU and EaP governments make policies in trade and investment areas, it is the enterprises that trade and invest. SMEs will play a key role in the transition of the greater EaP wine economy, as they constitute a major source of employment and if enabled, will generate significant domestic and export earnings. Globalisation, trade liberalisation and international wine consumption growth have ushered in new opportunities as well as challenges for SMEs. Presently, only a small part of the EaP winemaking SMEs and primarily in Georgia, can identify and exploit these opportunities and deal with the challenges. To add to the situation, the EaP SMEs are under pressure in the local or domestic markets from cheaper wine imports and foreign competition. A major objective of work to promote the development of the SME wine sector within and in conjunction with the EaP wine economy, is therefore to equip EaP SMEs to better meet the challenges of high-quality wine trade with the EU and high-quality wine globalisation, and to benefit from the respective opportunities.

Structuring Policy may be enabled through field trips, interviews, material review and country specific feedback, among others. Enhancing capacity of BSOs, creating SME networks, and developing the B2B and D2C value chains, are analyzed in parallel with specific weights assigned as necessary.

8.2 OVERVIEW

The EaP SME wine economy and its development towards a sustainable evolving system, is highly complex with many interconnections and impacts. In order to improve sustainability, it is imperative that the greater EaP wine economy is developed in a way that supports SMEs, helps reduce environmental pressures, values biodiversity and contributes to enhance the provision of all Ecosystem services.

The wine economy in the EaP and its scope need to be defined clearly within green growth prerequisites and globalisation. A clear understanding of the EaP Wine Economy concept and differentiating qualities, would help to better identify the underlying drivers, define objectives, illustrate the value added of related strategies, outline its role in the Ecosystem, and determine the monitoring and assessment requirements.

The wine economy must lead to sustainability in the EaP. Viticulture plays a central role in the EaP's wine economy in that it is directly linked to technology, culture, wine quality, the environment, indigenous varieties and thus differentiation, local and rural communities, etc. The EaP's wine economy is not intrinsically sustainable. A major risk in developing it lies in the increased competition in the wine markets internationally. Another significant risk is that the land use will be diverted from grape cultivation as the EaP countries grow. It is essential to identify and implement mechanisms for the sustainable production of wine and the sustainable operation of the SMEs in the sector. Moreover, policy incentives to adopt sustainable agriculture methods that help maintain soil cover and health, increase water-use efficiency and reduce soil erosion are critical. Furthermore, research focusing on ecosystem services, together with technological developments, which help to provide the necessary information and means to make appropriate land-management decisions, are also required.

Policy actions need to be coherent and targeted. Policy and institutional coherence are prerequisites to reaching the full potential of the EaP Wine Economy. This requires ensuring sufficient co-ordination across the Ecosystem. Policies offering incentives and regulatory frameworks may need to be assessed and revised, which is often needed to stimulate the creation of value chains. EU, regional and national strategies should aim at fostering coherence across policy levels and areas by: investing in research, innovation and skills; promoting a participatory governance structure; facilitating informed public dialogue; monitoring progress; and strengthening cooperation at the international, national and regional levels. In this respect, several countries have established inter-ministerial and inter-organisational working groups and policy advisory bodies. Some countries have also established dedicated sector councils or panels, which include various stakeholders, to advise on the implementation process. The EaP's wine economy is complex and entails inter-disciplinary knowledge. Developing a skilled workforce for it is a major challenge and development of expertise is one of the main concerns. Promotion of education and training, funding and communication would be an encouraging sign for advancing the sustainable implementation of the EaP's wine economy.

Emphasis on research, innovation and technology including the respective diffusion and adoption of innovations are critical and encourage public-private partnerships. Information and Communication Technology, IoT, big data, biotechnology, other novel technologies, and the development and wider adoption of technologies for energy- and water-saving and reducing waste, are important for modern management, for gaining competitive and cost advantages, etc. towards sustainability.

Policy Instruments for the developing of the EaP's SMEs wine economy are presented in **Annex X**.

EU, EaP should monitor progress. Most countries measure the direct contribution to GDP,turnover, employment, exports of the wine sector, the number of firms and businesses operating in the wine sector. Such indicators may be supplemented by information on the progress' development and impact on environmental sustainability. Monitoring progress and outcomes should be a priority as an integral part of policy implementation for the EaP's wine economy. It might be possible to adopt and adapt the conceptual framework and indicators developed by OECD to monitor progress towards green growth, which focuses on natural resource efficiency and productivity, the environmental performance of production and consumption, on the innovations adopted and policy instruments implemented.

8.3 OVERARCHING GUIDELINE

Map those SMEs and SME related stakeholders capable of and interested in investing in the wine sector value chain. Analyse the existing competitive edge and willingness/readiness of mapped enterprises in order to determine investment opportunities. Profiling/competitiveness analysis should develop weighted criteria including but not limited to bankability, impact potential of investment, operations, turnover, employees, key capex investment opportunities for production upgrading/expansion, key risks (including commercial risks) of the project and sector, market, supply, social, economic and environmental impact, job creation opportunities and capacity-building /advisory needs, food safety and traceability challenges, etc. (see **Annex VIII** herein). In parallel, develop a list of public-private sector stakeholders to be engaged during the process -private sector companies could include value chain stakeholders working with the enterprises such as, logistics, transport, distribution, etc. -other stakeholders could include academic institutions for research, government offices, etc.

Framework - Form and promote a unified agenda for EaP, considering each country's wine market maturity and implement through effective communication and management protocols. Identify and coordinate opportunities to ensure all EU activities are aligned with stakeholders' goals and international activities. Coordinate with governmental and non-governmental entities to design a joint 3 to 5-year strategy plan for awareness building, promotion, and trade development for eligible SMEs. Ensure EU and international activities and trade policy objectives are communicated and coordinated across all stakeholders. Communicate and enforce adherence to international logistics and policy requirements to ensure compliance. Coordination among policy and regulatory agencies, and the private sector will provide consistent and effective solutions to EaP SMEs' EU and international wine affairs, including budget allocations for marketing purposes. Establish the prerequisites for a brand and eventually, the brand itself.

SME company specific Operational Guidelines are presented in **Annex IX** herein.

Base Values for each EaP country need to be assigned to the Key Performance Indicators specified in **Annex XI** herein. These Base Values need to be followed over a 5-year period setting an interim and a final growth milestone. Observing the growth milestones and/or any deviation thereof shall determine the effectiveness of the Strategy implementation.

8.4 KEY FINDINGS AND RECOMMENDATIONS

The eight Issues identified throughout the document are key and common among the EaP countries. They constitute both hurdles and building blocks for the countries' wine SME development and international competitive advantage.Addressing these Issues as problems at an institutional and corporate level, while at the same time enabling BSOs, will support the EaP wine SMEs to focus on their wine quality, branding, and

8.4.1 WEAK DOMESTIC WINE CONSUMPTION

Finding: Weak market uptake and consumer confidence. Less developed wine culture allowing currently only for small domestic markets for high-quality wine, is evident across all EaP countries -even if at different levels. This is a key determinant of SME investment -both an opportunity and a prerequisite. Domestic markets need to be built successfully in order to support effective international campaigns.

Solution: International wine demand conditions favor future competitiveness of the EaP countries' wine industries. The EU can assist the eligible SMEs at various levels:

(a) Support healthy operations of domestic wine producers towards creating a steady demand for local wine;
(b) Leverage local varieties and know-how to launch new brands and promote these wine varieties; and
(c) Assist with branding and differentiation.

Recommendation: Use a range of policy instruments, including provision of information on the environmental footprint of the EaP wine, public procurement, development of standards, and product labelling. Ensure that the policies are clear and implemented for the long-term so that SMEs and other stakeholders have certainty in making investment decisions, and consumers are confident as to the wines they buy.

Actions: Enabling entrepreneurship will be pivotal for success. A cohesive, holistic promotional approach is needed to combat current market conditions and to ensure that the wine producers in each EaP country can use the current advantages that they have. The small size of wine producers as well as the EaP countries can be overcome through alliances. Joint ventures, partnerships, co-branding, horizontal mergers, market extension mergers, product extension mergers, just to name a few possible alliance structures, can create significant synergies and meet threats. The respective EaP States should enable cooperation, assist in forming regulating, legislative, promotional, and other industry related bodies. Attracting investment into the industry will also be pivotal -it would serve to quickly improve quality and increasing promotion of the strongest brands to expand international trade.

Target the large-scale post-Soviet wineries with a "Product Quality Upgrading Program" to help them achieve a transformational switch to the "quality over quantity" paradigm -forming a group of wineries producing a commanding percentage of the industry's output.

Provide transparent, voluntary product information to consumers, and improve the efficiency of logistics.

Also, activities aimed at developing the EaP countries internal markets for SMEs may include: market-making initiatives such as electronic platforms where SMEs can interact to find buyers for their products or input suppliers, and industry-specific matchmaking events where entrepreneurs can identify potential business partners and develop cluster-type relationships along their value chain.

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Develop the wine-by-the-glass in the horeca trade (and not only listings on the restaurants' wine lists) -this will drive sales as it will support push marketing;
- ✔ Improve restaurants' wine and food matching service -this will educate the consumers and increase confidence in the domestic wines;

- ✔ Establish advertising, promotion and marketing efforts, focusing on e-marketing and added value actions -e.g., winery visits, tastings, etc.;
- ✔ Educate the local consumer on high-quality bottled wine using indigenous grape varieties either as single varieties or as blends;
- ✔ Make wines easier to understand and to drink, as well as more available in the less frequent consumers; and
- ✔ Develop the sommelier (at service level) and enologist (at winery level) professions to drive domestic wine quality, credibility, and culture.

8.4.2 WEAK SME FUNDING ECOSYSTEM

Finding: Limited and inadequate access to funding is evident across all EaP countries. This is a key barrier to SME growth in the wine sector. SMEs from the EaP are less likely to access external finance and typically face higher costs thanlarge enterprises and similar companies in comparable countries (EBRD/WB, 2013). In particular:

- Bank lending: Low levels of financial literacy among SME entrepreneurs increase the credit risk perceived by banks. Lack of accurate financial statements and sound business plans increases the opaqueness of SME performance, and thus the asymmetry of information vs. banks;
- Risk capital: Limited availability of alternative non-bank and equity financing mechanisms. Asset-based finance, such as leasing and factoring, is underused, and the venture capital environment is still at a nascent stage. Venture capital activities and awareness of business angels remain low;
- Grants: The legal framework does not allow for the provision of public grants to commercial entities, which limits the scope for targeted financial assistance to SMEs and innovative start-ups.

Solution: The EU can assist the eligible SMEs improve their capability to access funding to finance their growth:

(a) By improving their governance, internal processes, and business skills;
(b) By enabling them to understand and meet their investment needs;
(c) By facilitating sustainable finance and microfinance (including in the rural areas where the access to finance is particularly difficult); and
(d) Through contributing at domestic institutional and governmental level for SME development

Actions: To move towards an inclusive and fair economy that delivers for all, the EU will help EaP countries unleash the economic potential of their rural areas, including by supporting farmers and the setting up of modern wine cooperatives and producers groups. The EU will strengthen engagement outside capital cities and create links between local urban centers and rural areas. This builds on the European Commission’s methodology for smart specialisation as applied in the EU. To respond to the need of start-ups, the EU together with IFIs will develop an innovative and smart financing program (including equity, venture capital, business angel and crowd funding).

It should be also noted that the EU/EBRD SME Competitiveness Programme in Eastern Partnership (EaP) (the “Programme”) aims at increasing the capability of SMEs in the six countries to access and face competition on the EU market, through supporting the implementation of the EU standards at SME level in the field of environmental protection, occupational health and safety and product quality and safety. This programme addresses the key areas of vulnerability for SMEs, namely access to funding, preferably longer term and in local currency, through locally operating financial intermediaries, for investments meeting EU standards and promoting the use of green technologies, thereby enhancing SMEs’ competitiveness locally and regionally. In line with the EBRD's Green Economy Transition Approach (GET), it expected that a significant amount of green economy technologies will be financed under the Programme and accounted as part of the Sub-projects' results. The EBRD will specifically provide senior debt financing to selected Participating Financial Institutions ("PFIs") committed to the overall objectives under the EU Agreement of the EU SME Competitiveness Programme in Eastern Partnership. Building on the success results so far of the EU/EBRD DCFTA 'EU4Business' credit lines, it is envisaged that under the new Programme, at least EUR 300 million will be provided by the EBRD in loans to various PFIs in Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.

Provide eligible SMEs / wine producers in the EaP countries with income support mechanisms, grants, disaster assistance provisions, marketing assistance loans/funds, other financing and insurance tools, and risk management tools. Manage risks such as changing market conditions and widespread or prolonged natural disasters, through ongoing reviews of production information, analysis of actuarial data, analysis of weather and climate information, data mining for anomalies, among others. Other stakeholders in the wine supply chain will also benefit. In specific:

1. **Improve SME Financial Management**

Improve SMEs' financial reporting, transparency of reporting, and analysis of financial situation. ImproveSMEs' capabilities to manage and continue with the improvements in the long term, through the training and capacity building of SME staff. Ensure that **the <u>use of procedures</u>** of each financing and the related investment incentive on completion of eligible investments has met the eligibility criteria and that funded investments have been completed substantially based on the investment plans. Validate against the investment plan.

Lack of financial information to SMEs in the EaP countries is a systemic problem. The lack of quality financial information can lead to poor decision making by SMEs, and their performance hindered by bad planning and preparation for different situations. Furthermore, SMEs with ambitions to grow will frequently depend on bank financing, which is heavily reliant on enterprises that have transparent, accurate and timely financial reporting systems.

Enhance local companies' financial management capacities to grow their businesses and enhance their attractiveness to local and international lenders and investors through the support of a capacity building program (to include but not limited to training, transfer of skills and mentoring) in financial management capabilities and skills (cash flows, liquidity, solvency, cost management and human resources, financial reporting and planning for business management, KPIs, access to finance and accounting, long-term business planning and vision), financial reporting (statement of financial position, statement of changes in equity, statement of cash flows) and IFRS audit (IFRS alignment with a view to improved financial management and training of staff).

2. **Promote demand-side Financial Education Programs targeting SME entrepreneurs**

Further to the above, would be to put in place financial education initiatives to improve SME entrepreneurs' financial skills (e.g., through courses at regional Chambers of Commerce and possibly with the participation of other relevant local institutions such as the National Bank). This would help to reduce the asymmetry of information between SMEs and potential financiers, and thus the risk perceived by the latter. SMEs need greater knowledge of (a) the financial products available in the market - e.g., to optimise their external finance portfolios, (b) how to produce credible business plans and sound financial statements (incl. accounting standards) for financiers to use to assess funding applications, (c) tax-compliant behavior, and (d) how to assess financial export risks.

Indicative of a support mechanism, Enterprise Georgia has created a library of financial training materials, an SME toolkit, and "mini-MBA" courses for beneficiaries of the support program "Produce in Georgia".

3. **Legal framework on public grants**

Companies should be allowed to apply for and receive grants from public institutions, so that targeted financial assistance can be provided to SMEs and innovative start-ups. Establishing a functioning law on grants is a prerequisite for the design of effective support policies for SMEs implemented by institutions that aim at providing financial assistance to companies struggling to access capital in the EaP countries.

4. Improve supply-side Financial Skills to leverage the regional presence of banks

The EaP should improve the capacity of their banking sector to serve SMEs better. Improving loan officers' abilities in assessing SMEs' credit risk, would support the lending function. The government in partnership with key stakeholders should establish capacity-building programs for SME banking -i.e., SME banking certification programs; risk management courses to understand the fundamental causes of SME risk and the tools required to manage them; forums for the managers of banks' SME departments to share international best practice in the field.

5. Establishing a Credit Guarantee Scheme as a risk-sharing mechanism

A credit guarantee scheme (CGS) to promote SMEs' financial inclusion could be introduced. A CGS works as a risk-sharing mechanism between financiers, borrowers (SMEs) and a guarantor (the State or a private entity). In exchange for a small fee paid by the borrower, the guarantor provides financiers with the guarantee that it would reimburse in case of default by the borrower (OECD, 2013a; Hanedar et al., 2014). A CGS effectively creates market-based incentives to provide more financing to SMEs by reducing the perceived risk.

6. Improve alternative non-bank and equity financing for SMEs

The venture capital environment in the EaP countries should be established to foster private equity investment at different growth stages. Innovative start-ups and early-stage companies need to invest to develop technology and products, but typically have little or no revenue streams. When they can access bank finance, loan repayments bear a high opportunity cost because of the growth opportunities that could be seized by a fast-growing company. Venture capital funds and angel investors could provide equity as well as wine industry-specific advice and business expertise to help SMEs grow. VC firms are better attuned to evaluating early-stage companies/startups, using metrics that go beyond financial statements — such as product, market-size estimates, and the startup's founding team. These tools are by no means perfect, and most investments will lose their value. However, because equity returns are uncapped, the high risk of investing in startups can be justified. While debts are structured so that a lender can only recuperate the principal and a set amount of interest, equity-based financing is structured so that there is no upper limit to how much an investor can earn. Broadly, the equity financing model has served the early stage/startup ecosystem well. Startups can accelerate growth without slowing down to pay down debt, as they would with a traditional business loan, and VCs can capitalise on the rapid growth of startups upon their exits. However, giving out equity in exchange does carry two main liabilities for companies: loss of upside and loss of control. Alternative forms of asset-based financing, such as leasing and factoring, could also be promoted.

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Structure a capacity building program in financial management and financial reporting, as a competitive prize-winning Accelerator towards attracting investment;
- ✔ Facilitate access to private seed and growth capital, as well as support for commercial credit lines;
- ✔ Develop income support mechanisms, financing and insurance tools, and risk management tools; and
- ✔ Structure investment cases.

8.4.3 LIMITED SME EXPORT ACTIVITY AND INTERNATIONAL EXPOSURE

Finding: Insufficient information and data on international market potential, domestic wine dynamic and business practices along the entire supply chain to allow for sustainable performance of the EaP SME wine economy. Only a small share of SMEs engage in export activities across all EaP countries, even though some of them (e.g., Georgia, Moldova) have made great progress towards improving their wines and their brandas high-quality wine producing countries. The following are the primary reasons:

- Limited information on foreign markets' requirements and business opportunities. This is ranked as the most important barrier for exporting;
- Unknown brand -as wine producing country; as wines; and as grape varietals;
- Limited availability of financial and insurance products for exporting SMEs. A particular problem is the lack of export finance and insurance schemes required to counter the main risks of international trade, such as longer cash-flow cycles, physical distance from buyers, and currency risk;
- Lack of structured support to help SMEs integrate into global value chains. Besides ad-hoc matchmaking events, no systematic effort is made to ensure that incoming FDI translates into business opportunities for SMEs.

Recommendation: Establish an inventory of initiatives, indicators and case studies on the costs and benefits of the sustainability performance of the EaP wine economy. Tap market growth potential in premium and super premium wines by fostering research on indigenous grape varieties, as well as by fostering innovations across the wine production and supply chain.

Solution: The EU can assist the eligible SMEs improve their international profile and their capability to export high-quality branded wines by:

(a) Improving export promotion activities and export related skills among SMEs;
(b) Providing services to SMEs to adapt to DCFTA and international requirements;
(c) Providing targeted financial support to exporting SMEs; and
(d) Facilitating SME integration into global value chains through FDI-SME linkage programs.

Actions: Support the trade mission by synthesizing information, providing advice on policy, and guiding decision-makers to facilitate the export of EaP wines. Provide wine related expertise and utilise long-standing relationships with leaders in the broader wine sector to support decision-making. Represent and advocate for EaP's SMEs' interests by also eliminating duplication, leveraging joint plans and activities, and advocating for trade positions and investments that are in the best interest of the EaP wine sector's SME stakeholders. Increase public awareness of export opportunities through education and outreach efforts, including reaching out to new-to-export and new-to-market SMEs to encourage active participation in foreign trade shows and a wide variety of exporter-assistance education tools. The small size of wine producers and of the EaP can be overcome through alliances. Joint ventures, partnerships, co-branding, horizontal mergers, market extension mergers, product extension mergers, just to name a few possible alliance structures, can create significant synergies and meet threats. The respective EaP governments should enable cooperation, assist in forming regulating, legislative, promotional, and other industry related bodies.

7. Improve export promotion activities and export-related skills among SMEs

Scale-up the efforts to develop SMEs' export skills and increase their readiness to access foreign markets. Current export promotion activities should be broadened to provide information on target markets for EaP SMEs. In view of the opportunities offered by the DCFTA, SMEs would benefit from increased support to access foreign markets, especially in the EU. Support services could include the following in addition to standard participationin trade fairs and trade missions abroad:

- Market research and development: analysis of demand trends for the country's wines, dissemination of target market intelligence and help in designing market-entry strategies;
- Trade information provision: on importers, prices, export procedures, standards, quality, and documentation requirements in target markets.
- Support SMEs to develop a cluster type approach with regional and industrial business partners to help them meet the quality and quantity demands of EU and international wine markets.
- Coordination at certain steps of the value chain may help SMEs strike better deals with suppliers, share promotion costs, engage in joint marketing activities, and exchange exporting knowledge.

8. Provide services to SMEs to adapt to DCFTA and international trade requirements

Raise awareness of DCFTA requirements among SMEs to ensure that companies can successfully export to EU markets. The information provided could include new technical regulations and ways to comply with them, as well as the voluntary standards and certified accreditation bodies available in the target country. Training programs and online resources specific to DCFTA could also be made available to EaP's SMEs. DCFTA-related capacity is also needed in the respective government agencies supporting SMEs.

Collect international policy developments, market data, and intelligence to inform domestic decision-making and support EaP policy. Establish credible estimates of world supply and demand that drive trading, and maintain public databases to provide SMEs with access to current international market information in support of strategy and business decisions. Identify policy problems, provide practical solutions, and inform decision-makers to advance opportunities for the wine sector. Use market intelligence, establish presence in international markets, and use global contacts to maintain long-standing relationships. These contacts are valuable to EaP wine exporters in communicating the institutional understanding of other countries' wine markets.

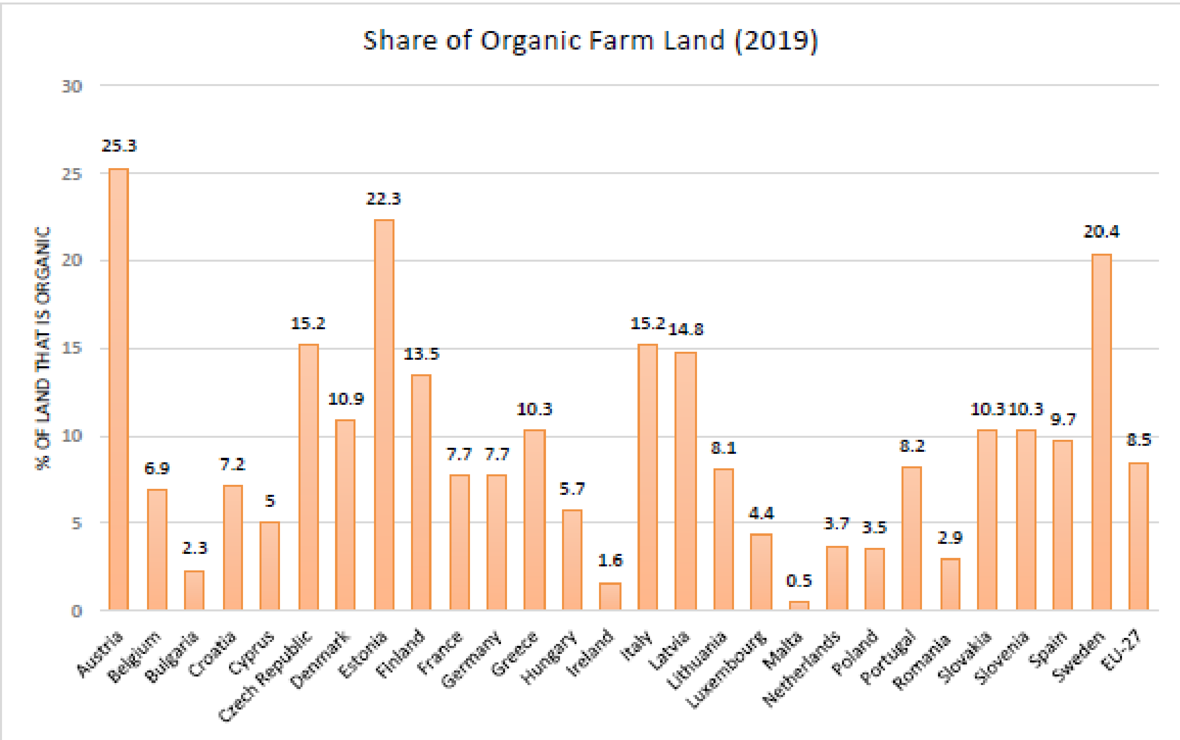
Establish and/or expand the wines produced under a Protected Geographical Indication (PGI). PGI is a set of European Union geographical indications and traditional specialties to promote and protect names of quality agricultural products and foodstuffs.

Provide business intelligence and market analysis to encourage informed market decisions. Provide expertise to the EaP wine exporters to encourage informed trade decisions through market intelligence and analytics. Regularly provide reliable data and analysis on production supply and demand to inform markets. Collect data, develop reports, and share information with the wine sector to provide insight on international market conditions. Develop and disseminate data and analysis on country and wine markets to educate the EaP wine sector. All EaP wine exporters should be required to immediately report any information with respect to their export sales.

Provide real-time information on risks and opportunities by setting up a global intelligence network. Identify problems, provide practical solutions, and work to advance opportunities for the wine sector. Provide objective intelligence on international market conditions, prepare production forecasts, assess export opportunities, highlight growing opportunities for EaP wine exporters, and track changes in policies affecting the EaP wine trade. These activities are critical to efforts aimed at removing trade barriers and monitoring and enforcing compliance with bilateral and international trade agreements, and to helping SMEs in the EaP to develop and maintain markets internationally.

Develop the SMEs' "edge" that gets the sale and takes it away from the competitors. Concentrate on particular niche markets and understand the dynamics of those markets and the unique needs of those customers. Thereafter, develop Focus strategies (rather than broad market strategies) for uniquely low-cost or well-specified products for specific markets. By doing so, SMEs will target serving customers uniquely well, in order to build strong brand loyalty and make their particular market segment less attractive to competitors. Should an SME use Cost Focus or Differentiation Focus, the key to making a success is to ensure that the SME is adding something extra as a result of serving only that market niche. The "something extra" that the SME brings can contribute to reducing costs (perhaps through an EU SME's knowledge of specialist suppliers) or to increasing differentiation (possibly though an EU SME's deep understanding of customers' needs).

Support organic viticulture and organic wines. To reach the objective of 25% of land in the EU farmed organically by 2030, the European Commission (EC) wants to stimulate organic conversion across the EU. Currently, only 8.5% of farms in the EU are organic, with large difference between member states from a low of 0.5% to a high of more than 25%. Current projections predict a growth of the organic sector to between 15% and 18% of agricultural land by 2030 if there was no Action Plan. The EU should establish partnerships with EaP SMEs willing to promote the use of organic products as part of their corporate sustainability policy, among other. EU's Horizon Europe is equipped to support the preservation and use of genetic resources, and the availability of organic seeds, among other.



Source: Data: Eurostat, Graph: FAS Brussels

9. Provide targeted financial support to exporting SMEs

Provide specific financial support to help exporting SMEs overcome the financing barriers and risks typically encountered when engaging in international trade. A wide portfolio of financial and insurance products could be made available, depending on the specific needs identified among SMEs. These could include export loans to finance additional working capital, export credit insurance to cover market and political risk, as well as export factoring to convert an exporter's trade receivables into discounted liquidity. A blended approach could also be adopted, combining financial support and technical assistance for exporting SMEs. This would, for example, not only supply SMEs with liquidity to finance their export activities, but also equip them with the technical skills required to adequately assess the risks and challenges of trading with foreign partners and increase the likelihood of a successful outcome and their ability to repay the loan. While trade-related financial and technicalsupport to SMEs should be linked, they should be provided by separate entities with the relevant expertise.

10. Facilitate linkages between FDI and SMEs

FDI-SME linkage programs could be set up to ensure that foreign investments in the EaP countries translate into business opportunities for SMEs. Linkage programs will provide valuable information to multinational enterprises about local SMEs, lowering the costs of searching for potential business partners. At the same time, SMEs participating in the linkage program can benefit from increased and structured interactions with multinational companies investing in their country, helping them to integrate into global value chains. The EU can support matching foreign investors with local SMEs through a wide range of activities: creation of company databases with information on location, business indicators and activities; audit of local wine producers to identify gaps in the inputs required by foreign investors; development of training and service agreements to facilitate business interaction between the companies (OECD, 2015). Financial support could be considered to promote supplier development programs for technology transfer and quality standard upgrading, as well as specific training to facilitate business opportunities for the EaP SMEs. These activities will also help develop the internal market for EaP SMEs by improving their knowledge of potential local business partners in the wine value chain and by providing opportunities for market-making initiatives (e.g., wine industry-specific trade fairs)

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Engage in structured market / trade / consumer research to establish the focus markets;
- ✔ Engage in business planning to determine pre-launch structures, and launch and growth strategies in the focus / selected markets;
- ✔ Facilitate an annual Small Winemakers Summit;
- ✔ Structure linkage programs with international partners with measurable goals and results;
- ✔ Become more consumer focused -offering the highest degree of personalization, and wines tailored to consumers' needs.

8.4.4 GOVERNANCE AND MANAGEMENT DEFICIT AND LACK OF SKILLS IN THE LABOR MARKET

Finding: An inadequately educated workforce (both white- and blue-collar) is reportedly the most problematic factor for doing business in the EaP SME wine sector. Also, EaP workforce displays low levels of entrepreneurial intentions despite the perceived market opportunities in most EaP wine economies (e.g., Lezhava et al., 2014). A tangent issue pertains to low job creation translating into a high unemployment rate, especially among people with higher education. In specific, the EU should consider (a) new requirements for education and skills for stakeholders, and (b) the possibility of the emergence of the EaP SME wine economy distorting other sectors. Specific obstacles in the wine sector have been identified to include:

- Lack of analysis of the skills demanded by the labor market, which limits the government's ability to design educational policies to supply the right mix of skills;
- Shortcomings in the vocational education and training (VET) system¸ including limited business relevance of curricula, low attractiveness to students and weak capability of teachers;
- Low uptake of lifelong-learning, stemming from a lack of trust in and awareness of non-formal training providers, as well as limited relevance and high perceived cost of training options;
- Lack of an entrepreneurial culture, which limits the rate of people willing to engage in entrepreneurial ventures, start a business and create jobs. Furthermore, entrepreneurial activities and intentions are unevenly distributed with respect to gender, with early-stage entrepreneurs more likely to be men than

women. Female entrepreneurship is more often driven by necessity rather than opportunity (e.g., Lezhava et al., 2014).

Recommendation: Build up and expand the expertise necessary for the EaP SME wine economy by integrating dedicated skillsets and training programs in the entire education and vocational training systems. Involve and build up youth and women. Assess the costs and benefits of implementing the EaP SME wine economy and related policies in an integrated and comprehensive manner, including through reform of institutional and governance structures. Adopt holistic and transparent horizontal approaches and policies for consumer trust-building.

Solution: The EU can assist the eligible SMEs improve their labor and management skills, by:

(a) By developing country-wide labor market and training needs analysis;
(b) Strengthening SMEs/stakeholders' participation in developing and implementing VET policies;
(c) Improving the quality of corporate governance;
(d) Facilitating SME access to non-formal training;
(e) Promoting entrepreneurship through formal educational institutions; and
(f) Supporting women's entrepreneurship.

Actions: Empower and engage employees for an expert and productive SME workforce. Institute strong governance principles, and develop, implement, and evolve modern management and corporate governance. Embed a culture of business ethics, ESG practices, diversity and inclusion, transparency, result, and merit driven orientation, and highly skilled, teamworking, and self-motivated professionals at all levels.

<u>Ensure Effective Performance Management</u>: how an employee's work contributes to the strategic goals. Employee engagement is incorporated into the performance plans of all executives, managers, and supervisors.

<u>Leverage training and employee development opportunities</u>: employees to work with their supervisors on individual development plans to employee growth and development, solidified through required training for supervisors on best practices to enhance the connection employees have to their mission and responsibilities. Provide support for continual learning.

<u>Foster collaboration between managers and employees</u>: effective collaboration between managers and employees through multi-directional communication and information sharing. Implement creative mechanisms to celebrate employee achievements and innovation in mission delivery through performance tracking and strategies for public recognition.

Empower and engage the youth, supported by the greater EU initiative of (i) bridging the gap between the labor market and the education sector; (ii) increasing support for the employability of youth and for youth entrepreneurship; (iii) activating labor market measures, such as the Youth Guarantee, to be adapted to the EaP countries' labor markets; and (iv) building on a pilot young EaP civil servants job-shadowing scheme, setting up a mobility and exchange program for the EaP directed at young professionals. The Erasmus+ program, as a key component of EU support to the modernisation and internationalisation of education and training systems, will provide greater mobility and capacity building opportunities in formal and non-formal education. Participation in the European Solidarity Corps will allow young people to volunteer or work in projects that benefit communities and people around Europe.

11. Develop country-wide labor market and training needs analysis

The EU could support the EaP countries in performing regular country-wide labor market analyses to better understand wine businesses' demand for skills, identify skills shortages in the domestic wine economy and anticipate future developments at both the regional and country level. In parallel, a framework for training needs analysis could also be set up to assess SMEs' current training needs in the wine sector.

12. Strengthen SME/stakeholder participation in developing and implementing VET policies

The EaP vocational education and training (VET) system needs to be strengthened through greater participation by SME wine stakeholders. This would improve the relevance of VET programs for the wine labor market. This could be achieved through stronger involvement of wine sector SMEs in the design of curricula (e.g., via regional chambers of commerce and industry) and the definition of minimal standards for the technical infrastructure of VET schools, as well as through strengthened participation of SMEs in the wine sector in sectoral committees to be consulted for regional and country-wide VET policies. Practical cooperation between the education system and the SME wine sector could also be strengthened, for example by designing internship schemes between schoolsand SMEs to provide VET students with practical business experience and to promote workplace learning in the wine realm. The quality of VET needs to be enhanced to improve its attractiveness as an educational option for prospective viticulture/viniculture students. Building the capacity of teachers at VET institutions would be imperative. Involving wine professionals and SME wine entrepreneurs in the teaching body of VET schools would also be imperative. The development of professional sommeliers, enologists, wine industry workforce, and wine industry business experts, is critical to sustain and enhance the EaP SME Wine Sector and increase SME wine exports and international positioning.

13. Improve the quality of corporate governance

Having a clear corporate purpose, that will naturally enhance SMEs' commitments around ESG, is part of the current corporate fabric. A Purpose meaningful at the company level, reinforces the culture and allows everyone to celebrate the great things they can do, which is also highly motivating during a crisis (like the ongoing pandemic). Build high-performing, forward-looking Boards of Directors, which will be able to oversee the implementation of the Purpose. Moreover:

- To define the role of the Board in fostering company resilience including crisis and investor management;
- TO adapt the Board to the Digital Age -New Challenges for the Board related to the digitization and pressurefrom social demands;
- The cloud can become an important source of strategic advantage for the EaP SMEs -facilitate the SME Board's effective engagement with the cloud;
- To engage the Board on the future of marketing;
- To enable strong risk management function at Board level, aiming at among other, enhancing SMEs' bankability;
- To enhance governance through demonstrating best practice in improving climate corporate governanceand sustainability -ESG will enable transparency as a key element of Governance.

14. Facilitate SME access to non-formal training

The non-formal training system (both technical and business) in the EaP countries could be developed to promote the employability and life-long competitiveness of the workforce. Collect information on SMEs' training needs, map the current supply of non-formal training, ensure the quality of training providers, and increase awareness of non-formal learning options through networking events. The EU in conjunction with the EaP governments could also consider providing financial support to improve SMEs' access to lifelong learning options and non-formal training, such as vouchers or matching grants for SMEs taking part in accredited training.

15. Promote entrepreneurship through formal educational institutions

Building a culture of entrepreneurship would help foster business creation in the EaP wine sector. Formal educational institutions could play a key role in building awareness about the benefits of entrepreneurship among young people, thus addressing the pool of potential future entrepreneurs. Self-employment as a career option could be promoted through the formal education system. The EU in conjunction with the EaP governments could (a) institute mandatory entrepreneurship modules for all VET programs, secondary and higher education institutions across the EaP; and (b) consider matching entrepreneurial education with financial support for student-led ventures. One possibility would be to create and/or scale-up to the national level pilot business competitions in co-operation with selected VET schools.

16. Support women's entrepreneurship

Particular attention should be given to gender equality issues and the promotion of women in the wine business. Considering the scarce presence of women among wine entrepreneurs, more targeted policies and SME incentives are necessary to develop the potential of women as early-stage entrepreneurs across the EaP wine economy. The EU in conjunction with the EaP governments could consider putting in place gender-sensitive and SME targeted wine entrepreneurship training through formal as well as non-formal education channels.

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Facilitate expert seminars, study courses, and academic degrees with a lifelong learning context, for:
  - business skills pertaining to management, international marketing and e-marketing, finance, sales, and digital technologies/applications;
  - viticulture technologies and methods (including local grape varietals management) -e.g., wine and oak interaction, and techniques for enhancing the organoleptic qualities of wine through contact with oak;
  - technical skills pertaining to the sommelier and enologist trades;
- ✔ Develop Board of Directors expert oversight / advisory programs;
- ✔ Facilitate internationally recognized wine certifications and accreditations -e.g., with the Wine & Spirit Education Trust (WSET);
- ✔ Develop links to EU expert stakeholders for incubating training programs, hands-on work assignments and short projects, internships, exchange programs, etc.;
- ✔ Structure wine tourism applications and implementation.

8.4.5 LIMITED INNOVATION ACTIVITIES AND LOW R&D EXPENDITURE

Finding: Inadequate diffusion, transparency and adoption of research and innovation. SMEs in the EaP invest less in R&D and introduce fewer innovations than their EU peers. Important issues that limit innovation by SMEs across all EaP countries are:

- Weak environment for innovation including (i) obstacles in the legal framework for R&D and innovation activities, (ii) inability of public universities and research institutes to commercialize their inventions, and (iii) few innovation components in demand-side policies (e.g., public procurement);
- Limited collaboration between industry and academia, with no structured networks for involving universities and SMEs in joint research projects (e.g., grape cultivation and environment related), and lack of technology transfer offices at universities to realize commercial possibilities of university-based R&D results;
- Lack of financial instruments to facilitate innovation in SMEs, and lack of targeted support to innovative SMEs.

Solution: The EU can assist the eligible SMEs innovate across a vertically integrated operational model by:

(a) Supporting key operational breakthroughs aligned with EU and international developments;
(b) Supporting the amendment of the legal framework for innovation at State level;
(c) Fostering collaboration between the wine industry and academia;
(d) Providing targeted financial support to SMEs for innovative activities; and
(e) Building a start-up innovation ecosystem.

Recommendation: Increase efforts to increase vineyard productivity and consistent quality through investing in innovative R&D for precision farming, soil research and measures to adapt to climate change. Encourage deployment of research and innovation through promoting collaboration between research institutions (academia) and industry (e.g., through pilot schemes, demonstrations, and benchmarking) in a transparent way. Encourage the development of measures to promote targeted research and knowledge exchange to significantly widen understanding of emerging aspects of the EaP wine economy including the interaction with the international markets, in particular through new and novel technologies. Establish a long-term research and innovation agenda to support the development of new, ecofriendly processes, wines, and services.

Actions: Research, innovation and know-how transfer are crucial for creating sustainable jobs, and for the modernization of agriculture, a vital sector for a large part of the population in the EaP. The EU will continue to support and strengthen the smart specialisation, technology transfer and innovative capacities of the EaP (partner) countries as well as their increased participation in EU programs such as Horizon Europe and COSME. EaP national public research and innovation systems need to improve in performance and competitiveness, including by continuing reforms to, among other, attract investors to innovative SMEs in the wine sector.

Monitor each stage of the production cycle of every vintage: pre-harvest vineyard operations, grape collection, primary processing, fermentation and secondary processing, treatment, and wine stabilisation. Today, technology is enabling the wine business more and more. The EU should support the EaP countries and their wineries interested in positioning themselves in the long-term, by taking advantage of AI and AR in production and marketing, IOT-connected packaging, e-commerce, innovation in retail, smartphone evolution, and other. <u>Innovation is a key differentiating factor</u>. Natural wines, wine in cans for on-the-go consumption, AI and other technology enabled production, QR codes and blockchain for product tracing, information, and authentication, are examples of innovation. Online wine sales in Western Europe account for more than 4% of total wine sales; D2C distribution and B2C are growing faster than traditional channels. Innovation is imperative for the EaP countries and their eligible SMEs to compete against bigger and richer wine houses and nations, contributes to claiming higher price points, and enables sustainability. The EaP countries need to foster innovation by providing incentives, attracting expertise and private capital, and forming strategic alliances.

17. Strengthen the management and prospects of SMEs in the EaP Wine Sector through Technology and Innovation aligned with EU and international developments

Such efforts shall enable both the development of the EaP domestic wine markets and the EaP SMEs internationalisation. In specific:

<u>Personalised Marketing</u>: Utilize e-marketing capabilities, as well as new technologies such as AI, new material, etc., along with changing consumer habits, to personalise offerings according to consumer type, as well as private preferences.
<u>QR Codes</u>: Today, companies are using QR codes to facilitate mobile payments, and streamline the checkout process. Further important facts and considerations:

- QR codes are even becoming an integral part of the connected store. Amazon's cashier-less retail store Amazon Go identifies customers by having them scan QR codes as they walk in;
- Coupons redeemed via QR codes on mobile phones will increase to 5.3 billion by 2022, up from ~1.3 billion in 2017 = expected growth and use among consumers going forward;

- QR codes will be used as part of the wine bottle label, and if combined with blockchain, they will offer traceability and authentication information as well.

D2C Distribution: Direct sales from the winery to consumer. This distribution model has seen significant success cases in the wine industry and should be explored in the Ecosystem.

Augmented Business Intelligence: Artificial intelligence algorithms are now trained to find, visualise, and present relevant data to drive greater business insight. Further important facts and considerations:

- Improve operations and enhance a user's product experience;
- Ask questions related to high-level metrics or team-level performance. Then, AI will be used to find the relevant data, package it together, and present it in the most meaningful way;
- And since AI models learn over time, they can also provide unprompted, but relevant, updates that may help to inform further business decisions. In short, AI will be able to figure out what type of information is most valuable to the business, how it should be presented, and when;
- Example: Microsoft has implemented machine learning technology into its CRM and ERP solution, Dynamics 365, in an effort to help customers predict future business outcomes.

Last mile Delivery: Allows companies to leverage existing physical real estate to support growing e-commerce businesses, unifying physical and digital operations. Moreover, physical stores are often located closer to customers than traditional fulfillment centers, making last-mile delivery less expensive.

Environmental Sustainability: Initiatives to support environment and consumer involvement and help the company's bottom line. As one of the EU's main priorities for the future is to deliver under the European Green Deal, notably to become the world's first climate-neutral continent, the EaP countries are encouraged to identify R&I priorities linked to climate change mitigation and adaptation, and build new innovative and sustainable value chains.

Drop Shipping: If a supplier/SME wine producer is capable of drop shipping, then they can fulfill the retailer's orders and deliver directly to consumers.

Pop-up stores: Experiment with new types of products, technologies, and services, while also acting as a tool for branding. Further important facts and considerations:

- Short-term retail spaces testing new products, branding campaigns, in-store technologies, and store layouts –without financial risk of longer-term real estate;
- Example: Alibaba opened 60 pop-up stores for Singles Day 2017 through its online marketplace Tmall. The pop-up stores integrated augmented reality technology to power "magic mirrors," which allowed customers to virtually try on clothes;
- US: major retailers and internet giants have been partnering to launch physical pop-up spaces. Amazon and Calvin Klein teamed up in October 2018 to launch a digitally-driven pop-up experience in New York City. Facebook began selling items featured on Instagram at Macy's department stores in the retailer's pop-up corner dubbed "The Market" in November 2018

Wellness-focused Branding: A brand can take advantage of the wellness trend by emphasizing transparency, natural ingredients, and the mental and physical benefits of its wines. Further important facts and considerations, and factors driving growth in wellness:

- Modern-day "wellness" refers to holistic healthy living characterized by physical, mental, social, and spiritual well-being;
- Healthy lifestyles and intensive fitness routines became the new status symbols following the 2008 recession;
- People are also trying to take more control over their own health;
- Through social media, brands and influencers can also turn "wellness" into aspirational lifestyles. Companies can do everything from changing their products' ingredients (like reducing sugar) to emphasizing mental health benefits. Retailers also hop on the wellness trend, opening new distribution channels for wellness-focused F&B brands.

18. The legal framework for innovation

The EaP countries' legal framework for innovation could be amended to facilitate the commercialisation of university-based research and innovation among SMEs. In particular, public universities and research centers should be allowed to own shares in spin-off companies and to commercialise their inventions and intellectual property (IP) rights generated through publicly-funded R&D. Improvements to the regulatory environment could also be made to encourage SMEs to invest in R&D, for example by fostering local competition (i.e., raising SMEs' need for innovation activities) and designing policies to enforce IP rights for SMEs (EC, 2014b). Moreover, the EU could support the EaP governments to assess opportunities to stimulate R&D and innovation among SMEs through dedicated features in their demand-side policies. One example could be the introduction of functional requirements rather than detailed specifications in public procurement tenders, which would encourage suppliers to deliver their contracts in a more efficient and innovative way. Create innovation facilities (e.g., incubators and technology centers such as FabLabs in Georgia, where companies can develop prototypes for their products), an R&D and Innovation Council, and a national innovation strategy.

19. Collaboration between Industry and Academia

Linkages between businesses and universities in the EaP could be encouraged to enhance applied research and SMEs' engagement in innovation activities, as well as the development of a greater innovation environment. Technical audits of EaP research institutes would increase awareness among SMEs of the researchcapacities identified and/or planned. Establish joint research initiatives between SMEs and public research institutes, with the former contributing financial resources and a market-oriented perspective and the latter providing experienced technical staff and research equipment. A cluster-type approach could be promoted, whereby SMEs coordinate their needs for innovation and engage with public research facilities with a shared objective. In this respect, regional chambers of commerce and industry, could also help SMEs find innovation partners. At the same time, the realisation of the commercial possibilities of public institutes' R&D efforts shouldbe promoted. This could be achieved by building a culture of entrepreneurship at universities to promote university-based spin-offs (e.g., by including entrepreneurial features in curricula, or by fostering linkages with SMEs and local start-up networks, incubators, or science parks), as well as by establishing dedicated technology transfer offices at universities to facilitate the transfer of R&D results to innovative SMEs.

20. Financial support to SMEs for innovative activities

Targeted financial instruments could be designed to support innovation by EaP SMEs and start-ups in the wine sector, in a way that meets their specific business needs. Indicatively: voucher schemes to give SMEs access to the public research and education infrastructure (e.g., advice and expertise from university-based experts and participation in certified training programs), grant schemes to cooperate with university-based staff in joint research projects (incl. mini grants to individuals), as well as seed funds for innovative start-ups. Financial support will help early-stage companies in the EaP countries to cover expenditures on equipment and staff when conducting research and transferring the results into a potential product (new technologies) and in the proof-of-concept phase. When providing these types of financial support, synergies with other instruments should be sought to maximize their effectiveness in terms of innovation and entrepreneurial outcomes. For instance, seed funds for start-ups could be combined with vouchers for training in managerial skills, while matched grants for innovation activities could be linked to credit-guarantee schemes on loans obtained from banks by SMEs. The EaP countries Tax Codes should be favorable to innovation and R&D (e.g., deductible research and education expenses -see Georgia)

21. Build a Start-up Innovation System which can harbor start-ups in the EaP Wine Sector

There is a challenge in structuring the ecosystem to provide maximum impact stemming from (any) unique advantages, be it the supply chain, partners, customers, data, and so on. Start-ups can be harbored and/or approached in the context of an R&D partnership, technology transfer, vendor/supplier partnership, as an opportunity to create a joint venture, or as a potential investment. Go-to-market strategy is pivotal, and movement of people (with value adding skills) may prove cornerstone as well. A joint venture may be appropriate in case there are complementary assets and integration can take place smoothly. A common denominator is the speed of closing a transaction. Another one is the basic innovation methodology of testing and learn. What are thestakeholders trying to achieve? What are they bringing to the table? That's the essence of good partnership building. Ultimately though, one must remain focused on bringing a different value proposition to the emerging consumers. This needs to be supported with a more innovative culture, by enabling the people and capabilities in the organisation. In today's increasingly connected world, connective learning is a reality. There is an evolutionary pattern of self-learning with respect to all the hype that's out there in the market, but, really, how do you make it practical in one's own organisations? Companies are searching for high-performing teamsand, how to get the best out of their own people. So today, there's a real desire and need to upskill and help one'steams to be the best they can possibly be. Digital transformation, innovation, venture building, accelerators, incubators, and so on, are part of a start-up ecosystem, and need to be used and/or combined in an efficient andeffective way to both support and enable start-ups. The difference between the growth of a start-up versus an incubated start-up within an incumbent organization is that 80% or more of start-ups fail. As such, it really comes down to the fact that one needs two things -an environment that has the right level of "dynamic equilibrium" and is ready to make that change. Then one has got something that has enough critical mass to make an impact. As such, the readiness of the organisation to create the culture and momentum, to do innovation, to scale innovation, to try to experiment is paramount. And for this, leadership is hugely important. First, one needs a vision and a passion for how one wants to serve one's customers differently or better or to be more relevant to them going forward. And then one needs the courage to actually lead that change, to genuinely lead it. So, what is guiding this culture of innovation? Demonstrating how one wants people to behave and giving them permission to do so, is crucial. One also needs to promote diverse teams, whether they are culturally diverse, gender diverse, or diverse from an age perspective.

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Structure SME – Research Centers joint R&D projects on winemaking, grape cultivation, and indigenous grape varieties for the purpose of transferring know-how to the participating SMEs;
- ✔ Facilitate know-how transfer from EU SMEs and organizations to enable innovative improvements and applications along vertically integrated SME operations;
- ✔ Pilot innovations in vineyard management and grape quality improvement;
- ✔ Facilitate and pilot climate risk mitigation projects;
- ✔ Structure grants leveraging own investments.

8.4.6 WEAK ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES - SUSTAINABILITY

Finding: More companies and investors globally are recognising sustainability as a strategic priority that involves significant business risks and opportunities. SMEs in the EaP wine sector do not have organisational structures that are designed to treat sustainability as a material business issue -a strategic need going far beyond than focusing on investor relations, PR, and corporate social responsibility. There are:

1. Potential conflicts among sustainability objectives to achieve wine production targets and demands on biodiversity and natural resources;
2. Negative environmental impacts from increasing demand for wine not sufficiently taken into account.

Solution: The EU can assist the eligible SMEs enhance and organize their Sustainability performance for success, by:

(a) Empowering EaP SME executives to build sustainability organizations that are well placed and have the capacity to help their companies meet stakeholders' increasing expectations, manage sustainability-related risks, and capture business opportunities;
(b) Facilitating thorough governance structures including but not limited to the Board of Directors as a key element of governance;
(c) Facilitating the creation of dedicated Finance for Sustainability departments and/or developing centralized such functions to start with;
(d) Developing reporting on these non-financial Capitals: Social, Human, Natural, Intangible, and Intellectual -in addition to Financial Capital, to demonstrate the SMEs' contribution to the creation of long-term value for both the company and its stakeholders;
(e) Supporting and developing the disclosure of (i) the SMEs' governance around climate-related risks and opportunities (governance); (ii) the impacts of climate risks and opportunities on the SMEs' business, strategy, and financial planning (strategy); (iii) how the SMEs identify, assess, and manage climate risks (risk management); (iv) the metrics and targets used by the SMEs to assess and manage climate risks and opportunities.

Recommendation 1: Identify drivers and barriers that influence the sustainable development of the EaP SME wine economy, including sustainable finance and SME management and growth considerations. Outline the priorities and trade-offs for enhancing the sustainable performance of the EaP SME wine economy, throughout the supply chain. Undertake studies to establish the extent and location of critical pressures on land use, at local and national levels. Mitigate pressures and potential conflicts on land-use between grape cultivation and wine production and other uses such as real estate, by adopting approaches that increase production efficiently and sustainably; engaging with different actors in the greater EaP wine economy, and expanding international research and technological co-operation.

Recommendation 2: Enhance understanding of the ecological boundaries, the capacity of the environment to replenish itself, and the overall impact on biodiversity, the environment, and trade-offs thereof, through acquiring knowledge on sustainable supply and wine production at the local, national, and regional level. Undertake forward looking and cross-sectoral assessments of sustainable supply and demand, towards determining the Ecosystem Footprint.

Actions: Sustainability is no longer an issue of compliance, but rather a strategic and operational imperative. There is no right structure that applies to every company; each will need a structure of its own and will likely need to adjust this structure as business conditions and requirements change. A well-designed sustainability organisation, can give SMEs the capabilities that they need to capture value and manage risks from sustainability in a systematic and even transformational way. The company executives must lead the way to set up a sustainability organisation that's right for their companies. In particular, certain key issues:

- <u>ESG reporting</u>: helps investors avoid companies that might pose a greater financial risk due to their environmental performance or other social or governmental practices;
- <u>Disclosing and managing ESG-related risks</u>: increasingly correlated with reduced operating costs, and positive impact on company's financial performance;
- Identification of potential risks of lost wine and/or grape production and/or lost value as a result of carbon transition and physical climate impacts;
- Identification of potential opportunities corresponding to possible increases in wine and/or production and/or value, as a result of carbon transition and physical climate impacts including the effective management of the risks;

- Identification of climate action priorities: identify climate action priorities for low-carbon and climate-resilient business development; develop those into specific adoptable corporate polices and/or financeable investment priorities.

In terms of new economic opportunities and competitiveness, the EU will promote the green, circular economy. The EU will support SMEs and business-to-business contacts in this area. **Circular economy** field trips should take place involving SMEs and in close cooperation with EaP governments. Work should include the promotion of sustainable product policies, eco-innovation, extended producer responsibility, other ways to prevent and reduce waste, waste management, and better consumer information.

22. Integrate sustainability into SME corporate strategy

Guide SME owners and senior executives to integrate sustainability into their corporate strategy -they will benefit from having a dedicated organization to support their sustainability efforts.

Sustainability-related decisions should be robust and clearly define when an issue or decision should be processed further internally for EaP's SMEs (e.g., escalated from the business unit to the central sustainability team, should such a corporate structure exist or be implemented). Decision-making processes should also include frequent discussions among stakeholders and fast decision cycles so that cross-functional or high-level topics can be identified and resolved quickly.

Another principle of effective sustainability processes and governance pertains to capital allocation. Sustainability investments often have different risk–return profiles and greater uncertainty than other, more traditional investment types. EaP SMEs must be guided to set aside a separate pool of funds dedicated to sustainability initiatives, define different hurdle rates for sustainability investments, introduce an internal carbon price to account for carbon impact and related risks, and put in place integrated financial and sustainability criteria to facilitate capital-allocation and investment/M&A decisions.

23. Enable Climate-related Financial Disclosures

The eligible SMEs intended to become leading agri-businesses in the EaP's wine sector, should be committed to ensuring transparency and action around climate-related risks and opportunities. The identification, assessment and management of climate-related risks and opportunities to be fully embedded in the SMEs' risk management process, and subject to continuous improvement.

24. Enable monitoring and analysis tools

Transparency enabled by ESG is a key element of governance and as such, of the bankability of the enterprise.

- Develop multi-capital accounting methodologies as a mean to quantify sustainability;
- Pilot valuations of Human Capital;
- Pilot valuations of Natural Capital
- Analyze natural capital costs from both winemaking and viticulture operations using the key indicators of GHG emissions, biodiversity and water use;
- Implement monitoring systems, design and deliver training, and tailor sustainable farm management plans to help farmers improve productivity without expanding land area, tackling physical and transitional risks.

25. Enable SMEs and their executives to organize their sustainability work for successful results

Sustainability and environmental, social, and governance (ESG) issues affect how all companies do business—and increasingly so in recent years. As EaP SMEs will mobilise to respond to increasing sustainability concerns, they will struggle with the differences between sustainability and other business issues in the trade-offs involved, decision-making and governance processes, and even employee and leader mindsets. The EU should enable the EaP SMEs in the wine sector to:

1. Scale up sustainable business practices through a full transformation. To incorporate sustainability in business planning and to empower and motivate the whole organisation to act on these issues, leaders should approach sustainability as they would any other new large-scale change effort. To ensurebuy-in across the organisation, it's important to be clear about which sustainability topics the company will and won't prioritise.
2. Design according to sustainability topics, not sustainability overall. SMEs should define the list of sustainability topics that matter for the organisation, either because they are important to the business or because they are the areas in which the company is uniquely positioned to make a difference.
3. Find the structure that best fits their sustainability agenda and their organisation -i.e., establish a central decision making and implementation center or delegate to business units or third parties (outsourcing in case the company size is too small).
4. Prioritise the design of processes and governance—rather than reporting lines—that account for sustainability's complexity and dynamic nature (incl. still significant uncharted territory).

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Embed Sustainability in the SMEs' corporate strategy, as a prerequisite for the effective management of sustainability and of the company;
- ✔ Employ Life Cycle Assessment methodology to calculate the related environmental impact linked tothe production of their wines, using the indicators most material to their business: Climate Change, Water Depletion and Land Use;
- ✔ Identify priorities, risks and opportunities pertaining to climate impacts;
- ✔ Put a numerical value to the EaP SMEs sustainability efforts -measure ESG results; and
- ✔ Structure and develop reporting on ESG and the non-financial Capitals. Individual activities would be tracked digitally.

8.4.7 WEAK DIGITALISATION AND SLOW DIGITAL TRANSFORMATION OF THE EAP WINESECTOR

Finding: The emergence and adoption of digital technology is slow, as is the associated risks mitigation. Few organizations in the EaP have made sufficient progress in protecting information assets. SMEs in the Wine Sector need to identify and implement key enabling technologies tailored to their growth stage, as well as identify which assets to prioritise for protection.

Solution: The EU can assist the eligible SMEs modernise and consolidate ICT infrastructures and services by enabling IT leadership in each mission area including focusing on data collection and analysis, and risk management. As such:

(a) Strengthen SME strategic IT governance by having a lean C-level structure;
(b) Consolidate end-user services and data center operations, ensuring better back-office structures and lower cybersecurity vulnerabilities;
(c) Enable a strategic approach to data management and introduce data-driven capabilities by implementing executive dashboard solutions including business analytics and reporting;

(d) Improve customer experience by establishing an effective framework to serve customers in-person and online and creating online service portals that are easy to use, include additional self-service capabilities, and integrate data for common customers.

Recommendation: Provide modern, agile, efficient, and easy-to-use technology, spaces, and services, by leveraging technology to streamline communication and use data to identify opportunities for efficiencies. There is an apparent and continuous need for a fully integrated, cost-efficient, and streamlined administrative infrastructure, employee and stakeholder engagement, and best business practices. Focus on dedicated data-driven, enterprise solutions through collaborative governance and human capital management strategies. Correlate sales policies with product design and development with Innovative marketing and e-marketing planning and implementation.

Actions: Modernize ICT Infrastructures and Support Services to improve both, SMEs and customer experience. Establish standards related to industry performance and operational metrics to measure and ensure customer satisfaction and operational effectiveness in the areas of information technology operations, data management, cybersecurity, and procurement. Among other:

Foster self-reliance of the EaP countries and the SMEs to enable their commitment and capacity to respond to the unique opportunities and challenges posed by the digital age.

Improve Data Collection and Utilisation: determine direct effects of programs and the broader outcomes that those activities may be having. As such, use the most up-to-date information to improve and build upon the delivery, effectiveness, and outcomes of the programs. Accurate and relevant data will also enable all partners to meet their goals and objectives more efficiently. Combine knowledge and expertise from across the programmatic, research, and administrative mission areas to identify innovative opportunities to streamline and strengthen data collection, analysis, and dissemination. Where appropriate, connect program level data with results from surveys. Explore also new methods and technologies to more efficiently collect data on the process, output, and outcome indicators for programs and activities, including: integrating databases across agencies; incorporating rapid-response customer surveys; integrating mobile data entry; and utilising satellite and other remote-sensing products.

Reduce the Real Property Footprint: identify properties that offer co-location or consolidation opportunities or disposal.

Enable tools, tactics, and technologies such as inbound marketing (the tactics an SME can use to attract, convert, close and delight visitors to its website, social and blog), internet of behavior (value judgements applied to behavioral events to create a desired state of behavior), and other.

26. Digital infrastructure - Strengthen the management and prospects of SMEs in the EaP Wine Sector through ICT aligned with EU and international developments

Strengthen the security and resilience of digital ecosystems, which increasingly will serve as the foundation of open, accountable, and citizen-responsive governance; inclusive development; and economic growth. Provide opportunities to train the workforce and build digital literacy. Additionally, fostering self-reliance in digital ecosystems means building productive linkages that reach beyond national borders. These cross-border linkages can strengthen the local environment for self-reliance by speeding and spreading innovation; creating access to new markets via digital platforms; and fostering a more secure, trustworthy online environment. Indeed, digital issues often transcend national boundaries. Each EaP country's Journey to self-reliance is linked to a digital ecosystem that is part of a regional or global whole and will benefit from an open, interoperable, secure, and reliable cyberspace. Connectivity and automation, among others, will lower transaction costs and support the new organisational imperatives.

Smartphones and e-commerce: More than 75% of Americans own smartphones, connecting to e-commerce. Retailers like Nike offer services to customers that can only be accessed via retailer's in-house smartphone app.
E-commerce optimised Packaging: As sales move online, companies invest in new packaging that makes shipping more efficient. Further important facts and considerations:

- Packaging is less important for attracting new buyers online;
- But online shoppers still want a good packaging experience incl. for any social media photos;
- Safe shipping and less waste;
- Companies consider taking packaging out of their e-commerce websites.

E-commerce and social media: Distinct activities, with one for socializing and another for purchasing. Further important facts and considerations:

- Not anymore - Social Commerce: the top 500 retailers brought in $6.5B in social commerce revenue in 2017;
- Example: China-based social commerce company Pinduoduo, which launched only in 2015, took only 2 years to reach over 100B RMB in revenue per year. In June 2018, reached 195 million monthly active users. In July 2018, raised $1.6B through a US IPO. Through its e-commerce platform, users can invite friends and contacts to join "shopping teams" to win discounts of up to 90% on certain items. Pinduoduo also integrates with social network WeChat, which has over 1B monthly active users;

IOT-connected packaging: Helps brands gather consumer data and automatically send refills or substitutes when products run out. Further important facts and considerations:

- Smart packages can let companies understand who's using their products — when, how frequently, etc.;
- Smart packages can also benefit shoppers by automatically re-ordering, alerting about spoilage, etc.;
- Example: IoT caps that promise data collection for brands and automatic replenishment for shoppers.

27. Support Services and Data

Improve Support Services: provide solid support services at the enterprise/SME level, including IT, procurement, human resources, and financial operations. Reducing redundancies and focus on ensuring strategic and enterprise approaches, including business centers, to support services, will reduce costs, improve the customer experience, and lead to better data-driven decision making. Consolidate support services and guarantee continuity and sustainability of all programs.

Enhance Internal Data: utilise any internal data by developing administrative dashboards and tracking systems to better understand where efficiencies can be gained in the technology, human resources, area, procurement, and real property spaces. The development of these dashboards and tracking systems will allow for enhanced capacity to collect accurate, reliable, complete, accessible, and consistent data. Through these efforts, it will be possible to conduct effective evaluations of administrative programs and provide owners and executives access to the data necessary to make informed decisions.

28. Digital economy and innovation

The EU will support EaP governments in developing digital innovations and technology programs for SMEs in the Wine Sector. In particular, it will assist start-ups and SMEs to improve their access to finance, better reach to EU markets, and strengthen links with EU innovation ecosystems. The EU will cooperate with EaP countries to boost their uptake to enable innovative start-ups and SMEs in the wine sector and facilitate business cooperation across borders. The EU will further support the EaP countries to address the digital skills gap with particular focus on gender equality and social inclusiveness.

29. Cyber resilience

The EU will support and assist the cyber resilience of the EaP SME wine sector within its greater support to the EaP countries, based on EU legislation and best practices, including the EU's cybersecurity certification framework. Companies are moving to a risk-based cybersecurity stance. The approach recognizes that not all assets are created equal, nor can they be equally protected in today's all-encompassing digital environment. Some assets are extraordinary—of critical importance to a company and its business. If a company's customer interface is not secure, the risk can be great. Safeguarding such assets is the heart of an effective strategy to protect against cyberthreats. EaP SMEs in the wine sector can only move to this advanced position if they already have in place the underlying capabilities needed to ensure digital stability and customer trust. Furthermore, as they develop and improve these capabilities, their guiding objective becomes the demonstrable and quantifiablereduction of enterprise risk. These capabilities can be grouped into seven action areas:

i. Prioritise information assets and related risks: Asset and risk prioritisation /Risk appetite and thresholds / Strategy and road map

ii. Enlist frontline personnel: Awareness, training, and risk culture/Employee and contractor security/ Talent recruitment and development

iii. Integrate cyber-resilience into enterprise-wide processes: Product security/Vendor and other third-party management/Risk reporting and metrics/Organisation structure/roles

iv. Develop integrated incidence response: Security-incidence response including simulations and realistic testing/Business continuity planning and disaster-recovery IT resilience

v. Integrate security into technology environments: Policy and standards/Assessment and diagnostics/ Compliance and audit/Program and project management

vi. Provide layers of protection for most important assets: Asset configuration and patch management/ Cloud security/Network security/Secure architecture/End point and mobile security/Messaging and email security/Physical security/Identity and access management/Infrastructure security/Secure application and systems development/Data security/IT security management

vii. Deploy active defenses: Cyber intelligence and vulnerability awareness / Monitoring and analytics

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Update ERP and CRM systems;
- ✔ Deploy e-marketing and measurable customer related KPIs;
- ✔ Build e-commerce platforms with meaningful logistics support for trade with the EU;
- ✔ Prioritize information assets and related risks; integrate security in the company's technology environment.

8.4.8 WEAK SME INSTITUTIONAL AND OPERATIONAL ENVIRONMENT

Finding: In developing and evolving the EaP SME wine economy, there seems to be absence of a regional consensus on the definition of the concept, objectives, and strategy for the EaP wine economy. Among other:

1. It seems that the emergence of the EaP SME wine economy may distort other sectors
2. There is limited public awareness of the nature and implications of the wine economy, and engagement with SME stakeholders in the EaP

Certain progress has been made in improving the operational environment for SMEs and the institutional framework for SME policy in certain of the EaP countries -e.g., the extension of e-government services for businesses and the establishment of dedicated agencies for SME support (e.g., Enterprise Georgia). Obstacles remain to improve policy making including the SMEs in the wine sector, as follows:

- Ad hoc co-ordination of SME policy and public-private consultation. This limits effective policy implementation, and hinders the SME sector from regular participation in policy making;
- Lack of formal regulatory impact assessment (RIA) mechanisms for business-related legislation, which means policy makers cannot fully mitigate the consequences of new laws that may affect SMEs;
- Limited data collection on SMEs. Data are limited to basic structural business statistics, which hinders the ability to monitor and evaluate the impact of SME support policies;
- Absence of coherent definition of SMEs. In addition, different thresholds for turnover and employment undermine consistency across data collection and policy making.

Solution: The EU can assist the eligible SMEs contribute to the institutional and operational environment for the EaP Wine Sector as follows:

(a) Create formal coordination mechanisms for SME policy amongst policy stakeholders;
(b) Conduct regular SME-specific regulatory impact assessment; and
(c) Improve SME statistics collection and dissemination.

Recommendation: Assess the costs and benefits of implementing the EaP SME wine economy and related policies in an integrated and comprehensive manner, including through reform of institutional and governance structures. Adopt holistic and transparent horizontal approaches and policies for consumer trust-building. Explore ways to enhance greater awareness of the wine economy in the EaP, its products and technologies: through knowledge transfer of best practices; utilising advisory services; developing sustainable business models with respect to (a) the SMEs horizontally and (b) tangent industries such as tourism, vertically; strengthening public procurement; using consumer awareness campaigns; and implementing wine labelling initiatives, such as the QR code. Provide the general public with knowledge-based information regarding: key objectives; costs and benefits; and the challenges, opportunities and trade-offs in advancing the wine economy in the EaP to contribute to the sustainability of the SME spectrum and the agri-food system. Include the full range of stakeholders from SMEs, industry, EU, national and local government, research institutions and civil society in the discussion, dialogue, and development of an EaP SME wine economy strategy, through the establishment of social dialogue platforms.

Actions: The EU should support better assessment of the effectiveness of SME policies in the EaP wine sector. SMEs should be recognised as microenterprises constituting a specific sub-section of the economy. A coherent SME definition would ensure consistency between policy making and statistics collection. It is important to ensure that the same target groups identified by SME support measures are also reflected in the collection of business statistics. The SME definition should also be aligned with the EU definition to allow for benchmarking EaP SME performance with OECD and EU countries. Along these lines:

30. Create formal coordination mechanisms for SME policy among policy stakeholders

The EU should ensure that SMEs' perspectives are considered when developing business-related regulations for the EaP wine sector, thus improving stability and predictability of regulations over time. Public- private consultations (PPC) on SME-related policies could also be strengthened to strike the right balance among the needs of all relevant stakeholders. Public-private consultation mechanisms could give the wine sector the opportunity to comment on business-related legislation, provide their own suggestions for draft laws and measures, and call for meetings with the government when appropriate. Mechanisms for public-private consultations could include the establishment of representative SME business panels with clearly defined principles of participation. Moreover, strong, and well performing business associations are critical to ensure the health of the entire ecosystem of small winemakers including providing more transparency and accountability to their members (e.g., ASW in Moldova).

31. Conduct regular SME-specific regulatory impact assessment

Assist with a formal regulatory impact assessment (RIA) mechanism for business-related legislation affecting SMEs. The RIA system could formally recognize the importance of the wine (sub)sector, also mainstreaming the EU's "Think Small First" principle into all business-related legislation. This would help to formalise business activities in the greater EaP's wine sector, by gradually removing the regulatory hurdles that are discouraging SMEs from formalising.

32. Improve SME statistics collection and dissemination

The EU could support the EaP broaden and deepen the production of SME statistics to build a more accurate picture of the wine sector's performance and further base policy making on quantitative evidence. This would entail expanding the current basic structural business statistics to include more refined data on export performance (e.g., SMEs' share of export) and innovation (e.g., expenditure on R&D, technology absorption). The collection of meaningful data should be enabled with technology and would demand structured involvement of the entrepreneurs.

Intermediate Results: Enabling eligible SMEs to meet the following Critical Success Factors:

- ✔ Catalogue all winemaking activity by collecting current and comprehensive data per company -all companies involved with viticulture and/or winemaking. Data should include business and cultivation information (Questionnaire 2 herein may serve as a template);
- ✔ Analyze the collected data and put mechanisms in place to forecast, simulate, and collect future data in real time;
- ✔ Periodic regulatory impact assessment -identify and follow KPIs

ANNEX I: GUIDING PRACTICES

Adopt a more strategic approach to the development of SMEs in the EaP's wine sector by identifying strategic directions and objectives for future development. Since 1998, Partnership and Cooperation Agreements have been providing comprehensive frameworks for cooperation between the EU and the EaP in various areas of reform. Association Agreements (AAs), including a Deep and Comprehensive Free Trade Area (DCFTA) were signed in June 2014 by Georgia, Moldova, and Ukraine. Since then, the EBRD set up and implemented a DCFTA program (under the brand EU4BUSINESS EBRD Credit Line) since 2016 to assist businesses in Georgia, Moldova, and Ukraine in the context of the ratification by these countries of DCFTA. At the same time, it has become clear to the EU that extending the support to SMEs developed through the DCFTA program to other EaP countries - namely Armenia, Azerbaijan, and Belarus – would be appropriate to pursue.

During the last decade, EU-EaP trade has nearly doubled, turning the EaP partner countries into the EU's 10th largest trading partner. The EU is the first trading block for four EaP partner countries (Azerbaijan, Georgia, Moldova, and Ukraine), while for Armenia and Belarus the EU is the second biggest trading partner. These trade relations have also led to diversification in exports of goods from partner countries, and to their better integration in global value chains. Furthermore, the number of companies exporting to the EU from Georgia has increased by 46%, from Moldova by 48% and from Ukraine by 24%.

During the last decade, over 125,000 SMEs directly benefited from EU funding (mostly in local currencies) creating or sustaining more than 250,000 jobs. Better use of blending and guarantees has maximized the impact, leveraging €11 billion in investment since 2009.

The following provides a supporting environment to the above and are presented herein:

- Provide all EaP and EU people access to good and fair wine, projecting culture and educationinherent in wine, within safe, nutritious, and secure food supply;
- Democratise wine trade by developing and enforcing policies to address trade barriers;
- Ensure productive and sustainable use of EaP's natural resources within the optimum ecosystem footprint;
- Facilitate prosperity and economic development in the entire ecosystem;
- Ensure EU and EaP countries' programs converge and are delivered efficiently, effectively with integrity and customer focus;
- Strengthen land management and viticulture through technology and research – The ecosystem footprint;
- Support and ensure EaP countries' foreign promotion agencies operate efficiently and effectively;
- Factor in climate change.

On 25 March 2021, the European Commission published the EU Organic Action Plan for 2021-2030. As part of the Farm to Fork Strategy, the Action Plan aims to increase organic agriculture in the EU and to have at least 25% of the EU's agricultural land under organic farming by 2030. To reach this objective, the EC wants to boost consumption of organic food in the EU and stimulate conversion to organic farming. This Action Plan also aims to increase the contribution of organic farming to the sustainability of the European agriculture sector. Success of the Action Plan will depend on implementation at member state level and how they encourage increased production and promotion of organic products as well as consumer willingness to buy organic.

On 2 July 2021, the European Commission and the EU High Representative for Foreign Affairs and Security Policy outlined a proposal on how to take forward priorities for cooperation with the EaP in the years to come. This agenda is based on the five long-term objectives, with resilience at its core, as defined for the future of the EaP in March 2020. It will be underpinned by a €2.3 billion Economic and Investment plan in grants, blending and guarantees, with a potential to mobilise up to €17 billion in public and private investments. This proposal will contribute to the discussions on the future Eastern Partnership policy including at the Eastern Partnership summit planned for December 2021.

On 5 July 2021, the European Commission and agri-food industry stakeholders launched the European Union's Code of Conduct on Responsible Food Business and Marketing Practices as part of the EU Farm to Fork Strategy (F2F). The Code is presented by the EC as an essential part of the EU's efforts to increase the availability and affordability of healthy and sustainable food options that help reduce the EU'soverall environmental footprint. The voluntary code aims to push the agri-food industry into accelerating their contribution to a sustainable transition.

Guiding Practice 1
Institutional, Private Markets and Individual Role: Provide All EaP and EU People Access to Good and Fair Wine, projecting Culture and Education inherent in Wine, within a Safe, Nutritious, and Secure Food Supply

Wine is directly related to food communities and biodiversity, and as such possesses inherent cultural elements. States and private entities should educate consumers on how to drink wine, as well as on how has wine contributed to and still promotes culture and critical issues, such as environmental sustainability. By doing so, a wider peripheral ecosystem can be created encompassing health and tourism among others.

Guiding Practice 2
Institutional Role: Democratize the wine trade by developing and enforcing policies to address trade barriers

- Addressing and eliminating unnecessary trade barriers for wine will liberalise the wine trade and contribute to the sector's international positioning;
- Monitor key trading partner markets to ensure fair and open trade opportunities for EaP wines. Intercede as necessary and possible towards preventing foreign governments from adopting adverse trade policies;
- Institute trade agreements with existing and new trading partners to establish and secure EaP countries' international positioning. Effective trade policy leads to increased trade.

Pursue fair and open markets by advocating for, and contributing to developing, and enforcing trade- promoting and evidence-based policies intended to address trade barriers. Pursue these policies through trade agreements, partnerships, bilateral engagements, and engagement in international fora. To partner with government agencies and trade associations, as well as regional and international organisations, to increase market access and transparency by participating in international negotiations and encouraging the establishment of factual standards that facilitate global trade. The recent WTO Trade Facilitation Agreement of 2017 is a good reference, as it aims to simplify and clarify international import and export procedures, customs formalities, and transit requirements making trade-related administration easier and less costly.

<u>To engage with international institutions and member countries to continuously strengthen the institutional trading system</u>: Advocate for the development and adoption of factual and science-driven standards and policies by contributing to raising global awareness of scientific methods and evidence. Support the development of science-driven standards through involvement in international fora and bilateral engagements. Encourage adherence and transparency to the international, institutional trading system through constant monitoring and participation in international fora and bilateral engagements.

- (Strategy) Coordinate with international bodies and fora, such as the Codex Alimentarius Commission, the International Plant Protection Convention (IPPC), the Food and Agriculture Organization of the United Nations (FAO), and Asia-Pacific Economic Cooperation (APEC), among others, as well as enter direct, bilateral engagements.
- (Evidence Building) Review new legislation and regulations brought forward by trading partners, advocate at Institutional meetings, meet bilaterally to encourage trading partners to be transparent about their domestic policies and to adhere to their institutional and bilateral commitments. Establish international offices to coordinate, educate, and encourage institutional and private trading partners to become more involved and support fact-driven decisions.

Prevent and mitigate adverse effects for the sector from foreign country policy decisions: Monitor foreign country trade policy proposals and practices and mobilise resources to avoid the establishment of restrictive regulations on EaP wine exports. Monitor and anticipate possible trade issues to prevent foreign governments from adopting policies that pose potential barriers to EaP wine trade through on-the-ground engagement and consistent market analysis. Engage internationally with international organisations to advance policies that support open markets, consistent with EU trade policy objectives, through partners bilaterally and in groups of aligned partners.

- (Strategy) Cultivate bilateral and regional relationships to build coalitions with like-minded countries to avoid potential trade barriers and, further, use technical assistance, training, and exchanges to enable trading partners become more familiar and gain access to EaP wine exports, through compliance with internationally recognised standards.
- (Evidence Building) To build a system for tracking wine regulations, notifying the wine industry and other stakeholders on time. Participate at Institutional meetings and mobilise international offices to engage daily with counterparts bilaterally and with current and future trading partners.

Negotiate and implement trade agreements to maintain or expand markets: Support trade liberalisation and free and open markets, through the negotiation of bilateral, plurilateral, and multilateral trade agreements, favorable to the EaP. Identify foreign measures inconsistent with trade agreements that are already in place. Take appropriate action against countries in violation of trade agreements. Monitor derogations from trade agreements for actions ranging from technical engagement all the way to formal dispute settlement.

- (Strategy) Monitor compliance through formal and informal mechanisms, supporting the use of enforcement actions, as necessary.
- (Evidence Building) Consistently track new trade elements and communicate with the wine industry and other stakeholders to determine whether those elements align with a trading partner’s commitments. Research, gather evidence, and propose solutions.

Guiding Practice 3

Institutional Role: Ensure Productive and Sustainable Use of EaP Natural Resources within the Optimum Ecosystem Footprint

- More people will visit national areas as customer service and facilities improve, increasing in this way the economic contribution to local communities, and providing business and other synergies for the sector.
- Improve the condition of national areas and support the growth and development of healthy ecosystems and vibrant, resilient communities. By focusing restoration efforts on maintaining functional ecosystems, protecting water quality and increasing the capacity to sustain local communities. Long-term conservation enhances the land’s natural functions.

The strategy would have to be aligned with climate and environment related concerns, the EU Green Deal, and others. To research about the cultivations’ carbon footprint, application of RES, utilisation of the water resources etc., is of the utmost importance in order to establish a sustainable wine production, as well as a competitive advantage. Natural resources provide clean air and water, products, mineral and energy resources, jobs, quality habitat, and recreational opportunities, allowing local communities to access and benefit from respective economic opportunities.

Agricultural production in the developed world depends heavily on high inputs of fuel, water, and agro- chemicals yielding products of high carbon footprint. Mitigation of the impacts of agriculture on climate change, a prominent international goal, requires drastic reductions of GHG emissions to limit the increase in temperature well below 2oC at the end of the century, as outlined in the recent Paris Agreement. The ambitious EU "Roadmap 2050" aims at reducing emissions up to 80-95% by 2050. Succeeding in the new policy environment requires the streamlining of methods and techniques for the accurate quantification and reduction of GHG emissions from agricultural systems. Agricultural emissions in the EU reach 470.6 MT of CO2- equiv. per year, representing one tenth of the total emissions. The EU leads the world in wine production at 21.3 billion bottles per year, with vineyards covering more than 3 million ha. Production of abottle of wine emits an average of 1.85 kg CO2-equiv., and annual emissions from the sector reach close to 40 MT CO2-equiv. Viticulture contributes about 30% to the PCF for wine or close to 12 MT of CO2-equiv. per year.

Contribute to the Economic Health of Local Communities through use and access of opportunities – Tangent Business Opportunities: Provide for people who live in and around national areas and helping these communities thrive economically. Land management activities can influence local economies and enable economic recovery and growth on multiple fronts.

- (Strategy) Improve Customer Experience: maintain local cultures and traditions, connecting people to the land, and contributing to quality of life.
- (Strategy) Streamline Permitting Process: improve accessibility and customer service, including piloting an online permitting system to expedite permit processing and expanding the suite of available recreation opportunities. This could encourage new businesses to support these outdoor activities, which could drive rural economic growth.
- (Strategy) Increase Recreational Opportunities: mitigate risks from being reliant on one season, provide more ways for an increasingly urbanised and demographically diverse population to connect with nature and help the communities become more economically resilient.
- (Strategy) Streamline Environmental Analysis and Decision-Making Processes: will restore ecosystem function, deliver dependable energy, and provide jobs and economic benefits for local communities.
- (Evidence Building) Socio-economic research helps understand the contribution of national areas to community well-being and local revitalisation and helps assess community needs and expectations. There are three key research areas: (a) traditional and emerging economic opportunities that may reinvigorate local communities while ensuring environmentalsustainability, (b) create, sustain, and monitor effective collaborative processes and partnerships that engage local community members in planning and management efforts. Building local community capacity to access and participate in these processes, and shape their future, is central to developing partnerships that support profitability of resource-based livelihoods and environmental sustainability, and (c) developing meaningful ways to measure public benefits. These indicators also help calculate the return on public funds invested in research for better management and partnerships.

To ensure that lands and watersheds are sustainable, healthy, and productive: Improve conditions to make lands healthier and more resilient to extreme events, to be responsive to public needs, and ensure that lands and watersheds are sustainable, healthy, and productive.

- (Strategy) Increase partnerships: landscape-scale restoration objectives that achieve multiple restoration goals at once and collaborating with partners to address the large-scale landscape restoration needs, address unexpected challenges, conduct larger projects, and leverage resources.
- (Strategy) Modernise policies and practices: streamlining environmental review and decision- making processes to be more effective and efficient.
- (Evidence Building) Evaluate "best management practices" to determine their effectiveness in reducing impacts to water quality while threat assessment centers monitor the outbreaks and spread of insects and diseases. Utilise multiple strategies and decision tools to characterise current ecological conditions, monitor ecological trends over time, evaluate the effectiveness of restoration efforts, and measure success amidst changing environmental conditions. These tools would help stakeholders and managers to incorporate climate science into the real world natural resource management and conservation projects and address the ecological, social, and economic demands on the landscape. Research how

international competition, global economic development, and changing economic and societal values define and impact emerging technologies, products, and markets.

- (Human Capital Management) To use quantitative and qualitative analysis to support and develop the workforce. Workforce demographics, hiring trends, attrition, and retirement influence human capital strategies and actions. Streamlined human resource process-improvement strategies will enable stakeholders to fill mission-critical positions. Engaging with State and local partners provides opportunities for recruitment of new talent and allows to share knowledge and expertise. Revamping and strengthening existing educational programs will help increase interest in mission- critical career fields.

Guiding Practice 4
Institutional and Private Markets Role: Facilitate Prosperity and Economic Development in the Entire Ecosystem

- The primary outcome is enhanced economic prosperity, supported by solid infrastructures. Fund the most effective infrastructure investments, to promote the sustainable growth and diversification of local economies, as well as their increased capacity to participate successfully in regional, national, and global economies.

SMEs, especially in small countries, contribute significantly to the economic fabric of the country. As long as they are given the resources, they have the potential to innovate in order to compete. The wine sector has not seen great merger activity yet and is based to a great extent on small scale operations, family businesses, tradition, and terroir. Establishing cooperation among the wineries, while maintaining individual characteristics, will be important for brand building and the ecosystems' sustainability. This can also be tied to widespread corporate social responsibility policies and actions.

Enable and finance investments in utilities, housing, and businesses at community level, so that local communities share the same level of infrastructure services as the urban areas. Utilise economic and social science research to inform decision-makers on current trends and gaps in existing markets. Leverage funds, stimulate private-public partnerships, and engage in collaboration to build infrastructures including: internet, community facilities, safe and affordable housing, health services and facilities, and provide capacity building to help wine communities.

<u>Enable business and social opportunity with access to capital; improved infrastructures, internet access, and connectivity; and support for workforce availability</u>: Facilitate prosperity and economic developmentby financing investments in utilities, housing, and business. Building and modernising infrastructures will be a critical pillar of the EU efforts to create jobs and increase the EaP's productivity within the sector. Communities that do not invest in critical infrastructure upgrades risk losing their ability to provide clean, safe, and reliable water; electric, internet, health, other community services; and business growth. A strategic economic development approach will be required for these communities to become economic hubs of the future economy. Continued investment will be required to close infrastructure gaps and connect businesses to nationwide and international commerce. Such investments expand the private sector's access to markets while enhancing opportunity for SMEs. Investments including infrastructure investments strengthen the job market by making workforce participation more accessible through improved access to transportation, education, health care, internet, and other services essential to maintaining a solid commercial environment and labor force. Engage local leaders, business partnerships, as well as local and central governments to facilitate self-driven efforts to improve quality of life and economic prosperity. These investments can also address needs of an aging population. Building infrastructures creates jobs as well as increases long-term aggregate demand within a community. EU and EaP will improve the customer experience, by modernizing technology and tools, as well as developing system-wide outcomes-driven management structures to ensure optimal impact of their resources.

- (Strategy) To update infrastructures, improve business opportunities, and enhance the quality of life.

Internet Infrastructure: work with private and public-sector partners, design and implement an integrated role for stakeholders in strategies to facilitate access for all to modern data connectivity. A connected EaP enables global commerce for SMEs, precision production, just-intime production, efficient transportation, and multiple other productivity benefits. A connected EaP also ensures modern education, remote training for workforce development, and cost-efficient and effective healthcare.

- (Strategy) Community Infrastructure: facilitate and leverage direct investment in the community and commercial infrastructures that would support local economies. Investment in local human-services transportation, utilities, and commercial infrastructure addresses primary business needs, fosters entrepreneurship, attracts corporate investment, and reduces unemployment. Much-needed investments in high-speed internet connectivity for schools and libraries, healthcare, and wellness facilities, as well as power, telecommunications, water, and waste management systems will be prioritized and measured for outcomes.
- (Strategy) Housing Infrastructure: increased workforce often requires increased support for housing infrastructure, helping citizens build equity, and improve quality of life. Housing infrastructure is also an important asset for economic development and production. EU and National policies, programs, and partnerships can encourage cost-effective investments that will appropriately enable investment in housing.
- (Strategy) Health Infrastructure: to improve access to healthcare by assisting in the development of local response capacity for health challenges. Investment in community infrastructure can support health education, provision of specialty health care, as well as improve health facilities.
- (Strategy) Capacity-Building Infrastructure: to assist local areas in developing the planning, leadership, technical, and professional expertise needed to sustain and grow local economies, leverage multi-sector or multi-jurisdictional partnerships, and advance regional collaboration.
- (Strategy) Strategic Partnerships: leverage strategic partnerships with government agencies, state and local governments, non-profits, and the private sector to increase efficiency and effectiveness at facilitating prosperity and promoting economic development and growth.
- (Strategy) Program Delivery: reform, innovate, and better align development operations to deliver more effective service to EaP customers, partners, and stakeholders. Leverage technology and expand tools to enhance mission area services, implement enterprise risk management activities and effectively address internal and external risks that could impact the success of development programs.
- (Evidence Building) Understanding and documenting the impacts of the economic development effort. Determine customised project metrics and develop outcome-based measures to improve data driven investment selection and evaluate project performance. Advanced methodologies and institutional capabilities and capacities will be required to measure the aggregated success of projects across multiple programs. Potential metrics include: increased access to new and improved internet services to residential and business communities; increased local economic stimulus and job creation from financing support to entrepreneurial activities and SMEs; affordable housing market in local communities; increased health care access; improved employment rate, new business creation, and job growth; increased participation of SMEs, less bureaucracy and faster implementation.
- (Human Capital Management) The EU and EaP goals will be achieved by ensuring a skilled, well- trained, and customer-focused workforce. Establish training plans and align employee development needs with key competencies to achieve success in meeting the goals of implementing multi-agency, multi-jurisdictional, and multi-sectoral activities to improve the EaP services to its customers. To meet this strategic goal, it is necessary to focus on infrastructures, partnerships, and innovation.

Guideline Practice 5
Institutional Role: Ensure EU and EaP Countries' Programs Converge and Are Delivered Efficiently, Effectively, With Integrity and a Customer Focus

Programs devised to support the sector should drive excellence and customer orientation to assist and market EaP wine trade effectively. These programs can be at EU level, at EaP regional level and at national level within the

EaP, including any combination thereof and cross-border activity.

- To improve customer and employee satisfaction with technology-enabled services. Create a unified network that brings together diverse human resources, single markets, and data sharing, among others. Network-wide end-user enterprise services will reduce costs, improve cybersecurity operations, and boost employee and customer confidence. Centralising IT operational services wiould strengthen front-end service capacity to customers and stakeholders. Continuity plans and methodologies will ensure program viability and effectiveness irrespective of circumstance to support and sustain EaP roadmap to the sector's international expansion.
- Through their mission delivery, engaged and empowered employees will find creative solutions to unexpected challenges; they will bring innovation to their customer service delivery; they will display curiosity and collaboration; they will celebrate each other's thoughts and experiences; and will serve as ambassadors to recruit and retain additional talent.
- Ease the regulatory burden on the EaP's SMEs and entrepreneurs and improve service delivery to customers, measured against compliance guidelines.
- Use up-to-date information, data, and the best available science, on both the direct effects of programs and the broader state of the wine sector, and local communities across the EaP. Show the return-on-investment from activities through quantitative and qualitative evaluations. Use the data and tools developed through this effort to inform day-to-day and long-term decision making, evaluating actions against a variety of criteria, including the efficiency and equity of programs and how well they meet legislative intent. Decrease the overall real property footprint through effective disposal and consolidation efforts to reduce overall square footage of building space. The reduced footprint will conserve energy and save money, enabling agencies to reinvest in improved mission delivery. Over time, a reduced footprint will improve the utilization of buildings, lower the number of excess and underutilised properties, and improve the cost effectiveness and efficiency of the real estate portfolio.

<u>Empower and Engage Employees for an Expert and Productive Workforce</u>: Foster work environment that maximizes employee performance. Employee engagement is a key predictor of organisational productivity and profitability. Engaged and empowered employees are more dedicated, persistent, and passionate about their jobs and service delivery, and are more willing to invest personally to support the mission.

- Employee engagement and empowerment are directly tied to mission delivery. Departmental directives and policies will be refined to streamline personnel processes and emphasize employee engagement through performance management. Utilise studies and expert feedback from the public and private sector to continually improve the support of a high performing workforce.

<u>Reduce the Red Tape and Streamline Processes - Inform and advise decision-makers on policy issues</u>: Create a culture of consistent, efficient service while easing regulatory burdens to make it easier to invest, produce, and build in the EaP, while ensuring the safety of supply and protecting and safeguarding the EaP's natural resources.

- (Strategy) Identify new ideas to modify, streamline, expand, or repeal any items.
- (Evidence Building) Principles that may guide a red tape review and reform effort: (a) evidence used in support of a regulation will be based upon solid science, data, information, or methods that are publicly available and sufficiently transparent to meet the standard for reproducibility, (b) ensure that the science and research underlying any decisions, policies, and regulations are held to the highest standards of intellectual rigor and scientific integrity, and (c) follow current laws to assess and mitigate the impact of new and existing regulations on businesses and people, and examine the judicial standards by which the lawfulness of such regulations will be judged.

<u>Improve Management of Resources and Utilize Data-Driven Analyses to Maximize the Return on Investment</u>: Determine outcomes and impacts through accurate and reliable data, which may lead to decisions, evaluations, and improvements, and justify investments in public and other resources. In many instances returns on these

investments can be quantitative. Administrative policies must also be supported by data. Centralising common processes and enhancing standardisation and accountability at all levels will allow to more effectively serve the Ecosystem stakeholders.

- Make science-based, data-driven decisions and communicate the impacts of those decisions to thewine sector stakeholders. Monitor progress for activities, including benchmarks toward achievingactivity goals. In addition, tools such as logic models are useful for mapping the relationships between program activities, outputs, and short, medium, and long-term outcomes. Coordination between programmatic and research agencies, as well as strategic engagement with universities and other external partners, can help develop new and innovative methods to evaluate programs and identify relationships between activities and broader outcomes across the EaP countries.

Guiding Practice 6

Domestic Institutional and Private Markets Role: Strengthen Land Management and Viticulture Through Technology and Research – The Ecosystem Footprint

- Accessible and relevant conservation tools and technologies deliver value to customers through improved engagement and implementation of their customized, site-specific conservation plans. The short-term outcome is to have highly qualified and trained conservation planners that directly interact with customers. The long-term outcomes, are reductions in soil erosion, improvements inair and water quality, and changes in management practices. Develop the science base for managing the landscape for environmental quality, through national assessments, watershed assessment studies, and bibliographies and literature reviews. That process includes research, modeling, assessment, monitoring and data collection, outreach, and education. Improve on the capability to examine interrelated issues that have implications for the sector, such as quality and availability of water, changing climate, and invasive species.
- Through voluntary conservation programs, the short-term results are that stakeholders will apply conservation practices which are custom-designed and facilitate operations and production. The medium to long-term outcomes are improvements in soil health, water resources, and critical habitat.
- Through a landscape approach for delivering targeted conservation solutions, leverage sound science and partner capacities to support meaningful and measurable outcomes. In the short term, these efforts result in evidence-based strategies to address natural resource challenges. Based on local needs, the medium and long-term outcomes of this landscape strategy can be measured or quantified through cleaner water for drinking and increasing the abundance of indicator species (biodiversity).

Grape cultivation in each EaP country needs to be organised in terms of policy, cultivation techniques, technology, indigenous vs. international varieties, and resources. Studies must also consider any possible changes in grape and wine quality resulting from different management practices; product quality and farm economics are the most important determinants of production practices. Regulating councils and promotion mechanisms need to be established. All these will contribute to the countries and wineries' identity. Furthermore, meeting increasing population needs will require adoption of new science and technologies and the implementation of science-based conservation plans to support sustainable growth. New and improved practices will result from fundamental and applied research to understand the complex interactions between human systems and the environment and transferring the resulting knowledge into the hands of wine producers and managers through information, tools, and decision support.

Innovation and Technology will be key differentiating factors. A country needs to foster innovation by providing incentives, attracting expertise and private capital, and forming strategic alliances.

<u>Enhance Conservation Planning with Science-Based Tools and Information</u>: Adopting the latest science and technology is critical to help sustain economically sound operations. Private-sector investment in natural

resources conservation has grown significantly over the last few decades. It is critical that such investments achieve the conservation outcomes that meet producer and societal expectations. The quality criteria that underpin conservation systems will ensure conservation investments achieve desired outcomes while meeting consumer needs.

- (Strategy) Enhance Technical Assistance: deliver conservation technical assistance to EaP producers that utilises the current science and technology, providing economically and environmentally sustainable solutions to natural resource issues. Develop and streamline technical tools and assistance through partnerships of scientific research institutions, governments, and private industry experts to enhance the conservation planning process and results.

<u>Promote Productive Working Lands Management helps to Conserve Natural Resources</u>: Ensure proven technologies and resources are available to foster productive working land through locally led conservation and direct customer service. Develop and deliver science-based, conservation solutions in a timely, responsive manner. Conservation programs are continually evaluated to help stakeholders build greater resiliency in soils, cropping systems, through conservation systems that help them adapt to current and future environmental and market conditions. Provide technical and financial assistance to improve conservation of natural resources and sustainably increase productivity and incomes. Science-based conservation systems help working lands provide healthy, plentiful production and clean water and air. Establish technical and programmatic criteria that ensure fair, efficient, effective, and timely customer service in a manner that best serves customer needs.

- (Strategy) Individualize Technical Assistance: provide targeted voluntary conservation programs and individualized technical assistance to stakeholders that facilitates the sustainability and economic viability of their operations while enhancing soil health, water resources, and habitat.
- (Evidence Building) Conservation programs are continually evaluated to ensure effectiveness, incorporate the latest science, and adapt to changing conditions. Updates to the soils and ecological site inventory provide stakeholders, and conservationists with the best available data for decision- making, enhancing the effectiveness of conservation systems and programs.

<u>Enhance Productive Agricultural Landscapes and Biodiversity</u>: Productive working agricultural lands are critical to the vitality of local communities where most of the economic opportunities are derived from land-based production, as well as tourism and recreation. Balancing land-based production activities in local communities requires a landscape approach to conservation. Productive agricultural landscapes that are also inviting for tourism and recreation include: clean and available water, healthy wetlands, streams and rivers, productive, healthy soils, among others. Sustainable practices based on good conservation systems can enhance the local economy and continue to provide landscape views that attract other opportunities. In some cases, there is an asset in the landscape that is an anchor for both economic and environmental vitality.

- (Strategy) Promote Agricultural Landscapes: holistic, landscape-based conservation focuses resources on the most critical areas to maximise conservation impact and allow producers to be natural resource leaders. The process combines landscape-scale data and community knowledge to drive decisions for implementation.
- (Evidence Building) Quantify conservation effects to understand what suites of practices are most effective and where resources will have the greatest impact.
- (Human Capital Management) Develop workforce plans based on the operational demands of delivering science-based conservation planning and implementation of planned conservation systems. Establish specific priorities to recruit, retain, and train the workforce so critical skill gapsare addressed. Actions can be evaluated on a quarterly basis to ensure effective and efficient management of the efforts to address critical skill gaps.

Guiding Practice 7

Domestic Institutional Role: EaP Countries' Foreign Promotion Agencies operate Efficiently and Effectively

- Implementation and maintenance of strategic and solid financial management will provide Agency leadership with real-time information to make informed decisions and guide Agency activities. Utilize data-driven analysis and effective performance management to maximize return on investment
- Talented and committed workforce will serve the Sector's interests productively and efficiently, through continuous education and a merit-based culture

National Agencies should work under an aligned mission, considering country's particularities. Enable the EaP business potential to build the export markets and possibly new wine market segments, by coordinating different and grouped marketing/promotional activities. Develop a variety of enabling tools and processesto effectively deliver the Agencies' mission. Develop and strategize marketing activity according to each EaP country's wine sector development stage, as well as according to the most suitable format between bottle, IGP, bulk. Improve both the Agencies' internal and external relations, by delivering on mandated responsibilities, strengthening organizational performance, better engaging employees, and coordinating the Agencies' international activities. Improve internal business processes, enabling better and more consistent collaboration, and ultimately, performance. Create and maintain an environment that ensures fair treatment of all employees and empowers employees to excel by supporting the sector in optimum ways.

<u>Implement non-trade-focused mandated programs</u>: Employ efficient management practices and monitor the use of government funds in the most effective manner. Effectively operate aid programs, financial and technical assistance. Effectively operate legislated import programs including price supports, domestic marketing allotments, and others.

<u>Strengthen organisational performance, efficiency and collaboration</u>: Increase the efficiency of internal operations through modernization of information technology infrastructure and data-driven decision making to improve program delivery and communicate more effectively with stakeholders.

- (Strategy) Modernise information technology infrastructure, facilities, and support services to improve UX and usability, investigate opportunities to advance mission support technology systems to better achieve the Agencies' mission, develop a technology strategy that aligns with overall initiatives and strategy, implement business processes to increase efficiency and effectiveness of activities through a fully integrated, cost-efficient, and streamlined administrative infrastructure, improve financial management and accounting processes, as well as the use of financial management systems, develop standard operating procedures to standardize and institutionalise financial management activities.
- (Evidence Building) Conduct reviews on mission indicators, output and outcome-based performance metrics, and processes to track progress against the Agency's strategic goals and ensure continued alignment to the Agency's mission. Leverage technology to streamline communication and use data to identify opportunities for efficiencies in its services internally and externally. Encourage innovation and information-sharing to enhance collaborative efforts to achieve the Agency mission. Encourage collaborative information-sharing and problem-solving to better deliver reports, information, and advice to the Sector. Through improved technology systems and processes, Agencies will create new, results-based reporting mechanisms to develop analysis and work with increased efficiency.

<u>Recruit, retain and develop a highly talented, motivated and diverse workforce</u>: Attract the best skilled and self-motivated talent to drive the agency's performance. Install a continuous culture of learning, development, and empowerment for the entire workforce.

- (Strategy) Maintain a high-performing and accountable workforce through instituting an inclusive and high-performance culture that not only values the differences offered by a diverse workforce, but also empowers staff that are dedicated and passionate about their jobs and service delivery. Create an environment that ensures fair and equitable treatment of employees and customers through ensuring equal employment opportunities for employees and committing to respecting the rights of all employees and stakeholders. Provide training and education on civil rights related matters to improve the work environment and minimise risk to the maximum extent possible. Support diversity and inclusion and alternative dispute resolution programs to foster an improved culture and open and clear communication. Integrate workforce planning and targeted recruiting strategies to improve the talent pipeline. Implement effective training and developmentprograms to prepare employees at all levels to excel.

- (Evidence Building) Encourage staff and leadership performance by strengthening individual performance management and accountability systems and supporting effective team management within the daily work environment. Implement a recruitment and hiring plan that will ensure the continued success and evolution of the agencies' mission. Core development skills should include: a shared understanding of the agency's mission and vision, the ability to advise and inform stakeholders and decision-makers, understanding of diplomatic processes, and a fundamental understanding of the global wine trade ecosystem. Each of these core skills should be complemented and balanced by specific technical skillsets, relevant to the employee's specific role within an agency.

Guiding Practice 8
Climate Change: Introductory Considerations

- Climate experts warn of coming wine shortages and price increases, changing varietal character and, in some dire predictions, the extinction of some wines altogether.
- Global warming of 2 degrees Celsius would wipe out 56% of current wine-growing land; increase that to 4 degrees and an estimated 85% of grapes won't be viable.
- Using more heat-tolerant grapes would allow vineyards to adapt: potential losses at 2 degrees of warming could be halved, and cut by a third if warming reached 4 degrees.
- Cabernet sauvignon, chardonnay, merlot, pinot noir, riesling, sauvignon blanc and syrah, chasselas, grenache, monastrell (also known as mourvedre) and ugni blanc = 1/3 of the total area planted to wine grapes and represent important parts of the wine industry in France, Australia, New Zealandand Chile.
- There are indications of increased ripeness in grapes and higher alcohol levels as indications of climate change.
- The Bordeaux and Bordeaux Supérieur Association: permitting the use of seven new grape varieties in these wines, a move it hopes will be a saving grace for the region. It's not the only winemaking area changing the makeup of its vineyards; intrepid producers elsewhere in the world are redefining their cuvées with new grape varieties as a way to address climate change.
- The rising ripeness and alcohol levels in the Pinot Noir: substitute with and experiment on a red wine variety with a slower maturation cycle.

ANNEX II: STRATEGIC OBJECTIVES

Strategic Objective 1	Improve the Institutional Framework and Operational Environment

RATIONALE
Reforms should be considered across the EaP countries to ensure that the policy-making process is specific to SMEs in the Wine Sector and that the operational environment evolves to sustain SME growth. These actions are considered a priority for the SME wine sector:

(a) Create formal co-ordination mechanisms for SME policy amongst policy stakeholders;
(b) Conduct regular SME-specific regulatory impact assessment;
(c) Improve SMEs' statistics collection and dissemination; and
(d) Streamline the SME definition across statistics and policy making.

The framework for these actions should define in detail the purpose and aims of developing an EaP SME wine economy strategy. Develop a consensus on a definition of the EaP wine economy concept as the basis for taking forward a shared policy agenda, which can then be compared across the EaP in conjunction with the EU countries and other Eurasia member countries.

Policies and governance should support SMEs' greener growth**:** to succeed the EU will need to support the EaP countries further investments in: (i) environmental governance; (ii) the sound planning of policies and investments; (iii) administrative capacity to implement and enforce legislation; (iv) enhanced public access to information, awareness, and participation; and (v) more adapted and effective financing mechanisms. Raising awareness, including by teaming up with civil society, will also be important.

SMEs natural assets base: The preservation of biodiversity in most of the EaP countries would be a significant component of growth and competitive advantage. This includes tackling desertification, introducing measures to protect specific grape varieties, and extending and effectively managing protectedareas. It also includes working together with other sectors on reducing the negative impact of human activities on biodiversity. To preserve natural resources, that form the basis of the EaP wine economies, the EU will further work with the EaP countries to address water quality and availability, among other, including river-basin management. The EU will support sustainable agriculture, and food safety through knowledge transfer and innovation. It will also continue to strengthen the position of farmers in the value chain while improving the quality of life in rural areas.

A strong digital presence in the EaP countries will enable growth and drive sustainable development of SMEs in the wine sector: in this respect, the EU will invest further in the digital transformation of the EaP countries, in line with EU legislation and best practices. Work in this area beyond 2020 will aim to extend the benefits of the Digital Single Market to the EaP countries (and support the full implementation of the partner countries' commitments in the Association Agreements and other bilateral agreements). Modernise and consolidate Information and Communication Technology (ICT) infrastructures and services, as well as strengthen management and oversight of procurement, property, and finances to ensure SMEs' resources are deployed as effectively and efficiently as possible. Empower innovative solutions to serve customers' needs as a priority, and to promote SMEs' accountability and professional development. Enable human resources talent and reduce regulatory and administrative burdens. Work will build on the success of the policy initiative for the harmonisation of digital markets in the EaP and the operational programs launched under the EU4Digital brand. A resilient SME digital transformation involves:

1. Digital infrastructure
2. Support services and Data
3. Digital economy and innovation
4. Cyber resilience

Buildup of business associations with strong institutional capacity: such strong associations in the EaP would provide SMEs with valuable resources in terms of coordination, transparency, sales and marketing consolidation, policy, and technical and technology consolidation.

Strategic Objective 2	**Ease SME Access to Funding**

RATIONALE

Small and undeveloped domestic wine markets do not provide adequate cash flows to EaP's SMEs grow. Funding and investments are a crucial part of the strategy implementation, as the EaP's SMEs' resources are limited while at the same time SMEs in most EaP countries are the top employers and a key driver of shared growth and innovation. Strategy and market build up is a frontloaded operation, and usually takes time before profits are reinvested, thus contributing to budgetary requirements. As a result, organic growth achieved by the EaP's SMEs is limited. Bank lending is the main source of finance, beyond personal and family savings, to fund investments and working capital. Risk capital should also be mobilised to channel investment to, for example, innovative start-ups and early-stage SMEs in the EaP wine sector, which typically cannot rely on retained earnings or hard collateral to access bank loans.

Accordingly, access to funding is a glass ceiling for these SMEs and their growth. EaP countries' SMEs require easier and more diversified access to funding. The EU can assist the eligible SMEs improve their capability to access funding to finance their growth:

(a) By improving their governance, internal processes, and business skills;
(b) By enabling them to understand and meet their investment needs;
(c) Through contributing at domestic institutional and governmental level for SME development;and
(d) By promoting the development of a VC ecosystem in the EaP.

Support the EaP wine sector by providing extensive and effective financial tools and mechanisms to sustain economically viable wine production, which will eventually contribute to its robustness, competitive businesses, job creation, improved customer experience, and the sector's overall growth.

The EU will continue to support access to finance through guarantee schemes, interest rate subsidies and investment incentives. It will also expand this support through its stronger partnership with IFIs, as well as the European Fund for Sustainable Development (EFSD+) within the proposed Neighborhood, Development and International Cooperation Instrument (NDICI) and the External Action Guarantee.

The EU should also support EaP governments towards devising schemes to promote venture capital and business angel investment in the EaP's SMEs. Creating and sustaining a VC ecosystem is challenging. After all, a VC ecosystem is as successful as its AUM size. So, which would be those forces that would convince investors, entrepreneurs, inventors, and VC managers alike, to operate in the UBM ecosystem? And what would it take? Moreover, a fund could be established to act as a catalyst for private capital and to match early investment in SMEs with high-growth potential. Such schemes would ensure economic additionality in the early stages of the funds, and public sector involvement could phase out as private markets mature. Further support could involve promoting awareness of investment opportunities and establishing a network of business angels through dedicated events.

Strategic Objective 3	**Promote SMEs' Skills Development and Entrepreneurial Culture**

RATIONALE

The EaP countries's education and training system needs to improve the match between skills supplied and market demand. In terms of Human Capital Management and to ensure that the workforce meets the objectives, modern strategies and tools need to be employed to improve managing talent across the EaP wine sector. To help create new markets and support a competitive system, the workforce needs to possess the necessary skills to meet changing demands.

SMEs could play an active role in the process by, among other, increasing their involvement in the design of educational programs. A stronger culture of entrepreneurship, especially among women and the youth, should also be encouraged to transform perceived business opportunities into actual entrepreneurial intentions.

SME owners and management should be trained on corporate governance and modern management practices, so as to be able to lead and support their organizations. The EaP's SMEs bankability and competitiveness will depend among other, upon ESG implementation, risk management practices, Board of Directors in place, innovation, technology implementation, and accountability.

The EU is to encourage Entry into Wine Production and the greater Wine Sector (e.g., the sommelier and enologist profession, etc.) through Access to Education/Resources, Land and Capital for Young and Early- stage Entrepreneurs: these entrepreneurs are a fundamental and growing part of the global marketplace, and need support to access capital and risk management tools, acquire facilities, and develop financially sustainable operations to enable the next generation of EaP wine entrepreneurs.

The EU can assist the eligible SMEs:

(a) By facilitating SME access to non-formal training;
(b) By improving the quality of corporate governance;
(c) By promoting entrepreneurship through formal educational institutions;
(d) By supporting women's and youth's entrepreneurship;
(e) Through strengthening stakeholders' participation in developing and implementing VET policies;
(f) By assisting government to improve the quality and attractiveness of VET institutions; and
(g) By assisting with mapping and analyzing the country-wide labor market and training needs.

Investing in people is key to preparing for the future and fostering societal and economic resilience. Building on achievements for young people, the EU proposes a new deal for youth.

Strategic Objective 4	Support SMEs' Internationalization

RATIONALE
The AA/DCFTA with the EU has the potential to boost economic growth in Georgia, Moldova, and Ukraine. At the same time, the EU has been extending the support to SMEs, developed through the DCFTA program, to the other EaP countries; namely, Armenia, Azerbaijan and Belarus. The EaP countries need to improve orimprove further their overall national quality infrastructure, ensuring that EU standards and technical regulations requirements are met, which in turn will help SMEs in the wine sector benefit from the opportunities offered by the free trade area.

Moreover, the EaP countries' small size wine producers can be overcome through (a) building alliances, and (b) pioneering in sustainability, which would allow them to develop a significant competitive advantage. Success is more likely when executives empower sustainability organizations to engage proactively, and strategically hold them responsible for creating measurable impact. Only then will SMEs be able to maximize the value at stake from their sustainability initiatives.

The food and agriculture sector is among the biggest contributors to global greenhouse gas (GHG) emissions and the biggest driver of terrestrial biodiversity loss, yet the winemakers are critically dependent on the natural assets they are eroding (*One in three bites of food requires insect pollination, yet insect populations are suffering significant collapses worldwide. The dramatic impacts of eroding nature's life-support systems – drought, wildfires, volatile weather patterns– are all too real, but are a taster of what will be in 2050 under a 'business as usual' scenario*). The EU should help transform the EaP wine economy by increasing its environmental and climate resilience, including through more sustainable use of natural resources and theincrease in the efficiency of those resources.

A further element which can lead to significant competitive advantages for EaP's SMEs in the wine sector, is advanced digitalisation. Modernise ICT infrastructures and support services to improve the EaP wine economy stakeholders and customer experience. Provide modern, agile, efficient, and easy-to-use technology, spaces, and services, by leveraging technology to streamline communication and use data to identify opportunities for efficiencies. There is an apparent and continuous need for a fully integrated, cost-efficient, and streamlined administrative infrastructure, employee and stakeholder engagement, and best business practices. Focus on dedicated data-driven, enterprise solutions through collaborative governanceand human capital management strategies.

The EU can assist the eligible SMEs improve their international exposure:

(a) Through enabling domestic wine culture and thus, larger home markets supporting SMEs branding and resources;
(b) By assisting them increase their exports;
(c) By assisting them (and the States) with attracting FDI;
(d) By enabling strategic and operational alliances;
(e) By guiding them through environmental, social and governance ("ESG") strategy -this is becoming increasingly important when it comes to international supply chains, community initiatives, and investing strategies.

EaP's SMEs should use focus their strategies on niche markets. By understanding the dynamics of those markets and the unique needs of customers, SMEs should develop uniquely costed and/or well-specified products for those markets.

Develop market opportunities while improving wine access and market transparency by connecting SMEs with consumers through funding mechanisms and market access programs. These programs will increase market interest and wine value. Through industry-specific services and funding, eligible SMEs will create and enhance their marketing abilities and their branding. Provide market intelligence and product integrity through reporting and standards development and application. Grant projects may focus on the following areas: research, food safety, sustainability, market access, and improving efficiency of distribution systems.

Strategic Objective 5	**Facilitate SMEs' Innovation and R&D**

RATIONALE

To improve the competitiveness of the wine sector and contribute to a more advanced, knowledge-based economy, the EaP countries need a coordinated effort to increase their R&D and innovation activities. A dynamic innovation system is based upon a partnership among academia, the private sector, and the public sector (Etzkowitz and Leydesdorff, 1995; OECD, 2013b; etc.). SME investments in R&D should be coupled with their capacity to absorb existing technologies. At the same time, the overall EaP country research agenda for the sector should be developed, coupled with related projects involving EaP countries' eligible SMEs in line with the EU approach of smart specialisation.

Tackling the priorities requires a systemic approach to innovation, i.e., innovation that aims for a system- wide transformation by affecting the system's economic, social, and environmental dimensions as well as their interconnections. This implies a challenge-driven, solutions-oriented, trans-disciplinary perspective that integrates technology, business models and economic organisation, finance, governance, and regulation, as well as skills and social innovation, and involves co-creation of knowledge and co-delivery of outcomes with economic, industrial and research actors, public authorities and/or civil society.

The coherent combination of the above would help identifying the EaP's wine sector's competitive advantages, as well as making full use of their knowledge-based development potential (World Bank, 2014b; EC, 2015).

The EU should assist with creating a supportive environment for innovation, and together with EaP policy makers should promote a notion of innovation that goes beyond high-tech/start-ups and include the broader concept of technology or process upgrades in the sector. In specific:

- Provide financial support to SMEs for innovative activities;
- Structure know-how transfer (incl. also the potential to lead to innovation) to eligible SMEs -more advanced EU wine businesses can convert knowledge into commercially viable wines;
- Establish or amend the legal framework for innovation;
- Foster collaboration between the wine industry and academia; and
- Build a Start-up Innovation System which can harbor early-stage ventures in the wine sector.

SME innovation would include: innovations and precision viticulture technologies to face climate change and ensure high quality grapes; upgrading quality and driving innovation in viticulture, including but not limited to plant and water management systems, irrigation, fertigation, frost and hailstone protection, harvest mechanisation, health control and environmental protection; developing indigenous grape varieties to international standards fully exploiting any unique characteristics; upgrading quality and driving innovation in winemaking in terms of wine types, yeast strains followed through DNA profiling and analysis, optical sorting technology, hybrid barrels, chemical analysis and near-infrared spectrometry for barrel staves selection, micro-oxygenation and luminescence-based technology for improved molecular visibility,berry and wine phenolics analysis for colour, taste and mouthfeel, packaging innovations, etc.

ANNEX III: COUNTRY ANALYSES

The Global Wine Market

World wine production is estimated at 263 million hectoliters (mhl), whereas the world trend is showing aslight decline of the vineyards. The overall area under vine in the world is 7.4 million hectares, and the area in the EU countries remains at 3.3 million hectares. The world's major wine producers remain the same with Spain being the biggest exporter in terms of volume, and France being the biggest world exporter in terms of value. The world consumption of wine has been stably growing since 2014 due to increased consumption in the U.S. and China and stabilising consumption in the EU countries. The wine sold in bottles represents 53% of trade volumes, and over 70% of the value in wine trade. The international trend is decreasing trade in bulk wine.

Top 10 wine producers

Country	Production 2020 –mhl
Italy	49,1
France	46,6
Spain	40,7
United States	22,8
Argentina	10,8
Australia	10,6
South Africa	10,4
Chile	10,3
Germany	8,4
China (mainland)	6,6

Top 10 wine consumers

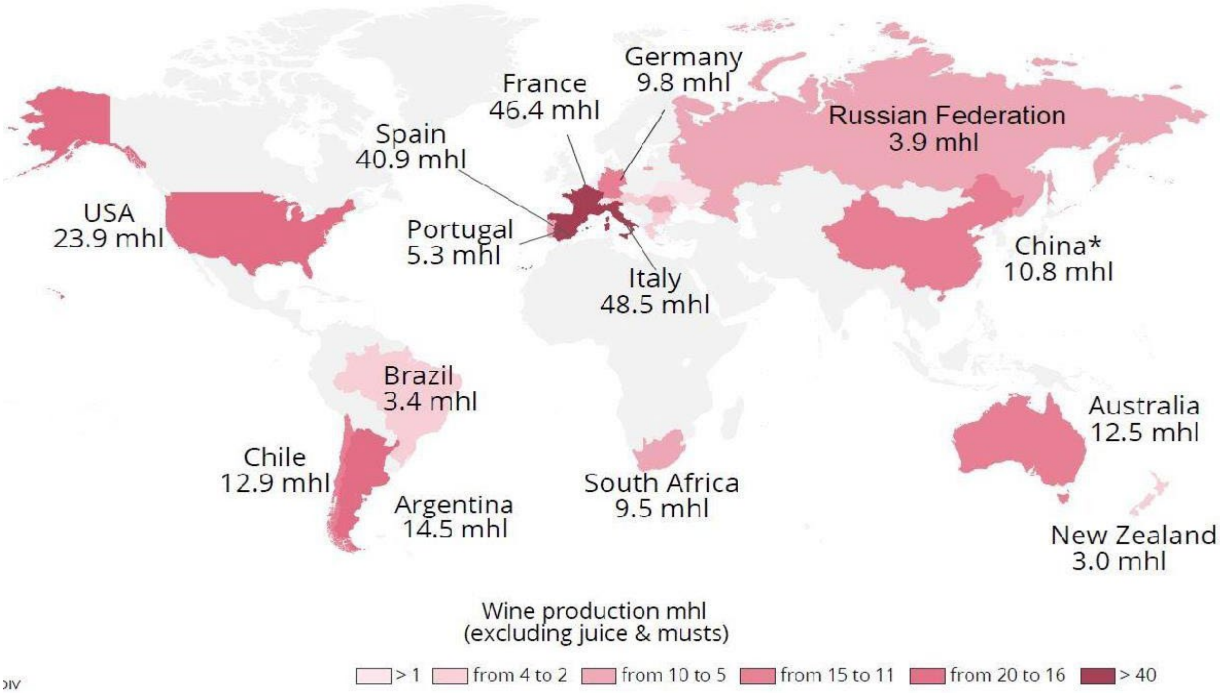
Country	Consumption 2020 -mhl
United States	33.0
France	24,7
Italy	24,5
Germany	19,8
United Kingdom	13,3
China (mainland)	12,4
Russia	10,3
Spain	9,6
Argentina	9,4
Australia	5,7

Top 10 wine importers

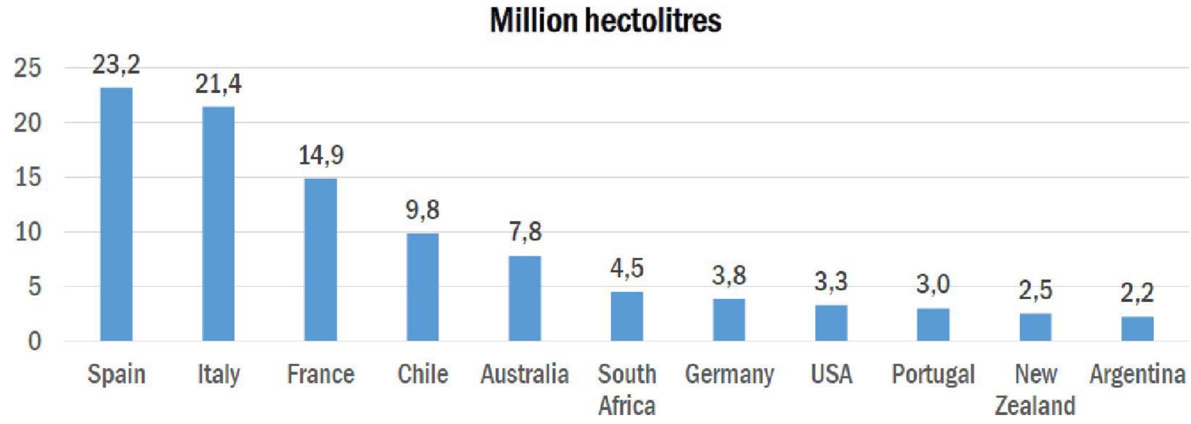
Country	Import 2020 -mhl
United Kingdom	14,6
Germany	14,1
United States	12,3
France	6,3
Netherlands	4,7
Canada	4,5
China	4,3
Russia	3,5
Belgium	3
Portugal	2,7

The grapevine or *Vitis vinifera* is a precious and extensively cultivated plant used in the production of wineand derivatives. In 2018, it was cultivated on 7.4 Mha around the globe, producing more than 77.8 mt of grapes (wine, table and dried grapes) and a global wine trade of a value of approximately €32 billion. It is cultivated between the 35th and 55th northern parallels and between the 25th and 35th southern parallels. The areas where it is cultivated have average annual temperatures between 10 and 20°C and are characterised by a favorable growing season and an unfavorable cold one. However, the cold winters are not too intense (minimum temperatures range between −10 and 15°C) and the favorable season (average temperature higher than 10°C) is long enough (>200 days) for grapes to ripen (Gladstones, 1992).

63% of Wine is produced in 5 countries

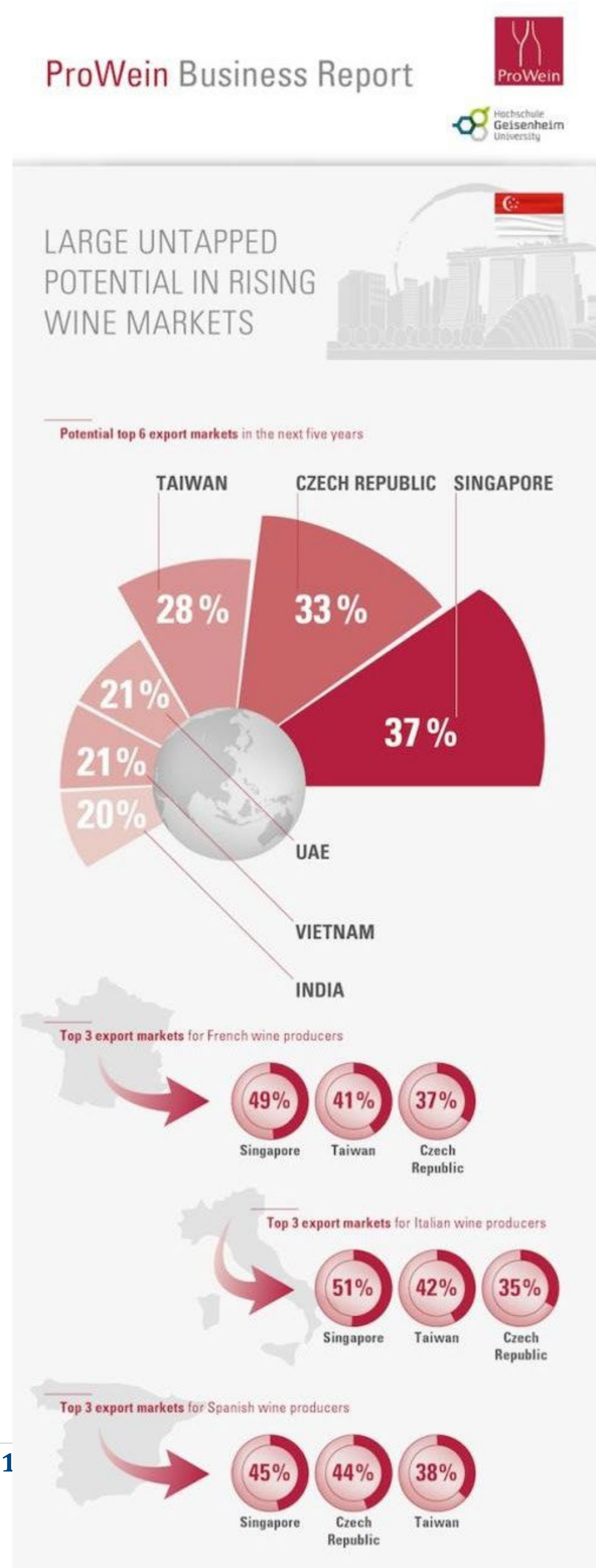


Principal Exporters
Spain, Italy, France 55% of the world volume; France 30% and Italy 19% of the world value



Viticulture depends on environmental resources (i.e., climate and soil conditions) in terms of yields and quality (van Leeuwen and Darriet, 2016). Aside from local challenges that affect winemaking there are global challenges that should be considered. Global warming generally resulted in the increase of cases of temperature above the optimal range (24–26°C) during summer and during grape ripening (Cola et al., 2020), impacting the quality and quantity of the grapes.

Global warming will affect grape and wine production, not only in grapevine physiology and biochemistry, but in the production methods as well (Mozell and Thach, 2014; Schultz, 2010). These changes need to be foreseen by viticulture managers and producers, finding and adapting new mitigation methods to preservetheir grape and wine quality, identity, and profitability (Bernetti, et al., 2012). Mozell and Thach (2014) collected practical solutions for both vineyards and wineries to mitigate and adapt to the coming change, such as:



- Control rising temperatures in the winery and assure completed primary and malolactic fermentations cooling equipment, as well as employ cellar hygiene practices and use of antimicrobials and antioxidants;
- Use of more alcohol-tolerant yeast strains tooffset the effect of higher sugar and alcohol levelsduring fermentation;
- Employment of sugar reducing techniques suchas ultrafiltration and reverse osmosis to offset higher sugar levels in the must;
- Apply acidification to offset a reduction of acidity so as to promote microbiological /microbial stability and reduce the likelihood of stuck fermentations;
- Apply new blending techniques, including the blending of wines from different terroirs and regions to offset vintage variability, particularly in regard to wine complexity and style;
- Leave white wine on its lees longer so as to conserve fruit-aroma compounds, protect them from oxidation, and increase the release of mannoproteins to offset early harvest and lower acid level in white wines;
- Schedule the harvest activities earlier to avoid the rush to secure labor and equipment in amore compacted timeframe to offset the earlyonset of ripening fruit.

The following strategies have been developed in order to tackle increasing temperatures and the global climate change (Santos et al. 2020).

Short-term adaptation strategies:

- crop cultural practices and techniques to delay ripening time;
- plant protection against extreme heat;
- irrigation, pest and disease control;
- soil management.

Long-term adaptation strategies:

- change in training systems;
- varietal/clonal and rootstock selection and vineyard relocation; breeding programs for new varieties able to adapt in the future environmental conditions.

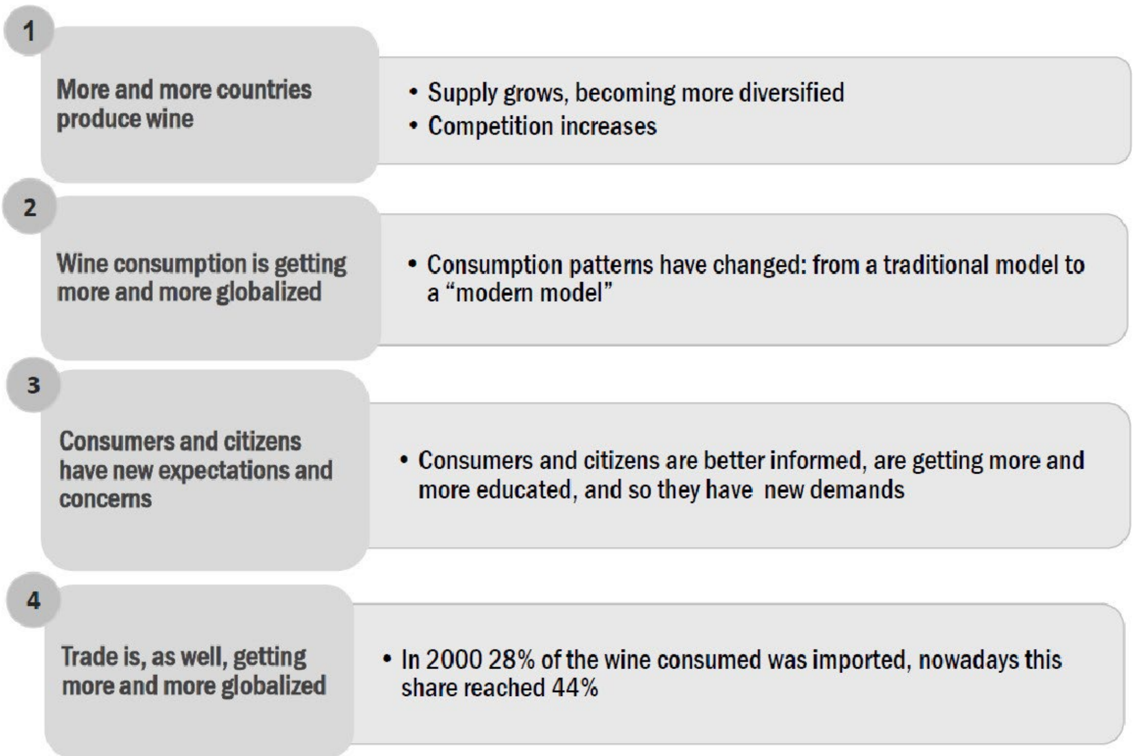
Around the world and in more developed wine making regions certifications for sustainable and environmentally friendly practices are being adopted in order to tackle these challenges. Certifications like, ISO 14001 Environmental Management, FIVS Global Wine Sector Environmental Sustainability Principles, New Zealand Winegrower' Sustainable Winegrowing, Demeter's Biodynamic Certification, California Sustainable Wine Growing Certification, Fish Friendly Farming, Napa Green, etc.

Caucasus and Eastern Europe

In the comparative research work "East-West collaboration for grapevine diversity exploration and mobilisation of adaptive traits for breeding" (COST Action FA1003), exploring the grapevine genetic resources from the Caucasus and Eastern Europe to Western Europe, the aim was the long-term conservation of grapevine germplasm (Salimov, 2017). Grape varieties in these areas have similarities but also differ in many aspects.

For a vine domestication center to be born, different conditions need to occur, such as a strong awarenessin practicing and developing viticulture by entire villages and agricultural communities. To make this happen, many factors must converge: territories with a (relatively) high population density, with stable settlements and in positions at crossroads of trade flows and cultural trends (Forni, 2012). Great sources of biodiversity in the *V. vinifera* species have been recently found in its domestication cradle, located in Georgia (South Caucasus) (Imazio et al., 2013).

Wine is a Global Sector



A. The Wine Sector in Georgia

The uniqueness of the Georgian germplasm and its study can be very useful to viticulturists and their work to fight climate change. Georgia, as a part of the Caucasus, is recognised as one of the special regions in terms of biodiversity – a hotspot of biodiversity. Its nature is distinguished with its diverse varieties, high number of endemic species and ecosystems of global significance.

General - Georgia is bordered by the Greater Caucasus in the North and the Lesser Caucasus in the South, and opening toward the Black Sea in the West and toward the Caspian depression in the East. Those geographical features strongly characterize the climate of its 12 wine-growing regions that, following the Köppen–Geiger classification (Köppen and Geiger, 1936), are characterized by profoundly different climatic conditions, ranging from hot summer continental climates to warm summer continental or hemi boreal climates. As such, the Georgian varietal assortment is as differentiated as the country's wine-growing regions, and adapted to a very wide range of cold and summer stresses.

43.4% of the total area of the country (30.3 km^2) is occupied by agricultural land (2005). Annual crops occupy 207.1 thousand hectares (2018), and the perennial crops occupy 109.6 thousand hectares of land (Agricultural Census of Georgia 2014). 75% of the rural population is self-employed, mostly in the agricultural sector. Besides, in 2018, 38.9% of labor force was employed in agriculture, hunting and forestry, fishing and fishery industry, and total share of this sector was 8.2% in the GDP.

Historical information coupled with archeological and palaeobotanical findings pointed to Georgia as a cradle for grapevine domestication (Zohary and Hopf, 2000; McGovern, 2003; McGovern et al., 2017). Thanks to two European research programs, GrapeGen06 (2007–2010) (Laucou et al., 2011), first, and then COST Action FA1003 (2011–2014) (Failla, 2015), a strong and still active network of scientific collaborations has been developed between European and Georgian researchers, to genetically characterise and preserve the Georgian genetic resources of vines.

Strategic Direction:

- Optimization of wine exports;
- Development of rural wine tourism in Georgia;
- Attracting international funding and investments in order to promote international cooperation.

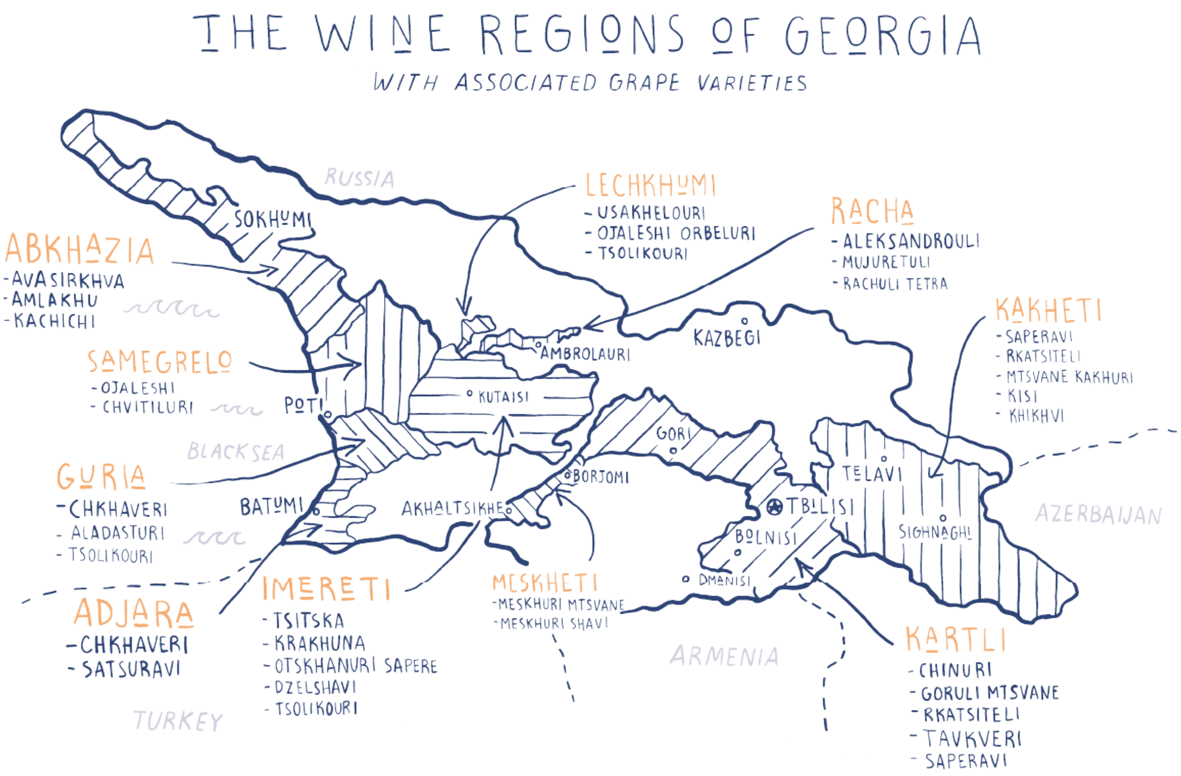
Production, Consumption and Export - In Georgia a distinct germplasm from the cradle V. Vinifera is found, domesticated in South Caucasus. Its distinction from the one domesticated in Europe can be found in the following traits:

- eno-carpological and phenological traits;
- resistance to pathogens, such as oomycetes and phytoplasmas;
- resistance to abiotic stresses, such as sunburn.

All the outcomes about the genetic characterisation of Georgian germplasm reported the uniqueness and originality of this germplasm when compared to the European and Central Asian germplasm (Myles et al., 2011; Bacilieri et al., 2013; Imazio et al., 2013; Riaz et al., 2018; De Lorenzis et al., 2019).

Georgia counts 48,000 hectares of vineyards and a production of wine and table grapes of 159,000 and 8,000 tons, respectively. In 2015, about 100 M liters of wine were produced, 80% of them obtained by white and 20% from red berry grapes. More than 90% of the 2015 production was supported by Kakheti region, producing mainly white and red wines from Rkatsiteli and Saperavi grapes, in the ratio 7:3.

To date, fifty grapevine varieties are recommended for cultivation in Georgia. Most of them (37) are wine grape cultivars, while the others (13) are generally used to produce grapes for fresh consumption. Predominantly, the Georgian vineyards are cultivated with autochthonous varieties: among the recommended wine grapes, 31 are local varieties and seven are international cultivars, while, considering the table grapes, nine of them have a local origin: four are traditional, autochthonous, Georgian cultivars, five are from local breeding outputs, and five are all authochthonous varieties (Chkhartishvili and Maghradze, 2012).



The restructuring efforts of the wine sector had important results for Georgian wine exports and the recognition of Georgia as a producer of distinctive, quality wines. Georgian wine exports have boomed:

- In 2017, a record year for Georgian wine exports, 76.7 million bottles of wine were exported to fifty-three countries, a 54 percent increase compared to 2016 exports (National Wine Agency 2017a);
- In 2018, another record year, Georgia exported about 86.2 million bottles of wine to fifty-three countries (Agenda.ge 2019). The top importers are still former Soviet countries, including Russia (33 million bottles), Ukraine (6 million bottles), Kazakhstan (2.3 million bottles), and Poland (2.1 million bottles). However, China now imports 4.1 million bottles from Georgia, with Western Europe and the Americas receiving around 1 million bottles. Export growth is strongest in the European Union, the United States, Asia and former Soviet countries (National Wine Agency 2017b).

Restructuring of the wine industry - Post-Soviet Georgia's wine sector faced multiple challenges. These haven't stopped the public drive to restructure and develop an independent wine sector (Shtaltovna 2016). The privatization of the land and the availability of small plots to many families was a major first challenge(USAID 2011; Shtaltovna 2016).

A second major challenge was the adaptation of the Georgian farmer mentality to a new entrepreneurial thinking. A third challenge was the negative view that Georgian farmers had on cooperatives after the Soviet rule of forced collectivization. Cooperatives are needed in the GI certification scheme. The Georgian government rushed into the following steps in order to restructure the Georgian wine sector:

- equated the local understanding of the geographical place of origin to the international appellation used in the wine market (Sakpatenti 2010);
- protected intellectual property for regional appellations. Moreover:

1. In 1998, the Vines and Wine Law was signed, and Georgia joined the Madrid Protocol on the protection of international marks;
2. In 1999, the Law on Appellations of Origin of Goods and Geographical Indication in Georgia ("the Law") was approved. The Law is governed by National Intellectual Property Center. The Law regulates the registration, protection and use of appellations of origin and GIs of goods (and services). The Law also set out the basic procedures for wine production, regulated winequality and protected the market against counterfeit and low-quality products (Kemashvili 2012). As part of the Law, eighteen GI wines were registered (Sakpatenti 2010);
3. In 2000, Georgia joined the WTO and became a signatory of TRIPS, which provided a platformfor strong international protections (Interview with Kasradze 2018);
4. In 2002, a presidential decree was signed on the protection of GI as an urgent matter in order to avoid misappropriation within the country and to more adequately prepare a basis for legal claims at the international level (Interview with Kasradze 2018);
5. In 2004, Georgia joined the Lisbon Agreement for the Protection of Appellations of Origin andtheir International Registration (Kemashvili 2012);
6. In 2012, the EU-Georgia Agreement on Mutual Recognition of Geographical Indications of Agricultural Products and Foodstuffs came into force;
7. In 2013, right after the embargo of Georgian wines from Russia was lifted, the Georgian qvevri method was approved by UNESCO as a world Intangible Cultural Heritage (World Bank 2015);
8. At the same period definitive archaeological findings confirmed Georgia's 8,000-year pedigreeof wine (Glonti 2010; Kharaishvili, Chavleishvili and Natsvaladze 2014; Maghradze et al. 2016; McGovern et al. 2017);
9. In 2015, a number of joint Georgia-EU documents concerning agriculture and rural development were signed that directly affected the wine sector (Ministry of Agriculture of Georgia 2015; Association Agenda between the European Union and Georgia 2014).

Established Institutions and Activities - In the 1920's, the Georgian National Wine Agency that operates under the Ministry of Agriculture was established. The Agency has the following distinct roles:

- Support the development of Georgia's wine sector and the continuous development of the quality of its wines;
- Regulate all aspects of wine production;
- Ensure that producers comply with production standards;
- Monitor quality;
- Support the development of viticulture and winemaking;
- Regulate everything from the breeding of vine grafts and vineyard planning to grape processing,wine production and sales;
- Monitor the certification and labeling of quality wines;
- Grant rights to use a registered AO;
- Maintain and improve the quality of Georgian wine;
- Protect the market against low-quality, counterfeit products.

The Georgian government, by putting in place an effective legal framework, has secured the protection of GIs, therefore:

- protecting the reputation of producers of quality products linked to a specific geographical region;

- differentiating these products in a competitive marketplace;
- capturing the value of local resources;
- generating higher levels of income;
- improving livelihoods;
- safeguarding the interests of consumers who can be confident they are purchasing authentic, quality products from a specific region;
- increasing the production of high-quality, value-added products.

In June 1999 the Law on Appellations of Origin and Geographical Indications, characterized the development of Georgia's wine sector as an economic priority, regulating the following:

- the basic procedures for wine production;
- the production of the highest quality wines;
- the protection the market against counterfeit and low-quality products;
- the procedures of registration of a product under GI (geographical indication) or AO (appellation of origin).

The above Law was supplemented by the Presidential Decree (2002) and further legislation that regulates the nursery industry and encourages sales of approved virus-free rootstocks and grape varieties. The implementation of the Law is secured by the national intellectual property center of Georgia (Sakpatenti, 2010), maintaining a register of authorized users of AOs and GIs and supporting them in foreign markets.

In 2016 the project "Wine Route of Georgia" was implemented. Its aim was to list all wine producers in Kakheti region: companies, SMEs, and family-owned wine stores. The wine route would create tourist attractions around the concentrated sites (ENPRD, 2016).

Other supporting programs for the wine sector have been initiated by the Georgian government:

1. Cadaster program (2014) for vineyards, aimed at modernising and increasing productivity of winemaking (Ministry of Agriculture of Georgia, 2015). Overseer is the National Wine Agency;
2. The Rural Development Strategy 2017-2020, aimed at agricultural development, social safety, rural infrastructure and improvement of access to public services by rural populations (ENPRD, 2016). It included the following individual programs:

    - Plant the Future -Goal: Planting of perennial crops;
    - Produce in Georgia -Goal: Creating and promoting the enterprises producing agricultural goods;
    - Agro Insurance -Goal: Developing the agricultural insurance market;
    - Agro Credit Program -Goal: Access to financial resources;
    - Support for Entrepreneurship -Goal: Increased access to infrastructure for agricultural SMEs;
    - Facilitation of Micro and Small Enterprises;
    - Provide financial and technical assistance to SMEs in economically vulnerable regions ofthe country (Berishvili, 2019; ENPRD, 2016).

All the above in return boosts the country's earnings from wine exports, but also supports the sustainability of the sector itself. The higher economic returns are tempting a growing number of SMEs to get involved in wine-producing and to spring up in rural communities, creating employment opportunities, supporting traditional winemaking practices, and breathing new life into rural economies. Georgia, realising the economic importance and the sector's export potential, decided to strengthen the international reputation of Georgian wines and to expand into more diverse markets. In 2004, Georgia took an additional step to this direction by signing up to the

WIPO-administered *Lisbon Agreement for the Protection of Appellations of Origin* and their International Registration.

The SME and Finance Environment – (gross overview) Only 2.9% of small and 15.2% of medium-sized enterprises in Georgia export some of their output. The regional average for Eastern Europe and Central Asia is 15% and 25.6%, respectively (EBRD/WB, 2013). While Georgia performs well in customs and trade regulation, and Enterprise Georgia is already providing training and support to SMEs to participate in trade fairs and missions, challenges remain for Georgian SMEs to fully benefit from the opportunities offered by the AA/DCFTA.

Commercial banks in Georgia introduce heavy requirements to counter the higher risk of SMEs' lending. As a result, SMEs face an estimated gap of USD 0.5-0.7 billion in their financing needs. Specific obstacles identified include: high collateral requirements (up to 220% of the loan value) and interest rates (at around 16%); loan dollarization continues to be high -this poses significant currency risks for SMEs; Banks' limited capacity to assess SMEs' risk outside the capital city.

Weak bankruptcy and insolvency procedures. Georgia ranks 122nd on this dimension in the World Bank's Ease of Doing Business Index, mainly due to a series of shortcomings in the overall framework, such as creditors' participation and low debt recovery rate (World Bank, 2015a).

Further observations and viable options:

- A Credit Guarantee Scheme appears to be a viable tool to facilitate access to bank finance for SMEs;
- Institutional progress has been made with the creation of GITA and innovation facilities (e.g., incubators and technology centers such as FabLabs, where companies can develop prototypes for their products), and the R&D and Innovation Council. A national innovation strategy is also being developed;
- While the Tax Code is already quite favorable to innovation and R&D (e.g., deductible research and education expenses) and even though GITA provides mini-grants to individuals, more targeted financial support for innovative SMEs is still possible;
- Building on the technical audit of Georgian research institutes currently being conducted in co-operation with the Massachusetts Institute of Technology (MIT), awareness among SMEs of the research capacities identified should be increased.

Enterprise Georgia, established in 2015 under the Ministry of Economy and Sustainable Development, plays a leading role in Georgia's SME landscape. The agency delivers a range of business support programs, easing access to finance and offering consulting, capacity-building and business intelligence services. Enterprise Georgia is considered an international good practice.

Further takeaways:

1. Georgia has Free Trade agreements with Europe. The signing in June 2014 by Georgia of an Association Agreement (AA) and a Comprehensive Free Trade Agreement (ALECA) with the European Union, has strengthened its exports;
2. Export managers need technical advice in three priority areas: international marketing,product/market requirements, as well as trade finance and insurance products.

Economy:

- Agricultural, mineral, hydroelectric (almost self-sufficient in electricity) and tourism potential;
- International support, in particular from the EU and IMF;
- Strategic geographical position (crossing point for Caspian);

- Small open economy sensitive to regional conditions;
- Structural trade deficit, lack of industrial tradition, low diversification, and low value of export products;
- Significant rural poverty against a backdrop of unemployment, underemployment and inadequate training;
- Low agricultural productivity: the sector accounts for half the working population, but 9% of GDP;
- Inadequate transport infrastructure hampers tourism and transit;
- Low levels of education and innovation;
- Population concentrated in the capital (1/3);
- Relations with Russia undermined by the situation in Abkhazia and South Ossetia;
- Governance is poor in terms of anti-corruption, regulatory quality and government effectiveness, but average as regards the rule of law, government accountability and treatment of insolvency.

B. The Wine Sector in Moldova

Although the wine industry in Moldova is now in a more advantageous position to compete internationally, still only one-fifth of Moldovan wines are in line with Western quality standards due to winegrowers and winemakers using outdated production equipment and methods. In addition, the structure of the industry weakens competitiveness. Modernization of the industry in order to take advantage of growing demand for higher-quality wine would require investment resources onthe scale that is currently not available in the country.

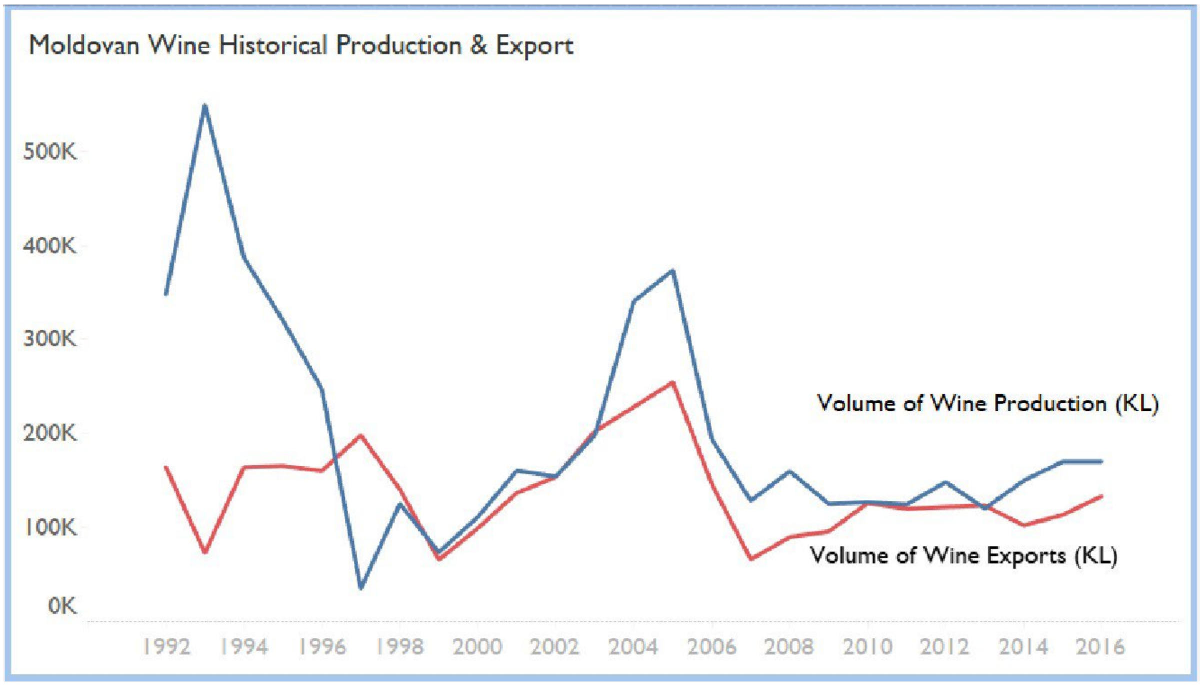
General - Statistical data and market information up until 2018 indicate that Moldova is in direct competition with Chile, Greece, and Georgia as regards its international wine positioning. The wine sector in Moldova has the natural advantage of good vine-growing conditions and one of the world's highest densities of vineyards per square kilometer. The long history of wine production and the presence of local vine varieties provide another set of natural advantages. Prior to 2006, the wine industry accounted for 25% of Moldova's GDP with up to 90% of the wine exported to Russia. When Russia imposed wine import restriction in 2006, the wine industry was forced to diversify in other global markets, facing three distinct branding disadvantages: (a) Moldova not being a known wine producer; (b) Moldova wines not known for their quality; and (c) unknown Moldova grape varieties.

Strategic Direction:

- Reduce international trade in bulk wine;
- Increase visibility of Moldova's wine on the main international markets;
- Start producing high-value bottled wines through technological advancements;
- Promote indigenous grape varieties.

Production, Consumption and Export - The wine industry accounts for 3.2% of Moldova's GDP and 7.5% of total exports and employs about 200,000 workers. There are 187 wineries registered in the Wine Register, out of which 68 own vineyards. The number of small wine producers in Moldova quadrupled since2014.

Bulk remains the largest share of exported wine by volume, although reduced -primarily to Belarus, Ukraine, Russia, and Romania. The free trade agreement with the EU supported the shift to added value branded wines, with the largest quantities of bottled wine absorbed by Romania, Poland, Czech Republic, the UK, and Hungary. The industry is making efforts to promote these wines also to Italy and the Netherlands. Russia is coming back as a significant importer of Moldova's wine, but does not yet import anywhere near the pre- 2006 quantities. Larger winemakers are interested in exploring China and the U.S., whereas smaller ones prefer to develop the neighboring EU markets due to easier overall accessibility and less required investment.



European consumers are looking for variety and are interested in trying local and smaller brands, while consumers in the larger markets do not distinguish between different brands of Moldovan wine and are more concerned with quantity and price.

The area under vine in Moldova is about 147 thousand hectares, which places Moldova in 12th place among main wine-producing countries. The overall areas under vine in Moldova are higher than in well-known wine-producing countries such as Australia, South Africa, Germany, and Greece. However, these countries' wine production and exports are higher than Moldova's.

Wine producers with their own vineyards are planting local varieties of grapes, leading to a 15% increase in vineyards with indigenous and new-selection varieties. However, most of the grapes produced in the country are still based on European varieties: Cabernet Sauvignon, Merlot, and Pinot Noir for the redvines; and Aligote, Sauvignon, and Chardonnay for the white wines. The white wines constitute 55%, red wines are about 35%, and rosé wines are 8%, with 2% being specialty white, rosé, and red wines.

Restructuring of the wine industry has taken a considerable effort to identify new markets, to plant new vineyards, and rebrand wineries in accordance with high European standards to improve the quality of the wine and to promote them under the country's trademark.

The wine sector restructuring has been funded to a great extent by international organizations such as the USAID and the EIB, and by governments such as the Swedish government, focusing on the following main objectives towards improving the quality and branding of Moldovan wines, with the goal of helping the industry diversify to broader markets:

1. Training and building capacity in effective winemaking skills, practices, and technology;
2. Technical assistance in marketing and building the image of high-quality wineries;
3. Development of a new, competitive vision and strategy for the Moldovan wine sector;
4. Improve productivity and quality of products and services of Moldovan businesses;

5. Increase sales in domestic markets and exports in regional and global markets; and
6. Improve the enabling environment, regulatory framework, and local institutions' capacity.

Indicatively: A Wine Sector Restructuring Program was financed by the European Investment Bank (EIB) and implemented from 2014 to 2016. Through the program, the EIB granted Moldova a loan of €75 million for a 12-year period. The total investment of the EU program in the rehabilitation and development of the entire value chain of the wine industry has exceeded €104 million, of which about €50 million was providedby the EIB from a total budget of €75 million. More than €74 million in investment was used to redesign and plant 2,271 hectares of vineyards, to implement 71 investment projects, and to upgrade and modernize the technology in 55 wineries according to international quality standards. More than €22 million was invested in upgrading eight auxiliary companies that produce ecological packaging, wine-bottling accessories, and wine equipment that meets EU standards. The EU investments in vineyards and winemaking technologies have amounted to a total of €330 million in the past 10 years. USAID activities, such as Moldova Structural Reform Program, Western NIS Enterprise Fund/Horizon Capital, Technical Assistance to the National Bank of Moldova, and others, provided indirect support to the development of the sector by improving business environment, access to finance, increasing government capacity, and other factors.

Established Institutions and Activities – The implementation of the international programs has succeeded in establishing the following:

1. Development of the Moldova Wine Guild, an association of high-quality wineries, which exports more than one-third of all Moldovan wine;
2. Assistance to a few selected wineries in developing linkages with partners in Poland, the Czech Republic, and Germany;
3. Legislative initiative enabling the public-private partnership for the administration of the wine industry, leading to the establishment of the ONVV Association (obtains its funds from a tax leviedon wine sales, and these funds are matched by the GOM – with 210 registered wineries, which represent only 40% of the country's production);
4. Other legislative initiatives formulating the Technical Regulation for the sector, including the regulatory model for the protected designation of origin (PDO)/protected geographical indication (PGI) wine-production system;
5. Establishment of the ASW Association, the Wine School NGO, and the PGI Producer Associations Codru, Valul lui Traian, Stefan Voda;
6. Launch of the official country wine brand, "Wine of Moldova: A Legend Alive" and development of tools and infrastructure for using the brand to promote the sector -such as a Marketing & Promotion Framework; brand book; communication strategy, sustainability framework and legal enforcement concept, and a website for ONVV. The development of the "Wine of Moldova" campaign, and the constant efforts to promote Moldova's wine on international markets had significant impact on industry development, and has influenced the stakeholders' business development efforts;
7. Organization of industry promotional events and support of national events;
8. Development of the local wine market through the development of the promotional events such as National Wine Day, bi-annual Wine Vernissage, two editions of the Wine School, and accredited Sommelier courses;
9. Assistance to the development of the wine tourism concept to support promotion and sales of small wineries and to strengthen inbound tourism in the country;
10. Small grants (maximum $20,000) to help purchase equipment and the time of professional consultants to improve quality and branding;
11. Further development of the local wine tourism market at small wineries;
12. Support of workforce improvement through training programs, such as the "Wine of Moldova Academy" and Sommelier School;

13. Support of product design and marketing at the assisted wineries, international promotion of the sector, and local wineries in developing international links;
14. Support of wineries to participate at specialized trade events in target export markets, including Poland, Romania, the Czech Republic, and China;
15. Support of capacity development of ONVV and other industry associations such as the ASW and regional associations of PGI producers;
16. Assistance to industry associations to further improve technical regulations, assess quality controls, and ensure traceability via subordinated normative acts;
17. “Best Grapes” initiative under which ONVV in partnership with PGI Association Valul lui Traian seeks to create best practices in wine growing by implementing and observing different plantation schemes rootstock, bush load, and various vine caring practices on 23 experimental lots. The knowledge acquired adds to the implementation of cutting-edge technology such as autonomous meteorological stations and pest sensors that allow farmers to predict meteorological and diseaseinfection risk enabling them to optimize spraying and other vine caring operations in the face of climate change;
18. The Small Winemakers Summit.

The SME and Finance Environment – (gross overview) The Moldova Competitiveness Program (MCP) strengthens the institutional capacity of the Association of Small Winemakers (ASW) through development of an annual activity plan and improved communication with members. A strong and well performing business association is critical to ensure the health of the entire ecosystem of small winemakers. MCP provides both internal and external assistance to ASW to streamline and enhance its internal processes, to allow the association to provide more transparency and accountability to members. MCP continues to endow ASW with winemaking and sales equipment. The availability and common use of shared equipmentis one of the most important services that ASW provides to its members, as most of the wineries cannot afford to invest in expensive pieces of winemaking and sales equipment that are critical to quality wine production and sale, but are used infrequently throughout the year. *Further country input is necessary in order to complete this section.*

Further takeaways:

1. There needs to be more emphasis on a “Country Brand cohesive marketing campaign strategy”;
2. Geography and volume of exports have increased;
3. Development efforts have been targeting quality improvements, such as quality certification,improving production techniques to stabilize wine in the bottle, bottling, and bottle design (leading to increased volume of the bottled wine);
4. Smaller producers prefer to develop their business by increasing quality and value of the wines they produce rather than growing their production beyond 100 thousand bottles a year;
5. Further technical renovations and process improvements across the wine-growing value chain to meet the demands of Western markets, as well as quality standards such as PGI and Wine of Moldova brand benchmarks.

Economy:

- Moderate decrease IN growth in 2020 with persistent deficits and a fragile banking systemguarantee by Russian loan as leverage with EU, IMF
- Agricultural potential (wine, fruit, vegetables, sunflowers, wheat
- Association and free trade agreements with the EU (2014)
- International financial support
- Relatively inexpensive labour
- Poorest country in Europe WITH high emigration (1 million people have left)

- Low productivity, corruption, kleptocracy, weak governance, oligarchy and clientelism
- Underdeveloped credit (19% of GDP)
- Dependence on remittances from expatriate workers
- Separatist tendencies in Transnistria

C. The Wine Sector in Azerbaijan

Targeted state programs have been developed, price, credit and tax systems have been improved, licensing and certification rules have been revised to strengthen the legal-regulatory basis of the winemaking industry. As a result, Azerbaijan is considered a promising wine-producing country and Azerbaijani wine gains popularity the world over. To this end, several programs to develop and support Azerbaijan wine are set-up with support of the Azerbaijan Export and Investment Promotion Foundation (AZPROMO).

General - Winemaking in Azerbaijan is believed to have existed since the Bronze Age. For instance, archeologists have found jars with remains of wine buried in the Goygol region, and stone fermentation and storage vessels that included residue and grape seeds in the digs of settlements in Kultepe, Karabakhlar and Galajig. Winemaking improved with the arrival of German immigrants from Wurttemberg in the early 19th century. Established German family businesses such as the Vohrer Brothers and the Hummel family based in Helenendorf invested in Azerbaijan and industrialised the wine production to European wines standards. Very developed during the Soviet rule, it fell into disarray and almost disappeared with Soviet leader Mikhail Gorbachev's anti-alcohol campaign in 1985, the Armenian conflict from 1988 onwards and in the early years of the country's independence. Today the Azerbaijani government is trying to revive the viticulture and winemaking agrarian sector of the country. Azerbaijan is one of the main wine producers in the Caspian Sea region.

Strategic Direction:

- Responding to the global warming threat, a selection of grape varieties resistant to diseases is being made and used for cultivation of grape stocks. Conditions and regulations are stipulated for production, storage, transportation, and packaging by the executive authority;
- The State Program on the Development of Winemaking in Azerbaijan (2018-2025) supports the sustainable development of winemaking through:

    - Increasing state support;
    - Introducing modern technologies into the winemaking process, in order to improve quality that can be competitive internationally;
    - Strengthening scientific research according to international standards;
    - Raising interest of the rural population in wine production and exports of high-quality wine;
    - Protecting the domestic market against unfair competition;
    - Educating the domestic consumer on the Azerbaijani wine sector;
    - Creating the regulatory framework that will sustain, protect, and develop the viticulture and winemaking sector according to international standards.

Production, Consumption and Export - Wine is produced in several regions of Azerbaijan. Vineyards are found at the foothills of the Caucasus Mountains and in the Kur-Araz lowlands. Ganja, Nagorno-Karabakh, Shirvan, and Nakhchivan have emerged as centers of wine production in Azerbaijan in the 21st century. Vineyards in these regions account for about 7% of the country's cultivated land. The regions are famous for 17 vine and 16 table grape varieties. Currently, there are 17 wineries with own vineyards that produce wine in the country. The largest one is Vinagro, created in 2006.

Azerbaijan is known for high quality autochthonous grape varieties. Madrasa, Shirvanshahi, Hamashara, Kharji, Gara Aldara, Bayanshira and Davagozu are grape varieties that are produced in different regions of the country. Attention is being paid to the proper selection and servicing of the grape varieties depending on the soil and climate.

Other local grape varieties include White Shani, Derbendi, Nail, Bayanshire, Gamashara, Ganja Pink, Bendi, Black Shani, Zeynabi, Misgali, Khindogni, Agdam Kechiemdzheyi, Tebrizi, and Marandi.

Azerbaijani grape varieties are very diverse by their morphological characteristics and are distinguished by their color, shape and size of the berries, flavor and aroma, ripening period, direction of use, processing, and storage specifications, etc.

Among the grape varieties used to produce Azerbaijani wine are Pinot Noir, Rkatsiteli, Pinot Blanc, Aligote, Matrassa, Podarok Magaracha, Pervenets Magaracha, Ranni Magaracha, Doina, Viorica, and Kishmish Moldavski.

Even though Russia (85%) and China (7%) are the main export markets, followed by the EU, Belarus and Kyrgyzstan, a serious effort is being made to increase the export countries. According to the 'State Program of Wine Development in 2018–2025', the country plans to increase wine production fivefoldby 2025, meaning an amount of 5 million deciliters as compared to around 1 million deciliters produced in 2017 (Caucasus-Asia Center, 2020).

The good quality of Azerbaijani wine products is supporting the steadily growing exports to other countries.

Restructuring of the wine industry - The "State Program for Development of Viticulture in the Republic of Azerbaijan in the years 2012-2020" laid the foundation for a new stage in the development of viticulturein the country. In response to winemakers in Azerbaijan not having the necessary information, and a clear strategy and guidelines for viticulture (Hanf, 2016), the State Program aimed at developing viticulture practices in accordance with modern market requirements, so that:

- new modern vineyards would be established;
- the area under vine and wine grape production would grow;
- the wine grape production would target branded wines

By 2020, the State Program has achieved the following results:

- In 2012 the total sown area of vineyards was 16.3 thousand ha, the harvest was 151,000 tons, andthe productivity was 88.6 quintals. In 2020, 201.5 thousand tons were collected from 16.1 thousandha of vineyards with 92.8 quintals in productivity;
- New vineyards were planted in the Ganja-Gazakh region (4,041.1 ha), the Shirvan region (3,107.1 ha), the Lankaran region (1,620 ha), and Nakhchivan AR (1,445.6 ha).

In order to develop the non-oil sector in the country, create a friendly market environment for the wine sector and stimulate entrepreneurship in this area, the requirement to obtain a special permit (license) for the production, import and sale of wine and wine products was eliminated by the government in 2015. In order to increase the global competitiveness of exported Azerbaijani wine and wine products, and to support exporters, the 6% of export value has been paid through the export promotion program since 2016. At the same time, in order to boost investment activity, to improve the business environment, to increase industrial production and to support local production, according to the Tax Code of the Azerbaijan Republic and the Law of the Republic of Azerbaijan "On Customs Tariffs", wine producers who received investment promotion support are fee from paying income tax on 50% of their profits for 7 years, as well as VAT and customs duties on imported machinery, technological equipment and facilities. In addition, they are also exempt from paying property tax and land tax for relevant lands owned or used. (Questionnaire AGOGE Partners LLC, 2021).

Established Institutions and Activities - Since 2017 and under the endorsement of the Azerbaijani President Ilham Aliyev, the opening of wine houses in foreign markets as promotional tools has started. Belarus saw the first opening of these Azerbaijani wine / trade houses followed by Ukraine and China. More are to follow in UAE, Poland, Kazakhstan and Russia (Haydarof, P. 2018). Moreover:

1. Under the Azerbaijani Scientific - Research Institute of Viticulture and Winemaking all grape varieties, indigenous or foreign, are studied for their geomorphological, agronomical, and technological characteristics. Subsequently, their ampelographic descriptions are made, determining the perspective variety and forms and recommendations are issued for production and donor types;
2. The State Program on the Development of Winemaking in Azerbaijan (2018-2025), endorsed in May 2018 supports the sustainable development of winemaking. Its aim is to increase state support, introduce modern technologies and raise interest in the rural population on wine production and exports of high-quality wine;
3. The body of legislation of the Azerbaijan Republic on wine growing and winemaking consists of the Law of the Azerbaijan Republic "About foodstuff" as amended in July 2019, the civil and agrarian legislation of the Azerbaijan Republic, and other regulatory legal acts adopted in connection with this Law. The main aspect of the Law is to develop the Azerbaijani viticulture and winemaking sectors to international standards in order to be able to compete with other established wine producing countries;
4. An effort has been made by the Azerbaijani government since 2004 with the State Program for the Social and Economic Development of the Regions of Azerbaijan (2004-2008), to strengthen the legal framework of the winemaking industry and develop viticulture. Other State Programs followed such as, in 2008 the State Program for Poverty Reduction and Sustainable development (2008-2015) and the very important State Program for the Development of Viticulture in Azerbaijan (2012-2020). The latter aimed to the increase of grape production volumes, domestic demand and the development of technological standards of wine and grape processing plants;
5. Azerbaijan cooperates with the International Organization of Vine and Wine (IOVW); the National Institute for Vine and Wine “Magarach”, Yalta; the Tairov Wine Making and Wine Growing Institute, Odessa; and other organizations.

The SME and Finance Environment – (gross overview) In 2016, the Government of Azerbaijan adopted its Strategic Road Map on Production of Consumer Goods at the Level of Small and Medium Enterprises in the Republic of Azerbaijan (SME Roadmap) to promote SMEs’ development and stimulate diversification of the economy. Currently SMEs’ potential remains largely untapped. SMEs generated 6.4% of value added and 18.5% of employment in 2016, compared to 60% of total value added and 60-70% of employment in OECD countries. Most Azerbaijani SMEs are concentrated in relatively low value-added activities. A highly praised network of so-called ABAD (Simplified Support for Family Business) centers is operated by the State Agency for Public Services and Social Innovations (ASAN), providing support for the establishment of family businesses in arts and crafts, and agriculture. These centers also provide a “single window” from which to obtain product certification, and they operate retail sales on behalf of family-owned businesses. The ABAD projects provide support services to SMEs in various stages of development.

Most SMEs in Azerbaijan do not use external financing, leaving them with limited resources to expand, innovate or internationalize. The 2018 OECD enterprise survey of Azerbaijani SMEs finds that a large majority (76%) of respondents consider internal funds their most important source of financing. Furthermore, domestic credit to the private sector in Azerbaijan in 2016 represented only 26% of GDP, lower than the averages for the economies of both the European Union’s Eastern Partnership (40%) and OECD (140%) (World Bank, 2017). In addition, the findings of a 2015 World Bank survey indicate that highcollateral requirements are the main barrier for SMEs seeking external finance, followed by complex application procedures. According to the survey, 45% of microenterprises do not seek credit due to high collateral requirements.

Further takeaways:

1. The Sector is lacking educated professionals and involvement of younger people that could sustain the country's viti and viniculture.

Economy:

- Moderate growth in the absence of diversification beyond hydrocarbons generation
- Well-endowed sovereign wealth fund
- Significant gas potential in the Caspian Sea; export prospects to Europe via Turkey
- Strategically positioned between Europe and China
- Institutional improvements (SME taxation, credit regulation), reduction of petty corruption (e-government)
- Heavily dependent on hydrocarbons, declining oil production; undiversified economy
- Governance issues (corruption, repression, offshore laundering)
- Anti-competitive market structures
- Human capital gaps (education, health)
- Weaknesses in the banking sector (dollarization, low profitability, non-transparency)

D. The Wine Sector in Armenia

Armenia as a wine producing country is small. As such, it has difficulty to compete in the international markets with the established players. Its geographical position makes this even harder. However, Armenia's small size and remote location could develop into a competitive advantage for Armenian wines.

General - Armenia has a long viticultural history. Under the Soviet rule, its wine production was severely diminished, since it became the most important producer of brandy, covering 25% of the brandy consumption in the Soviet Union. The fall of the Soviet Union collapsed the Armenian wine industry. The Soviet tradition and rule, from 1922 to 1991, to focus on brandy production and not quality wine production, country isolation and economic hardships thereafter have contributed to the loss of Armenian traditional winemaking techniques, methods and styles (Trela, 2014). Social gathering and exchanging ideas over wine is deeply rooted in the social heritage of the country. Between 2000 and 2010 viticulture and winemaking rebuilt its importance and today it is one of the more developed sectors in Armenia.

Strategic Direction - On 30 June 2021, the Vine and Wine Foundation of Armenia (VWFA) acknowledging the importance of viticulture and winemaking for Armenia, presented the following strategic direction andfuture goals for Armenian wines for the period 2021-2025 (MoEotRoA, 2021):

- Raise awareness for the Armenian wine and promote consumption in both domestic and foreign markets;
- Emphasize the particularity of Armenian wines;
- Develop a unified system for quality control of Armenian wines;
- Create the brand "Armenia's Wines" and expand the area under vine towards increasing local consumption and exports;
- Lift the barriers related to exportation;
- Improve the legal framework and educate wine specialists;
- Create the "RA Grape Plantations Cadaster", register local varieties, and promote the geographical indications international wine marking system;
- Establish an online sales platform for Armenian wines in Europe.

Production, Consumption and Export - The area under vine is very limited compared to the neighboring EaP countries. Armenian wine is made in the region of South Caucasus. Although Armenia is one of the oldest wine producing regions of the world, its volume is small. And nowadays, it is more famous for its cherry type wine.

Even though the geographical location and climate of Armenia are favorable to wine grape production, there are technical issues that result in inferior quality grapes at harvesting. Armenia produces two high quality white wine grape varieties, the Kangoun and the Voskehat, and the Areni, which is a red wine grape variety of higher quality. Due to early harvest, wrong intervals between vines, number of clusters on grapevines, fertilizers, etc. the sugars of harvested grapes are not high enough to produce high quality wines -especially with the Areni, which is thought to be able to compete in the international markets.

About one-third of the 8 mhl of wine produced is exported, and two-thirds are consumed locally. Total wine export for 2018 was approximately 2,5 mhl. Russia is the main importer (75%). The balance is exported to Germany, U.S., China, and Canada. By increasing the exports of Armenian wines an effort is undergoing to put them on the world map, to gain recognition and to become a competitive player in the global wine trade. Camillo, A. et al., 2019

Wine consumption is quite low (1.6 lt/capita) compared to the other five countries Belarus, Azerbaijan, Georgia, Ukraine, Moldova and especially low if compared to traditionally drinking wines like Chile (21 lt/capita), Argentina (31 lt/capita) and France (53 lt/capita). The recent increase in wine bars mainly in Yerevan has contributed to the development of Armenia's wine culture and appreciation by consumers, mainly the youth.

Restructuring of the wine industry - The Armenian diaspora of 8 million emigrants compared to the 3 million Armenian population, is fueling the Armenian wine renaissance. The Yerevan area has been leadingthe way with the creation of wine bars since 2012, where people can enjoy local wines (Atkin, T., 2020).

Locally, the Vine and Wine Foundation of Armenia is leading the restructuring effort of the Armenian wine industry. With the creation of the scientific website, www.vitis.am, an effort is being made to:

- Map the genetic resources of grape in Armenia;
- Study the enological potential of grape in Armenia;
- Preserve Armenian grape varieties with their introduction to the Vitis International Variety Catalogue (VIVC), the database of the international grape varieties.

In addition, the following initiatives are being implemented to further the development of the wine industry in Armenia (VWFA, 2019):

- Land monitoring and identification for grape growing in Vayots Dzor marz; 7,000 ha that were not used but had grape growing potential were identified and promoted for planting of new vineyards;

- In 2019, a training program for grape growers was launched, with the assistance of the Private Sector Development and Technical Vocational Education and Training, South Caucasus program ofGIZ, Yerevan Brandy Factory, Armenia Wine company, the Armenian National Agrarian University, and the Center for Agribusiness and Rural Development (CARD); the training is conducted by a specialist from the Institut de Richemont of France;

- In 2018, the implementation of the system of geographical indication of wines in Armenia, was initiated, supported by a group of experts from France;

- In 2019, a consultancy project to 12 winemaking companies was undertaken. The following results were ensued:

  - a strategic plan was created for each of the 12 companies;
  - production technology was introduced in 7 of them;
  - 15 new labels of wine were created.

- Technical support to households involved in winemaking in Armenia's viticulture and winemaking regions resulted in:

  - accessories for winemaking technological processes (yeasts, sulfur dioxide compounds (potassium metabisulfite), etc.);
  - winemaking season of 2019, was overseen by winemaking experts. The results were 10,000 lt of wine produced by the beneficiaries;
  - 16 home winemakers, were selected and provided with a grant of 3 million AMD each. Thegoal was to improve production conditions, for building a wine cellar and a tasting room. The goal was to develop:

    - knowledge of proper installation and operation of equipment;
    - introduction of technology needed for winemaking;
    - professional capacity building and creation of conditions for wine tasting, food delivery, hosting, and sales.

Established Institutions and Activities:

1. There is horizontal legislation -e.g., law N. 181 "SANPIN", which regulates hygiene for the entire agricultural sector, and vertical legislation, e.g., "TRTS", which applies specifically to the wine sector;
2. The Communities Association of Armenia, uniting and representing Armenian domestic communities, works with the central government on local and national issues;
   Further country input is necessary in order to complete this section.

The following marketing and promotional tools and mechanisms are used to promote Armenian wines internationally and domestically:

4. The Areni Wine Festival -very well established among wineries, consumers, and wine professionals;
5. Participation in international wine events, like the Shanghai International Wine & Spirits Exhibition (China), the Prodexpo (Russia), the EnoExpo (Poland), the ProWein (Germany), and the Mundus Vini (Germany);
6. Wine Tastings and Events in wine bars and wine-focused restaurants, like InVino, Wine Republic, Salon, Tapastan and The Club;
7. International degustation and promotional events, like Armenian Wine Tasting events and ceremonies in Belgium, China, the UK, Poland, and the USA;
8. Meetings with international sommeliers and wine journalists;
9. Armenia became a member of OIV in 2014. It is not mandatory for Armenian producers to abide byOIV resolutions;
10. Wine Tours -there are currently about 50 wine producers in Armenia. At least 30% of them providewine tour services, and contribute to the development of wine tourism in Armenia.

The SME and Finance Environment – (gross overview) *Further country input is necessary in order to complete this section.*

Further takeaways:

1. Armenian winemaking producers don't cooperate in order to present a unified image for Armenianwines;

2. There is difficulty to enforce legislation in place;
3. International standards, such as GOST or OIV, are only optional for winemakers to follow. Same with practices such as documenting traceability;
4. Modernization of wineries is very slow, as is adoption of technology;
5. Necessary rules to produce high quality wine, like temperature regulation, cooling guidelines and hygiene, are often violated -e.g., barrels and facilities are not cleaned and sterilized in a proper manner;
6. In Armenia only one company has ISO 22000 for Food Safety Management. Armenian laboratoriesneed technological upgrade in order to be able to conduct specific wine tests and support local producers who often contact Georgian laboratories for the required tests;
7. Armenia is considered as having one of the most open tariff regimes. Although Armenia is a member of WTO and the Customs Code is in full compliance with WTO rules, the application of market value, rather than transaction value, in the valuation of goods is a common practice, creating an unpredictable and intimidating environment for international traders as well as domestic firms. At the same time, customs officials complain that importers systematically under-report the transaction value of goods to avoid tariffs. Besides, it should be noted that there is no quota for imports from other WTO member countries.

Economy:

- Domestic demand is strong but sensitive to external factors (food and energy prices, influence of Russia);
- Determination to pursue reforms on corruption, justice and competition;
- Significant financial support from international organizations and the diaspora;
- Relative flexibility of the dram exchange rate;
- Member of the Eurasian Economic Union (EAEU) and partnership agreement with the EU;
- USD 250 million stand-by arrangement (2019/2022) with the IMF;
- Geographical isolation aggravated by a lack of infrastructure and the closure of two out of four borders;
- Dependent on ore (40% of exports and nearly 10% of GDP) and agriculture, despite ongoing diversification;
- Highly dependent on Russia (trade: 27% of exports and 26% of imports including gas, FDI,expatriate transfers);
- Highly dollarized economy (60% of bank deposits);
- Persistently high level of unemployment (19% overall and 40% among 18-30 age group) despite a declining population;
- 30% of the population lives below the poverty line.

E. The Wine Sector in Ukraine

The wine industry in Ukraine is going through the most difficult time in its history and needs a systemic approach in terms of management and support. The economic downturn, the devaluation of the Ukrainian hryvnia national currency, the bureaucracy, and the absence of technology rendercultivation and production expensive. Even though the volume of grapes processing into wine has been increasing, the main orientation remains the production of bulk wine. Nonetheless, Ukraine presents potential due to its climate, agriculture, labor availability and untapped wine making capacity. In part, this has been recognized by the recent agreement between Ukraine and the EU for the liberalization of the wine trade.

General - Wine culture in Ukraine already existed in the 4th century BC on the south coast of the peninsula Crimea, as evidenced by discovered wine presses and amphorae. In the northern part, however, it only developed much later from monks in the 11th century. Russia's 2014 invasion of Crimea, the major wine growing and producing region in Ukraine, has handed a heavy blow to the industry. Ukraine lost morethan half of its bottled wine volume, mostly semi-sweet and dessert wines.

The loss of Crimea and the armed conflict in the east gave, however, a giant push to Western-style dry wines, especially in Transcarpathia and the southern Odessa and Kherson regions. Since 2015, Ukraine's production of dry wines has grown by seven to nine percent every year.

Strategic Direction - The Ukrainian wine sector is at a restructuring stage. SMEs seek to produce wines from indigenous grape varieties and fruit wines, whereas they are also interested in young wines (the Beaujolais example). It appears that Ukrainian wine SMEs are currently primarily concerned with gaining and maintaining market share. To that effect, they are merging or consolidating operations in order to arrive at a critical mass. Economies of scale are envisioned to enable the next phase -i.e., growth through knowledge and specialisation, in order to compete (also Skopenko, 2014; Bilko, 2017)

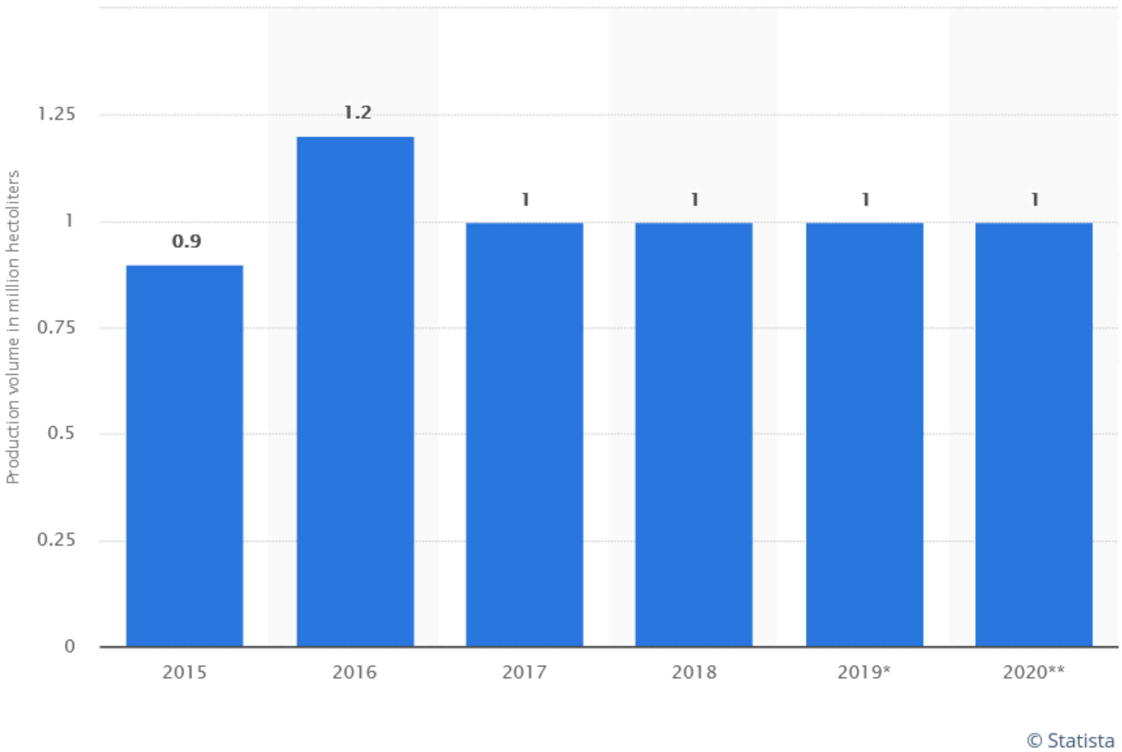
The strategic direction for Ukrainian wines still relies on the individual players in the wine sector and does not constitute a national strategy. This is also supported by the lack of legislature that could create strong ties between government, public sector and private investors/entrepreneurs. The following strategic direction is evident from the current status of viniculture and winemaking in Ukraine:

- Create necessary mechanisms in order to establish cooperation between state and professional public institutions representing the interests of vine growing and winemaking;
- Develop the academic base, needed to support viniculture with the creation of specialists in viniculture, winemaking and Eno gastronomic tourism;
- Develop Eno gastronomy, Eno gastronomic tourism and relevant tourist activities that can also become important tools for regional development (see the international experience in France, Italy, Spain, Argentina, USA, etc.)

Production, Consumption and Export - Ukraine, as the eighth most populated country in the European area, (42 million inhabitants; 2018) with a GDP of about €2,400 per year, was severely affected by the crisis with Russia: the domestic currency depreciated, to the detriment of households' purchasing power. The Ukrainian middle class is extremely narrow, and the population generally has a very low income. The demand for wine, since Ukrainian consumers prefer more and more 'soft' alcoholic beverages like wine andbeer, continues to increase -especially for the low and medium qualities and for the imported premium/high quality wines (like the European ones).

Ukraine imports bulk wine from Italy and Moldova that is used to produce a local sparkling wine 'shampanskoe' that is directed to local consumers (Minasi, V., 2021). Ukrainian wine production volumes saw the highest figures in 2016, at 1.2 million hectoliters. Since then, wine production in Ukraine slightly decreased and remained constant at one million hectoliters (OIV, 2020).

Annual wine production volume in Ukraine from 2015 to 2020 (in million hectoliters)



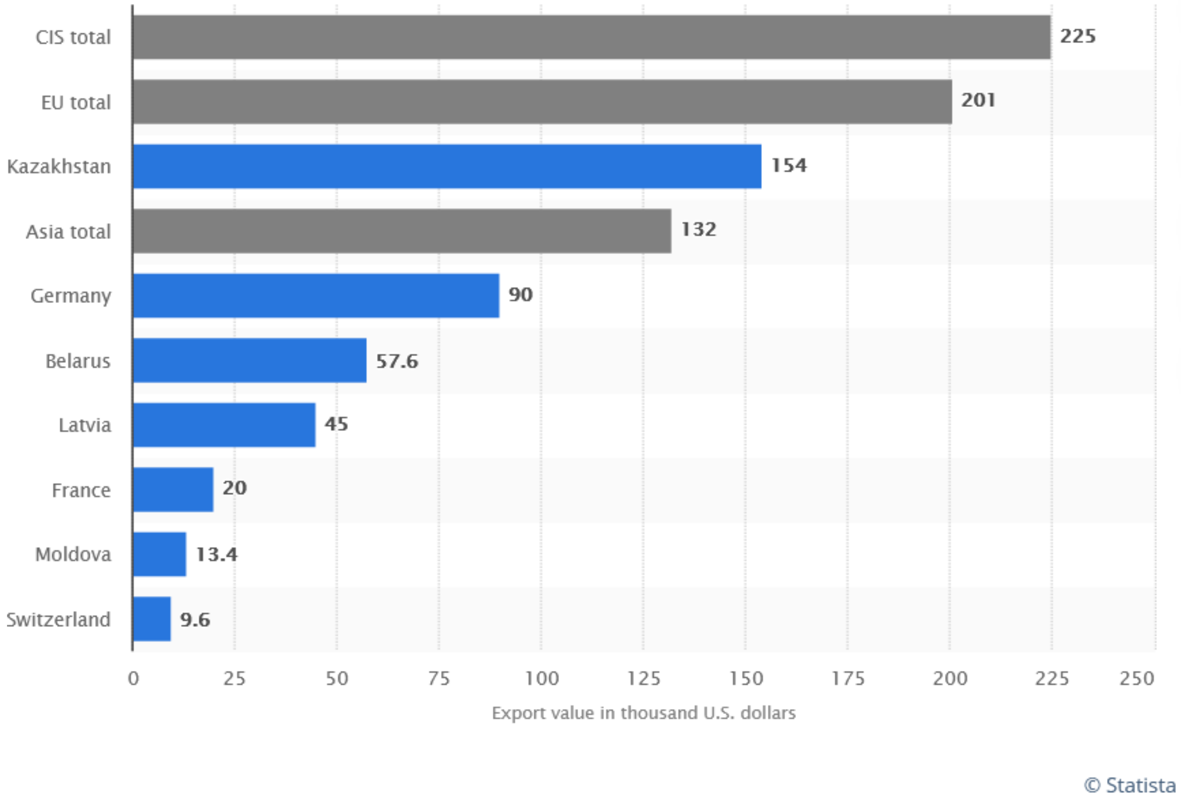
There are 9 (without considering the temporally occupied territory of The Autonomous Republic of Crimea) emphasized winegrowing zones (macrozones), which are the basis for the region sorting, and 46 naturally winegrowing regions (micro zones). Currently, Ukraine consists of three major wine-growing regions: the largest area in the southwest around the city of Odessa with 27.4 kha (64%); the Transcarpathian area adjacent to Hungary and Romania -Zakarpattia with 3.4 kha (8%); and the area south of the river Dnipro near the cities of Kherson with 4.5 kha (11%), Mykolaiv with 5.5 kha (13%) and Dnieperpetrovsk. 96% of all the total vineyard area is concentrated in 4 regions with 300 ha or 4% in the rest of the country. The average yield per ha is approximately 9 tons.

Ukraine’s continental climate is characterized by hot summers and severe winters. In 2019, 133.4 million liters of wine were produced from 41,500 hectares of vineyards, which represents a steady decline of the area under vines. Almost 180 grape varieties are cultivated, including the indigenous ones, with per capita consumption and exports remaining at very low levels. Poland leads the imports of Ukrainian wine, followed by Belgium, Lithuania, and France.

Exploiting its microclimate, Transcarpathia is reviving grape varieties destroyed by Soviet collectivized agriculture -this land has the advantage of a special microclimate where the temperamental European varieties do well. The forested and mountainous region is known for its dry white wines made from the Riesling, Gewürztraminer and Leanka grape varieties. Currently, Transcarpathia holds nine wine festivals attended by 1,500,000 tourists annually and including wine lovers from Slovakia, Poland, Hungary, and the Czech Republic.

Despite the long-lasting tradition of Ukrainian wine-making, the majority of winemaking companies are very young with less than 10-year history. Most of them are vertically integrated owning vineyards. Shabo is a success story of a non-Crimean brand with 1,000 hectares own vineyards, which persevered through the Soviet era and the recent war, investing more than EUR 10 million in technological upgrades and machinery. Koblevo in the Mykolaiv region is another non-Crimean market leader owning 2,450 hectares ofvineyards. Wine production in Ukraine presents a high concentration among few companies.

Ukraine wine exports value Q1 2020



The Ukrainian market has been showing favorable growth dynamics for European wine sales, as between 2015 and 2020, EU exports of bottled wine rose from just over €20 million to over €80 million, and EU exports of sparkling wine rose from €10 million to nearly €30 million in 2020.

Wine Fraud - Wine Fraud in the wine industry of Ukraine has reached worrying levels though. The fraud that is most commonly used in Ukraine is not the chemically produced wine that has no grape inside, but the corruption of the mash or wine material used to produce the wine. The corruption is made with the addition of extra water, sugar or sweeteners in order to arrive at the required mash and at the same time increase the volume of the end product -i.e., the wine. The legal percentage of these additions internationally is 8% but in Ukraine the percentage is much higher. The fraud is higher when there is a draught or low production of grapes and declines as the production of grapes increases. In 2019, for example, the percentage of fraud was calculated between 44% and 72% depending on whether mash was stored in 2018 or not (Hordiichuk, 2020).

Restructuring of the wine industry - Ukraine's wine industry, after losing its vineyards located in Crimea, managed to revive itself by branching out into higher quality wines. After 2014, and after losing more thanhalf of its bottled wines, mostly semi-sweet and dessert wines, according to the Association of Winegrowers and Winemakers of Ukraine (AWWU), western-style dry wines received a push, succeeding in Transcarpathia and the southern Odessa and Kherson regions (Anonymous, 2018). *Further country input is necessary in order to complete this section.*

Established Institutions and Activities - In Ukraine, several government agencies are involved with the wine industry, in addition to the professional institutions. AIC Ukraine Corporation of Viticulture and Winemaking "Ukrwineprom", represents the interests of wine producers, domestically and internationallyas a member of the International Federation of Wines and Spirits (FIVS). Also:

1. AWWU (Association of Winegrowers and Winemakers of Ukraine) currently produces 30 varietiesof wine, only six of which are sweet;
2. Other associations established in Ukraine: "Vine Growers and winemakers of Ukraine", Sommelier Association of Ukraine, Ukrainian Association of winemakers and sommeliers, the Union of Private growers and winemakers in Transcarpathia;
3. In 2014, the Association for the Development of Gastronomic and Wine Tourism of Ukraine was established;
4. In 2017, the National Food Wine and Tourism Network was established, with the support of the Department of Tourism and Resorts of the Ministry of Economic Development of Ukraine;
5. The Massandra Winery, built in the 1890s by Tzar Nicholas II, had as its mission to operate as an extensive wine cellar. Starting as an enormous wine housing facility, it developed to a winery leading the wine industry in Ukraine (Singapore Wine Vault, 2021);
6. The National Scientific Centre «V.Ye. Tairov Institute of Viticulture and Winemaking» National Academy of Agrarian Sciences of Ukraine. Established in 1905, it came to be a leading research institute in the areas of viticulture and winemaking and in specific:

    - Conducting comprehensive ampelo-environmental surveys of the territories in order to identify the optimal areas for vineyards establishment, including for the wine production with geographical indication and denomination of origin;
    - Developing and maintaining the vineyard cadaster (awarded with the State Prize of Ukraine in Science and Technology in 2015);
    - Improving the technology of wine production from new varieties and grape clones;
    - Analyzing the viticulture and winemaking industry and its prospects; and developing national and regional viticulture programs;
    - Other accomplishments of the Institute are:
        - The trade mark of the Institute “Tairov wines”, (awarded with, the International Quality Mark «Higher Test» (Kiev, 2004), the European Quality Label (Brussels, 2004),the «100% Natural» (Kyiv, 2009) and the “National traditions” (Kyiv, 2015));
        - The quality control laboratories (controlling the quality of winemaking products and detecting GMO in food and vegetable raw materials) are accredited with the international standard ISO 17025; and
        - Postgraduate and doctoral studies in viticulture (Anonymous, 2021. Retrieved from: https://www.tairov.org.ua/en/)

The SME and Finance Environment – (gross overview) *Further country input is necessary in order to complete this section.*

Further takeaways:

1. Small wineries face bureaucratic obstacles. Only 50 larger Ukrainian companies are licensed to sell wine, and smaller winemakers can sell their product only in their own tasting rooms. Winemakerssay it is hard to obtain a license in a country fraught with corruption “You have to collect 136 documents from seven ministries and pay $10,000 in bribes in order to buy a license that would otherwise costs 780 hryvnia”. Other problems include land issues, and existing culture for hard liquor consumption;

2. At the same time, the absence of cooperation and coordination between the state, public, and private institutions, makes it impossible to develop the wine sector, effectively promote Ukrainianwines, and increase wine consumption.

Economy:

- Firm growth based on consumption, but external vulnerability in a context of reforms and conflictin the east of the country;
- Strategic position in Europe: transit point for 40% of Russian gas shipments to the EU;
- Association and Free Trade Agreement with the European Union (2016), enabling a reorientationof foreign trade;
- Significant potential in agriculture, with 55% arable land (wheat, maize, barley, rapeseed, sunflower, beet, soybeans), and in metallurgy (iron);
- Skilled and low-cost labor force;
- Rigorous fiscal and monetary policy;
- Low debt levels among economic participants (except the state);
- International financial and political support although conditional on reforms;
- Conflict with Russia and Russian-speaking populations in the Donbass region, affecting territorial integrity and preventing EU entry, but reopening of negotiations in "Normandy" format;
- Business environment marred by corruption (notably in the justice system), oligarchy andmonopolies, weak property rights, a lack of competition and inefficient public services;
- Low economic diversification; sensitivity to weather and commodity prices;
- Declining demographics; regional inequalities featuring poverty and the informal sector;
- Credit constrained by doubtful loans (49%) and high real interest rates;
- Continued restrictions on capital movement.

F. The Wine Sector in Belarus

There is no industrial production of grapes in Belarus yet. Grapes are grown in private households in the south, in the Gomel and Brest regions. Belarus is producing wine importing wine base and grapes.

General - Belarus doesn't have a winemaking culture like other neighboring countries, and its wines are compared to British wines. Belarus has a drinking culture that in rural areas can be characterized as hazardous. Vodka is the spirit of choice followed by beer, due to the cheap local production. Wine consumption is slowly becoming popular, a shift towards a healthier lifestyle inspired by the Mediterranean way of living and a more refined, diverse style. Belarusians prefer affordable prices over high quality.

Strategic Direction: Belarus has no strategic direction at the moment as regards its wine industry.

Production, Consumption and Export - Belarus is an active importer of wine and vermouth (USD 81,2 mln in 2019 as per the National Statistical Committee of the Republic of Belarus). Import from EU totaled USD 39,3 mln. Main trade partners in the EU are Italy, France, Spain, Portugal, and Germany. Wine exports in 2019 were USD 13,4 mln, of which to the EU only USD 58,2 thousand (Germany, Latvia, Lithuania, Poland, Estonia).

Grapes are grown in small private households. Belarus does not grow grapes in commercial volumes to support the Wine industry. Main viticulture areas are Gomel and Brest. Belarus is producing wine from imported grapes. Joint-Stock Company "Minsk Grape Wines Factory" is the leader in wine production with 34 million liters per year.

Other producers are the "Minsk Sparkling Wines Factory" with more than 15 million bottles of sparkling wines, importing raw material from Moldova and Spain; and the Wine Factory "Five Continents", producer of more than 30 types of natural, flavored and fortified wines.

Belarus has a moderate climate with cool humid winters and warm summers. Due to global warming, there has been a big change in the temperature levels in the country and the agrarian zones have moved by 150 km. The soil in Belarus is very fertile, currently producing a wide variety of fruit and vegetables. Indigenous varietals which have been known to grow in Belarus:

- Kosmonauts is an interspecific hybrid, but rather tender to winter cold. It is grown with winter protection throughout Belarus. This is a table grape that could be used for white wine. It has many good traits to use in breeding to bring quality and extreme early ripening to the cross.
- Jubileinaja Novgoroda. Developed at the Central Genetic Laboratory in Michurinsk, Russia, it is one of the few varieties that have showed full maturity under Belarusian conditions -it has commercialpotential as variety, as well as high interest for breeding.
- Muscat Melnika. A blue-skinned muscat variety developed at the Central Genetic Laboratory in Michurinsk, Russia. This is an interesting variety for its ability to mature very early and its potential to produce a white muscat-flavored wine. Grown with straw winter protection in Minsk.
- Skujins 675, one of the earliest ripening and most promising of the varieties for white wine potential. The vines of Skujins 675 are quite winter hardy and are grown without winter protection throughout Belarus.
- Agra, white, extremely early ripening grape variety. The berries of Agra are medium-large in size, but clusters are rather small, probably too small for commercial production. However, its extremeearliness and good chemistry make it interesting variety to use in further breeding. Agra begins tosuffer winter injury at temperatures around -25 o C, so it is protected during the winter in Belarus.
- Varajane Sinine, early ripening grape with good potential for red winemaking. The berries of Varajane Sinine are small and the cluster small to medium (about 100 grams) and tight. It has some commercial potential as an extra early ripening variety and is of interest for breeding purposes.

Restructuring of the wine industry - There is no wine industry per se. Private households cultivate grapes mainly for private consumption or local spot sales.

Established Institutions and Activities: The association ‘Winemakers and winegrowers of Belarus’ is leading the effort to start the wine growing and wine producing industry in Belarus.

The SME and Finance Environment - (gross overview) The Government of Belarus has been increasing its efforts to promote private-sector development, strengthen the position of SMEs and sustain growth, employment, and resilience. The recent adoption of an SME Development Strategy 2030 and the adoption of Presidential Decree No. 7 “On the Development of Entrepreneurship” simplified regulations for doing business as it includes provisions for minimizing state interference in business operations, and presuming the good faith of enterprises. (Anonymous, 2020) SMEs’ contribution to value added and employment in the business sector remains limited and state-owned enterprises continue to play a disproportionate role in the economy. The country’s SME definition is defined by the number of employees and are divided into individual entrepreneurs, micro (up to 15 employees), small (16-100 employees) and medium enterprises(101-250 employees). This definition is not used consistently in legislation; for example, turnover determines eligibility for some tax advantages. In 2018, SMEs accounted for 28.8% of gross value added. Belarusian SMEs mostly operate on very small scales in non-innovative, low-productivity industries, which explains their limited contribution to value added. Only 3.5% of SMEs introduced product or process innovation in 2018 compared to 34% in the EU (Belstat, 2018; EU, 2019). Belarus has made some progressin improving SMEs’ access to finance. Financial intermediation remains low as banks do not offer many SME- specific products and public sector support relies heavily on less-sustainable interest-rate subsidies.

Further takeaways:

A flourishing IT sector is an exemption of a quickly emerging industry in Belarus, in which private businesses are thriving thanks to the strong human capital available in the country and the strategic choice to introduce a highly preferential tax and regulatory regime for the sector (IMF, 2019).

Belarus is the most export-oriented country in the EaP region, with exports representing 67% of GDP in 2017 and mineral products accounting for 25% of the total. (World Bank, 2019).

Belarus displays high trade openness, with exports and imports representing 139% of GDP in 2018. Additionally, exports are undiversified in terms of goods sold (mainly oil and oil products), which is largely due to limited export competitiveness of Belarusian goods (IMF, 2019). Foreign direct investment (FDI) inflows could improve product quality and export competitiveness, but FDI inflows are very low, at 2.3% of GDP in 2017, and they have been on a downward trend since 2015 (a small recovery occurred in 2018, when they reached 2.5%).

Economy:

- Strategically located between Russia and the European Union with a well-developed transport network: bridgehead for China's Silk Road;
- Member of the Eurasian Economic Union;
- Relatively well trained and skilled workforce;
- Large industrial sector (26% of GDP);
- Little inequality and almost no poverty;
- High energy and financial dependence on Russia;
- Low geographical and sectoral diversification of exports;
- Sensitive to the level of petroleum product prices (purchase price negotiated with Russia);
- State plays a massive role in the economy (56% of value added, 70% of GDP);
- Poor governance (high corruption, weak legal system, institutional rigidity, lack of pluralism);
- Shrinking labor force.

Further country input is necessary in order to complete this country analysis.

ANNEX IV: SWOT ANALYSIS

A. Overall EaP SWOT Analysis

Strengths - Long winemaking tradition (except in the case of Belarus) could refer the EaP wines to the Old- World wines and support interest through influencers, media, and wine tourism. Building awareness would entice international wine lovers and increase domestic wine consumption. The EaP wealth in indigenous grapes enables the creation of different types and qualities of wines. This, in turn, is pivotal in supporting training/education programs and partnerships with accredited international educational institutions (e.g.,WSET). The EaP countries have established export infrastructures, which could facilitate export buildup toboth neighboring countries and the greater EU -even if not wine optimised in certain cases and/or hindered by conflict and trade barriers.

Weaknesses - EaP production volumes are low and cannot sustain structured distribution which requires a certain critical mass. Market selection and price positioning will be important to support a meaningful export presence. The EaP brand in terms of wine producing countries, grape varieties, and the wines themselves is nonexistent or weak -with the exception of Georgia and Moldova, which have been investing in marketing and awareness, and enjoy a somewhat more competitive status. There is an overall weak SME funding ecosystem - access to funding. Demand and supply-side factors contribute to a mismatch between SMEs and finance in the regions: on the one hand, financial awareness and skills among SME entrepreneurs are weak. On the other hand, low institutional capacity to assess risk, as well as centralized decision making, reduce the likelihood of SMEs accessing finance. Other weaknesses across the EaP wine economy include: ESG at infant stages; undeveloped domestic markets, which, as such, cannot support the SMEs' operations; limited innovation activities and low R&D expenditure; weak ICT Infrastructures; and low level of entrepreneurship including the involvement of women and the youth.

Opportunities - Three of the EaP countries are on an EU membership trajectory and EU support is also benefiting the others. Thus, the EU presents a great opportunity for the EaP SMEs in the wine sector, also considering the long-standing wine related sophistication -the EU high consumption of high-quality wines and its geographical proximity to the EaP, as well as the growth in demand for new quality wines. Foreign direct investment, and a growing technology and funding ecosystem, present further growth opportunities.

Threats - Political instability, EU entrenched competition, environmental issues, rural population decline, and weak SME ecosystem, are common risks among the EaP countries. In addition, the high investment requirement of a vertically integrated competitive winemaking business is a de facto barrier.

B. EaP Country-Specific SWOT Analysis

Georgia: Strengths and Weaknesses are balanced between the socio-economic situation in rural areas, food & agriculture, and environment & climate. Opportunities stem primarily from socio-economic development potential. Threats are evident primarily in environment and climate.

Moldova: Strengths and Weaknesses are balanced between the socio-economic situation in rural areas, and food & agriculture. Opportunities stem primarily from food & agriculture development potential. Threats are balanced between the socio-economic situation in rural areas, food & agriculture, and environment & climate.

Azerbaijan: Strengths and Opportunities stem primarily from food & agriculture and its potential. Weaknesses balance the above out through the deficit in the socio-economic situation in rural areas. Threats add concerns primarily related to the socio-economic situation in rural areas, and environment & climate.

Armenia: Strengths and Opportunities stem primarily from food & agriculture and its potential. Weaknesses and Threats concern the socio-economic situation in rural areas, food & agriculture, and environment & climate.

Ukraine: Strengths and Weaknesses are balanced between the socio-economic situation in rural areas, and food & agriculture. Opportunities stem primarily from food & agriculture development potential. Threats apply to all socio-economic situation in rural areas, food & agriculture, and environment & climate.

Belarus: Strengths and Weaknesses are balanced between the socio-economic situation in rural areas, andfood & agriculture. Opportunities stem primarily from food & agriculture development potential. Threats apply mainly to socio-economic situation in rural areas, and environment & climate.

	Strengths	Weaknesses	Opportunities	Threats
Georgia	- Winemaking history/culture - Quality of wine - Traditional product - The sector has needed infrastructure -Unique local vines -Free trade with the EU – AA/DCFTA -Available price/quality competitive labor in rural areas -Attractive environment for investment (among them, in agriculture) -Evolving donor support tothe food & agri sector - State programs focused on regional and rural entrepreneurship development (incl. women) - Steadily growing tourism sector, among them, the growing tourism in villages - Well established Ministry of Environmental Protection and Agriculture with its subordinated structures - Abundance of natural resources that are necessary for agriculture development	-SME funding ecosystem - access to funding -ESG -Export capacity –small production volume for export -Low domestic wine consumption -Limited innovation activities and low R&D expenditure -Weak ICT Infrastructures -Low level of entrepreneurship -High unemployment rate in rural areas, especially among women -Low level of vocational education, insufficient use of modern technologies and knowledge, low access to internet - Women's limited access to information, modern technology and agricultural resources, compared to men - Weak market linkages in supply chain - Low access to public and private services, and limited geographic coverage	-Grow the domestic wine market - Foreign Direct Investment - Women’s and youth entrepreneurship - EU high consumption of high-quality wines - “Smart Specialization” of the local economy based on the EU experience - Employ information technologies and media for supporting the rural development - Increase the attractiveness of rural settlements as a result of making investments in the basic infrastructure and services - Access for rural population to long-term educational, entrepreneurial and vocational programs - Increase access of entrepreneurs to financial instruments - Eco-tourism development (recreation, agro-tourism, etc.) - Knowledge transfer to farmers can significantly	- Political instability - EU entrenched competition - Migration abroad - Increasing inequalities between rural and urban settlements in terms of quality of life - Losing farmers and labor in rural areas that increases the area of abandoned lands - Fast development of main competitors in the region which can limit existing export - Slow level of reforms that is limiting opportunity for the farming population - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - Pandemic adjustment capacity and institutions in place

	(fertile soil, clean water and air, favorable climate) - Preserved agro-biodiversity	- Low access to financial resources in rural areas for businesses and new business initiatives - Small farm size and land plots - Lack of knowledge and access to the new technology in agriculture - Limited storage, processing and post-harvest facilities and equipment, which will increase shelf life and add value to the products - Missing points of sale like modern wholesale and green markets - Low awareness of farmers about the contemporary, environmentally acceptable agricultural practice and methods - Inefficient utilization of natural resources	improve production in short period of time - Development of organic farming - Internationalization and export growth	- high upfront investment to start a winery
Moldova	- Winemaking history/culture - Quality of wine - Traditional product - The sector has needed infrastructure - Unique local vines - Indigenous grape varieties	- Competing with well-known international grape varietals - Lack of wine marketing/sales expertise - Inability to open new high-value markets - Unstructured distribution; opportunistic sales	- Focusing on local grape varietals - Mechanization (requires investment) - ONVV – invest in experienced international sales/marketing expertise	- Political instability - Grape overproduction in the world - Change in trends of world consumption & digital advancements - EU entrenched competition

	- Free trade with the EU – AA/DCFTA - Educated and dedicated people in the industry - Favorable economic and geographical location - 4 PGI Producer Associations - International Donor Support - Institutional bodies in place	- Export capacity –small production volume for export - Non-competitive price point (international) due to … - … high cost of wine production - Low domestic wine consumption - Lack of manual and seasonal workers; poor university-level industry education - Lack of cohesive country promotion strategy combining tourism, investment, export, culture, wine, and food - Lack of Country Brand cohesive marketing campaign strategy - International perception of low wine quality - Infrastructure (roads, etc.) and logistics - SME funding ecosystem - access to funding - ESG - Limited innovation activities and low R&D expenditure - Weak ICT Infrastructures - Low level of entrepreneurship	- Enable the Moldova Investment Agency to expand its scope - Growing international demand for wine - Scale up the wineries' size - Consolidation of the industry - Growth of domestic wine market - Foreign Direct Investment - Women's and youth entrepreneurship - EU high consumption of high-quality wines - State subsidies for planting vineyards at the level of ATU Gagauzia - Strengthening the role of expert marketing and e-marketing - Only one-fifth of Moldovan wines are in line with Western quality standards due to winegrowers and winemakers using outdated production equipment and methods - Establishment of a retail store and education/tasting room in Chisinau that would berun by the Association of Small Winemakers (ASW)	- Lack of investment/investor ecosystem - Unfavorable payment terms - long A/R create cash flow problems - Foreign competitors incl. EaP with better quality/priceratios - Slow turning inventory of wines and auxiliary material burdens enterprises' financial situation - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - Pandemic adjustment capacity and institutions in place - high upfront investment to start a winery

		- Preference for Very Small Wineries challenging critical mass for growth - Most winegrowers and winemakers using outdated production equipment and methods - lack of innovation stimuli - Supply chain and raw material inefficiencies	- Create a buying consortium through ONVV and/or the ASW for bottles, corks, and labels	
Azerbaijan	- Winemaking tradition/culture - High quality indigenous grape varieties - Cheap and sufficient labor force - Favorable agro-climatic conditions - State support to and concessions in agricultural sector - Competitive bio-organic products - Government support to exports - Trade and logistics infrastructures - Location on the crossroadsof international transport corridors - Oil economy / wealth	- SME funding ecosystem - access to funding - ESG - Overall small wine production capacity - Export capacity – production volume for export - Low domestic wine consumption - Limited innovation activities and low R&D expenditure - Weak ICT Infrastructures - Low level of entrepreneurship - Non-membership in the WTO - Lacking educated professionals and involvement of younger people that could sustain the country's viti- and viniculture	- EU high consumption of high-quality wines - "Made in Azerbaijan" brand already promoted in a number of foreign markets - Agri-tourism potential - Small wine production vs. varietal capacity - Few wine producers when compared to country's size and viticulture - Startup wine entrepreneurship - Small and family support business schemes - Country's wine storytelling potential	- Political instability - EU entrenched competition - Severe competition in strategic markets - Lack of investment/investor ecosystem - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - Pandemic adjustment capacity and institutions in place - High upfront investment to start a winery

	- Wine sector specific investment incentives -tariffs, tax, capex - SME support and development programs - Swiftly improving Ease of Doing Business as per the WB	- Overall technology limitations - PGI absence		
Armenia	- Grape Varieties / biodiversity - Winemaking tradition/ culture -Terroir/Climate - Diaspora - Creation of new companies with emphasis on modern technologies -Investments in viticulture -Availability of local suppliersof packaging and auxiliary materials -Relatively low cultivation cost	- SME funding ecosystem - access to funding - ESG - Export capacity – production volume for export - Low domestic wine consumption -Limited innovation activities and low R&D expenditure - Weak ICT Infrastructures - Low level of entrepreneurship - No Armenian wine brand - Limited area under vine and weak viticulture technologies -Low and/or unstable qualityof wine - Lack in quality control - Poor laboratory and other infrastructures - Limited knowledge and skills - No wine industry export strategy - High wine production cost	- EU high consumption of high-quality wines - Developing hospitality e.g., wine bars - Rapidly growing markets in Asian countries, particularly in China - Imported wines growing demand and awareness - Growing number of wine festivals and similar activities - Wine tourism development - Increase in demand for organic wines - Government prioritization of the wine industry - Creation of a Eurasian Trademark and Appellation of Origin System	- Political instability - Lack of investment/investor ecosystem - EU entrenched competition - Not sufficient measures to fight natural disasters - Grapes and wine overproduction in the international market - Pandemic adjustment capacity and institutions in place - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - high upfront investment to start a winery

		- Poorly regulated family wineries - No Appellation of Origin andno rating system		- Phylloxera
Ukraine	- Free trade with the EU – AA/DCFTA - Significant agricultural sector - Fairly developed support organizations environment - Winemaking tradition - Available labor force	- SME funding ecosystem - access to funding - ESG - Export capacity – production volume for export - Low domestic wine consumption - Limited innovation activities and low R&D expenditure - Weak ICT Infrastructures - Low level of entrepreneurship - Loss of the Crimea main wine area - Significant investment to start a winery exceeding 500,000 euros - Corruption - Wine Fraud - Supply chain inefficiencies	- EU high consumption of wine - Country's potential capacity for private label - Startup wine entrepreneurship	- Political instability - Lack of investment/investor ecosystem - EU entrenched competition - Wine Fraud - Pandemic adjustment capacity and institutions in place - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - High upfront investment to start a winery - Ease of Doing Business
Belarus	- Strategically located between Russia and the European Union with a well- developed transport network:	- Marginal wine industry - SME funding ecosystem - access to funding - ESG	- EU high consumption of wine	- EU entrenched competition - Heavy alcohol drinking culture

	bridgehead for China's Silk Road - Member of the Eurasian Economic Union - Relatively well trained and skilled workforce - Large industrial sector (26%of GDP) - Little inequality and low poverty levels - Overall export orientation	- Export capacity – production volume for export - Low domestic wine consumption - Limited innovation activities and low R&D expenditure - Weak ICT Infrastructures - Low level of entrepreneurship	- Country's potential capacity for sourcing EaP wine and bottling locally - Startup wine entrepreneurship - Creation of a Eurasian Trademark and Appellation of Origin System	- Pandemic adjustment capacity and institutions in place - Degradation of natural resources such as: arable lands, ecosystems, water (due to inefficient usage of water resources and its pollution caused by business activities); - Climate change and more frequently occurring natural disasters - Introduction of invasive species and spread of diseases - High upfront investment to start a winery

ANNEX V: COMPARATIVE COUNTRY ANALYSIS

Factors hindering EaP SME wine companies' business development ('1' identifying the higher importance)

Factor	Notes	Georgia	Moldova	Azerbaijan	Armenia	Ukraine	Belarus
Lack of employees with required skills	The industry is not attracting young people and fewer and fewer students are attending local university to study winemaking – skills mismatch – low level of entrepreneurship	1	1	2	2	5	3
Political instability	One of the reasons some of the qualified labor force migrates to a neighboring country	7	1	1	1	1	6
High competition	Difficulty capturing and educating the export markets; producers cooperate at a local level but not at a national level	3	2	1	1	1	1
Low purchasing power of population		4	3	4	2	4	8
High taxes		5	4	8	4	7	7
Regulation policy		5	5	6	3	6	5
No access to financial resources (credits, investments)	Barriers to access to finance may include high collateral requirements, high interest rates, no risk capital structures	2	6	5	5	4	4
Outdated technologies/ equipment	Over-production of bulk wine and/or low innovation	4	6	4	2	2	1
Outdated quality standards		7	6	3	3	2	1
Poor infrastructure	High cost of production incl. energy	6	7	7	5	3	1
Corruption		8	8	6	6	1	2

Summary analysis of the Factors presenting obstacles to the growth of the EaP's SMEs in the wine sector:

Georgia: The skills mismatch in the workforce is the most problematic factor for doing business in Georgia, particularly for small and innovative firms. Access to finance is the second most important obstacle to doing business in Georgia, particularly for SMEs. In Georgia, awareness of business opportunities is twice as high as intentions to actually become an entrepreneur. Lack of entrepreneurial education and skills is an obstacle to business creation in Georgia. Limited foreign market information, and difficulties in meeting buyers' quality requirements and accessing trade finance, are perceived as the most problematic factors for exporting according to Georgian business executives. Although innovative firms are essential for an economy's competitiveness and sustained growth, innovation activities are low in Georgia.

Moldova: Moldova is facing similarities to Georgia with predominant factors pertaining to lack of skills and political instability.

Azerbaijan: (tentative) Competition, political instability, and lack of skills are predominant limiting factors for the country's SMEs.

Armenia: (tentative) Armenia is facing similarities to Azerbaijan, which however, are reinforced by the country's low average disposal income and landlocked geography.

Ukraine: (tentative) Competition, political instability, and corruption are enhancing the other constraints for SMEs in the country, compiling a difficult environment to advance the wine ecosystem.

Belarus: (tentative) The country is presenting a largely non-existing wine sector and lack of business transparency and structures solid enough to enable a dynamic SME growth.

Further country input from Azerbaijan, Armenia, Ukraine, and Belarus is necessary in order to complete and validate this section.

ANNEX VI: THE STAKEHOLDERS

Wine producers and vine growers supported to date by international sponsors (USAID among other), are listed in **Annex VII** herein. These enterprises have been successful in utilizing the aid towards developing their business. Support included seminars and training, wine assessments, facilitation of trade fair participation, introduction to foreign commercial interests. Other stakeholders / actors are as below:

GEORGIA

Natural Wine Association was founded in Tbilisi in 2017 by Georgian wine makers and grape growers. The Association is a union of those that only undertake organic (bio or bio-dynamic) grape growing and natural wine making.

The Vineyard and Winery Association of West Georgia hopes to re-establish the economic benefits of a vineyard-winery industry in western Georgia after a century of dormancy.

The Qvevri Association preserves the ancient winemaking technique using large terracotta amphorae, which has rapidly caught on in the last decade.

The Wine Growers Association of Georgia, a non-profit corporation organised to promote and market Georgia wine, to improve the market environment for Georgia wines, to increase public awareness of Georgia wines, and to facilitate research in Georgia viticultural and vinification techniques to improve the already noteworthy wines. It is comprised of 15 winery members, numerous vineyard members and boasts an impressive networkof associate members, made up of lodging, restaurant, and outdoor activity partners.

The Georgia Sommelier Association headed up by Shalva Khetsuriani, have been responsible for bringing the first WSET Level 2 Certification classes to the country, in order to improve the local knowledge of the world of wine while also improving the level of service.

The primary organisation for wine in Georgia is the state-run National Wine Agency of Georgia (NWAG) which oversees almost every aspect of wine production, from certification of cellars through to promotion.

	Branded Activities	**Physical Locations**	**Business Associations**	**Gov Counterparts**
Georgia	New Wine Festival in May celebrating the opening of the qvevri Spring Wine Highway under WAG "Georgia's Fine Wine Producers" under WAG and other	https://winesgeorgia.com/where-to-buy	Georgian Wine Association (GWA) Natural Wine Association The Vineyard and Winery Association of West Georgia The Qvevri Association The Wine Growers Association of Georgia (WAG) Georgia Sommelier Association Georgian Wine Tourism Association (GWTA)	Ministry of Agriculture The Georgia Wine & Grape Commission Georgian National Wine Agency of Georgia (NWAG)

MOLDOVA

ONVV: one of the most significant developments in the industry over the last decade. It is a public-private partnership and obtains its funds from a tax levied on wine sales; those funds are matched by the Government. Marketing under the logo, "Wine of Moldova," ONVV improves the traceability and the quality of Moldovan wines and expands wine exports to non-traditional markets. Through continuous ONVV industry trade support, the average price for Moldovan wines is expected to double in the coming years, with a goal of reaching the average international market price of $3/bottle. The organization is well funded even though there are 210 registered wineries—which make up only 40% of the country's production. One challenge is that funds are controlled by the Government, so ONVV does not have flexibility to utilize funds as needed; another challenge is the lack of qualified personnel to develop and support the activities of the ONVV.

ASW: Founded in 2010 as a non-profit organisation, with the mission is to represent the interests of small wine producers, implement projects to support the development of small producers and organize joint promotion programs.

PGI Producer Associations: Helps winegrowers to meet international standards since the first vintage of 2015.

Wine School NGO: Initiative aimed at consolidating the sommelier and wine connoisseur communities.

Wineries: Cricova may not have participated in international programs to date, but has one of the largest sales volumes in the country and as such, also contributes a high percentage of the total funds of the ONVV.

MCP: Co-funded by USAID and the Swedish Government, with three main objectives: improve productivity andquality of products and services of Moldovan businesses; increase sales in domestic markets and exports in regional and global markets; and improve the enabling environment, regulatory framework, and local institutions' capacity for key sectors (all including the wine sector).

Moldova	▯ Wine of Moldova Incl. Marketing Platform & Advocacy Platform ▯ Wine of Moldova Academy ▯ Best Grapes ▯ FlaveDor ▯ Terroir ▯ Small Winemakers Mentorship Program ▯ PQUP -Product Quality Upgrading Program ▯ Export Coaching Program ▯ Sommelier & Wine Friendly ▯ Wine Vernissage ▯ National Wine Day ▯ Wine of Moldova 2030	None	▯ ONVV -National Office of Vine and Wine ▯ ASW -Association of Small Winemakers Incl. Mentorship Program ▯ 4 PGI Producer Associations – Valul lui Traian, Stefan Voda, Codru, Divin ▯ Wine School NGO (▯ Moldova Competitiveness Program -MCP)	▯ Ministry of Agriculture & Regional Development

Azerbaijan	▯ Baku Wine School ▯ Grape and Wine Festival, Meysari, Shamakhi district ▯ Interfood Azerbaijan 2022	▯ Azerbaijani Wine Houses in foreign markets	▯ Azerbaijan Scientific-Research Institute for Viticulture and Winemaking ▯ Wine Exporters' and Producers' Association ▯ National Confederation of Entrepreneurs	▯ Azerbaijan Export& Investment Promotion Foundation (AZPROMO) ▯ Agency for the Development of Small- and Medium-Sized Enterprises

Armenia	⍰ Areni Wine Festival ⍰ World of Wine conference ⍰ My Armenia Program	⍰ Vine nurseries	⍰ Vine and Wine Foundation of Armenia (VWFA) ⍰ EVN Wine Academy ⍰ Union of Young Winemakers ⍰ Armenian Association of Winemakers ⍰ Vineyards of Armenia	⍰ Communities Association of Armenia ⍰ Center for Agribusiness & Rural Development (CARD) ⍰ Armenian National Agrarian University (ANAU)

Ukraine	⍰ "Tairov wines" ⍰ Food and Wine Festival Kyiv ⍰ Wine & Spirits Ukraine	⍰ Massandra Winery	⍰ Association of Winegrowers and Winemakers of Ukraine (AWWU) ⍰ National Food Wine and Tourism Network ⍰ Association for the Development of Gastronomic and Wine Tourism of Ukraine ⍰ Vine Growers and winemakers of Ukraine ⍰ Sommelier Association of Ukraine ⍰ Ukrainian Association of winemakers and sommeliers ⍰ Union of Private growers and winemakers in Transcarpathia	⍰ National Scientific Centre «V.Ye. Tairov Institute of Viticulture and Winemaking» National Academy of Agrarian Sciences of Ukraine ⍰ AIC Ukraine Corporation of Viticulture and Winemaking "Ukrwineprom"

Belarus	None	None	⍰ Winemakers and winegrowers of Belarus	⍰ TBA

The stakeholders lists are not exhaustive.

AZERBAIJAN

Azerbaijan Scientific-Research Institute for Viticulture and Winemaking: (est. 1976 under the Ministry of Agriculture) is the national main research center devoted to scientific development of viticulture and wine- making in Azerbaijan.

UKRAINE

AWWU: non-profit organization addressing the Ukrainian wine producers on a volunteer basis.

V.Ye.Tairov: the leading research institute for viticulture and winemaking.

Ukrwineprom: government agency which represents the interests of wine producers, domestically and internationally as a member of the International Federation of Wines and Spirits (FIVS).

Massandra Winery: emblematic winery built in the 1890s by Tzar Nicholas II., currently leading the wine sector in Ukraine.

ARMENIA

VWFA: established in 2016 by the government as the body for the development of viticulture and winemakingin Armenia. The board of trustees of VMFA consists of representatives from Ministries, executives from wine producing companies, wine consultants and one IFC. Largely envisioned to take over the coordination of support to the winemaking sector previously provided through the Development Foundation of Armenia.

CARD - Central for Agribusiness and Rural Development Foundation: the successor of the United States Department of Agriculture's Marketing Assistance Project (USDA-MAP). CARD works on developing andimproving the Armenian wine industry.

BELARUS

Further country input is necessary

ANNEX VII: SPONSORED PROJECTS / VENTURES

Wine makers and Vine growers already sponsored by International Sponsors

Georgia: In 2017, the European Union supported 23 wine and grape-producing cooperatives, whose produceequaled 1.45 million GEL, (Kochlamazashvili et al, 2017).

Further country input is necessary in order to complete this section.

	Wine Producers	Vine Growers
Georgia	Tbilvino, Georgian Wines and Spirits Ltd. *further input pending*	*further input pending*
Moldova	Chateau Vartely, Asconi, Fautor, Migdal-P, Gitana winery, Et Cetera, Mezalimpe, Purcari, Vinuri de Comrat, Kazayak, Tartcomvin DK Intertrade, CGL Prim, Kvint, Tomai Vinex, Winetage *further input pending*	*further input pending*
Azerbaijan	*further input pending*	*further input pending*
Armenia	*further input pending*	*further input pending*
Ukraine	*further input pending*	*further input pending*
Belarus	*further input pending*	*further input pending*

ANNEX VIII: SME ELIGIBILITY CRITERIA (Agoge Partners)

To select enterprises that have high investment and value addition potential (i.e., that engage in winemaking and target capex investments) and are characterized as bankable (according to sound banking principles) and have high social and environmental impact or impact potential (e.g., value chain linkages, job creation potential, resource efficiency savings etc.). In specific, SMEs should be selected according to a competitiveness analysis weighting the following criteria (Agoge Partners):

1. **Size**: Up to €50 million in annual turnover or with a balance sheet total of less than EUR 43 million.Typically, an SME must also have fewer than 250 employees;
2. **Ownership**: Private businesses owned by local nationals;
3. **Maturity**: Revenue producing, profitable businesses that have been in operation for more than two years. An enterprise with the capability or a specific need to improve its own reporting and management systems (incl. financial) and develop the internal capacities to manage these processes. Enterprise readiness and willingness to engage;
4. **Going concern** (a key business principle in the preparation of financial accounts): Company able to continue operating for a time (at least 12 months) sufficient to carry out its commitments, obligations and objectives;
5. **Operations**: Winemakers, owning vineyards (at least 50% vertically integrated), using at least 50% local grape varieties in their wines; with modern wineries or evident plans to modernize their wineriesin order to also accommodate wine tourism, D2C, and greater international wine marketing; and demonstrating increase in value added;
6. **Governance**: Identifiable oversight function (incl. financial oversight) or a stated intend to introduceone, including ESG; environmental and social sustainability credentials; solid employment practices incl. planning for women, youth, and disabled;
7. **Growth potential**: Businesses with strong domestic foothold (in terms of market share and/or winequality and/or brand awareness, and/or terroir, etc.), which would allow them to establish or grow their export activity and international relations; increasing turnover record; increasing export recordor activity towards exporting;

8. **Investment potential**: Businesses with opportunities for capex and technology investment for upgraded/expanded production, and with potential for high investment impact -i.e., value addition potential (i.e., local presence, differentiation, capex investments); bankable (i.e., financials, governance, etc.); high social and environmental impact (e.g., value chain linkages, job creation potential, resource efficiency savings etc. – ESG analysis);
9. **Innovation potential:** Businesses with interest in innovating or demonstrating such capacity, supported by respective resources in place and/or the willingness to line up such resources;
10. **R&D orientation:** Businesses invested in R&D or interested in investing in R&D, acknowledging R&Das a driver of potential differentiation and advancement; also open to know-transfer;
11. **Management**: Strong and well-rounded top management with evident track record, experts or with deep knowledge in viticulture and winemaking, and commercial matters;
12. **Experience**: Track record of implementing consulting projects and managing funding to the benefit of the company's performance;
13. **Integrity**: Must abide by high standards of integrity, and also have no ongoing or previous legal proceedings in place that might affect the implementation of the project.

ANNEX IX: SME COMPANY-SPECIFIC OPERATIONAL GUIDELINES (Agoge Partners)

Key Export Considerations and Assessment

Is the company's management committed to developing export markets and willing and able to dedicate time and resources to the process?

- Management commitment is the number one determining factor for export success, and an essential part of any export plan.

Does the company have an export business plan with defined goals and strategies?

- Many companies begin export activities haphazardly, without carefully screening markets or options for market entry. Without an export plan, better export opportunities are often overlooked. In addition, resources are limited and as such, they need to be allocated optimally.

Does the company have sufficient production capacity that can be committed to the export market? Will financing be required for any expansion?

- The company may depend on its local market by default and can allocate a small percentage of its current capacity to exports. As such, Company could only meet targeted increased demand.

Does the company have the financial resources to actively support an increase of wine sales in the targeted export markets?

- Market development requires funds for activities such as international travel, trade missions, trade show participation, market research, and business training. National and EU export financing programs should be utilized to the extent available.

Is Intellectual Property Protection needed?

- There may be no need for IP protection aside from the brand.

Does the company have the need and capability to modify aspects such as product packaging to meet foreign import regulations, cultural preferences, and survive competition?

- It is imperative to understand the unique characteristics of each target market.

Does the company have appropriate knowledge in shipping its wines overseas, such as identifying and selecting international freight forwarders and freight costs to ensure customs clearance overseas?

- Issues to tackle include packing, labeling, documentation, insurance requirements, methods of shipping, import rules and regulations of foreign countries, and export regulations. A dedicated export department may not be possible for early-stage companies.

Does the company have enough knowledge and experience of export payment methods, such as developing and negotiating letters of credit?

- The company should sell only on guaranteed payment terms, such as cash in advance and L/C, which would also put the least strain on its cash flow. Short open account terms may be applied to a credible client/partner or to its own logistics operation.

Free trade agreements

- The company shall consider pursuing free trade agreement countries as part of its export strategy to focus on regions with greater market access for its country's products.

Participation in trade shows and or trade missions

- Foreign trade shows, trade missions and events, would support the targeted market demand for the company's wines, the sales and marketing effort, as well as assisting awareness and brand communication. If structured well, they might be excellent avenues for networking.

Key Factors for the Key Target Market Selection

- SME company to maintain and even improve its GPM as an important part of the brand identity;
- Wine consumption: mature high wine consumption vs. increasing wine consumption trend;
- Personal Financial Data: which (sub) markets account for most of the population and the highest GDP / GDP per capita / gross disposal household income per capita;
- Client Data: sales and sales per capita / geographical concentration / ethnic vs non-ethnic;
- Population change / employment rate / creation of private sector jobs;
- Logistics issues, including importing and inland transport and warehousing; associated sales costs;
- Consumer research --most promising customers identified for Company's brand / product introduction; high average spend vs. increasing spend;
- Customer demands for specific distribution points/geographic locations and other related considerations;
- Regions with higher competition vs. those with lower competition; associated influencer availabilityand available strategic alliances

Targeted Trade Channels - SMEs may engage in one or more of the following: (a) B2C through a group e-shop, own e-shop and or alliances' e-commerce activities, (b) D2C supported by logistics hubs strategically placed, (c) horeca (wine lists and by-the-glass) through key importers and brokers, and (d) selected retailers directly or often through importers / wholesalers / agents.

Points of Entry in the Selected Markets - The entry (point) to a foreign market needs to be carefully selected in order to maximize Company's distribution effectiveness and utilise the company's budget optimally.

Target Consumers and Key Stakeholders - After identifying the company's typical customer, one or more of the following consumers categories would be targeted:

- ✓ Social wine users (they drink wine at the parties, marriage ceremonies, etc.);
- ✓ Image-oriented wine users (e.g., they consume wine when they go out with business colleagues and buy the brands which they trust);

- ✓ Ritual-oriented wine users (involved in trying new wine taste to increase the cognition);
- ✓ Premium wine users (consumers with high knowledge of wine);
- ✓ Weekend wine users (low expertise of the wine, drink at the weekends and do not spend too much money).

Millennials seem to be the key consumer segment:

- 75% say they would spend more money on wine if they could
- Millennials drink 42% of all wine consumed in the U.S.
- Online beer, liquor, and wine sales jumped 33% in 2017; they like online and bargains
- Wine accounts for 65% of all online alcohol sales
- Convenience is key
- 28% of young millennials prefer to drink at home because it's just too hard to go out
- 50%+ of all Americans choose a drink at home over one at a bar
- Millennials are predicted to overcome Gen Xers as the biggest fine wine drinking generation by 2026

Stakeholders include but are not limited to, influential wine and other writers incl. bloggers and social media influencers, wine connoisseurs and specialists, appointed wine ambassadors, EaP countries relevant authorities, wine trade reference points such as a famous restaurant.

Other Factors

Pricing	Price is a signal for quality, yet buying based on price is not foolproof. Premiums are embedded into wine prices depending on the region, quality ratings, and label designations. Mid Premium wines $10.00 – 13.99; Ultra-premium wines $14.00 – 24.99; Luxurywines $25 – 49.99.
Wine (product) list	Present the product offering in a uniform and consistent way: • Define wine categories • Define the anchor wine –the great champion • Vintage wines; Limited edition wines; Nouveau; Experimental wines • Wine Release dates
Sales & Marketing	Personalized marketing, wellness focus, environmental sustainability, low intervention, traceability / estate grapes, terroirand wine culture, family business model, etc.
Communication	Social media, e-marketing, blogging and white papers, free press incl. advertorials, influencers, strategic alliances, word-of-mouth, build-up in the home market, etc.
Digital Exposure	Technology will enable Company's export strategy implementation. Company may employ at different stages throughout its export growth: connecting its e-commerce to smartphones, QR code/s, IOTconnected packaging, social media and digital marketing, augmented BI, etc.

Strategic Goals -are set at the top of an organisation and directly support the mission statement. Strategic goals are related to the entire organisation instead of any one department. Enable externally focused strategic goals for the benefit of all stakeholders in the ecosystem:

1. Market standing: desired share of the present and new markets;
2. Innovation: development of new goods and services, and of skills and methods required to supplythem;
3. Human resources: selection and development of employees;
4. Financial resources: identification of the sources of capital and their use;
5. Physical resources: equipment and facilities and their use;
6. Productivity: efficient use of the resources relative to the output;
7. Social responsibility: awareness and responsiveness to the effects on the wider community of the stakeholders;
8. Profit requirements: achievement of measurable financial well-being and growth.

ANNEX X: POLICY INSTRUMENTS FOR THE DEVELOPING EAP WINE ECONOMY

Research subsidies: Uses public resources to generate knowledge inputs such as private and public sector research and development and human resources through the education of researchers, scientists, technicians,etc. This could include both mission-oriented research to support a specific technology and multidisciplinary research.

Technology-push measures: Increase public and private funding for research, technology, and innovation, enhance research collaboration and reduce regulatory barriers to innovation, in order to encourage the generation of knowledge, and its application to the development of innovation. Encourage interdisciplinary co- operation between universities, research institutes and business. Establish centers of excellence and databases, promotion of networks (e.g., through innovation clusters), promotion of new business models such as public- private partnerships (PPPs), training and education measures, etc.

Market creation and promotion: Puts in place an incentive structure that could include, among other things, procurement guidelines, production subsidies, pricing incentives, (removal of) trade barriers, and competition policies. Install several market-pull measures to expand demand for EaP wines, such as: increasing consumers' awareness of the EaP wines; the development of labels, standards and certification for indigenousgrape varieties and new wine products, such as natural wines; and the use of green public procurement. Enhancing social dialogue and other initiatives supporting public understanding of the EaP wines differentiating factors could be achieved through appropriate incentives. The involvement of wine enthusiasts and wine professionals, scientists, and research and innovation community in such as process is essential.

Regulations/standards: Mandates actions concerning safety, product registration, advertising, environmental mandates (e.g., tradable carbon markets, life cycle assessment), etc. This can also be a tool for market creation.

Reviewing, updating, and simplifying regulations: Reduce regulatory barriers to technology development and research-based innovation, as well as to trade in order to support the development of the EaP wine economy. Clear, predictable, and efficient regulations are powerful drivers of trade and R&D investments.

Infrastructure investment: Creates the underlying framework for community support systems such as for public healthcare, collaborative science, databases, transportation, energy usage, etc.

Institutional changes: Modifies the rules for collaboration, trade, knowledge market transactions, etc.

Foresight research: Maps the links between evolving research programs (including targeted and multidisciplinary research), regulatory frameworks, policy initiatives, and the development of new technologies.

Public forums: Enables public discussion, debate, and education in areas such as ethics, benefits and risks, and the utility of biotechnology.

Development commitments: Enables financial and other support (technology transfer, collaboration between universities, etc.) to SMEs and other stakeholders.

Building human capital: The development of the EaP wine economy depends heavily on a highly qualified workforce as a wide range of knowledge and technological expertise is needed for different related activities in an increasingly global and technology enabled environment. It will require well-trained workers with specific qualification, and competences, and capable to adapt to innovation and structural changes. There will be an increasing need for highly skilled individuals with strong entrepreneurial skills and innovation culture, including cross-disciplinary education and training programs, among others. To enhance innovation adoption, several programs focus on the transfer of knowledge and technology to SMEs. Such measures aim to bridge gaps between research and practice.

ANNEX XI: KEY PERFORMANCE MEASURES

The following indicators should be observed over a 5-year period. Base Values for each EaP country and for each Issue need to be assigned to the indicators. The targets/milestones should be tentative but realistic, and based on the assumption that such program will be supported and implemented at high level by all EU and EaP stakeholders. Factors and targets/milestones will be revisited and revised periodically, as actions take effect.

WEAK DOMESTIC WINE CONSUMPTION

EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
Per capita wine consumption			
Domestic wine vs. Import wine Market Share			
Domestic wine sales to horeca -EUR & Lt			
Domestic wine sales to retail -EUR & Lt			
Domestic wine D2C sales -EUR & Lt			

SME Wineries -number & EUR sales			
Labels using indigenous grape varieties			

GEORGIA

Initiatives: A 'Quality Mark' was created, which aims to develop the quality schemes linked to the food in Georgia, product branding, support to the introduction of international practices of marketing, perfecting the legal and institutional mechanisms for their protection, promotion of food labeled with the quality mark and enhancing the trust of consumers in the food produced in Georgia.

The Ministry of Environment Protection and Agriculture has initiated and is currently implementing the "United Agro Project" -a program aiming to connect the agricultural value chain through cheap and accessible funding; promoting agro insurance; enabling nurseries; encouraging cultivation; and co-financing agricultural processing and storage enterprises.

MOLDOVA

Developments: The Moldova Competitiveness Program has targeted development of the local wine market through the development of the promotional events such as National Wine Day, bi-annual Wine Vernissage, two editions of the Wine School, and accredited sommelier courses. It also supported development of the wine tourism concept to support promotion and sales of small wineries and to strengthen inbound tourism in the country.

The Program has helped to develop 31 small wine producers and helped others to buy new equipment and learn new technologies. Overall, project quality improvement and assurance programs engage and benefit 167 wineries, or 90% of industry entities included in the Vine and Wine Registry.

Initiatives: The NGO "Sommelier School" is organising sessions of wine training for consumers interested in learning more about wine. In 2020, a communication campaign promoting on-line sales for small winemakerswas deployed; consultancy on wine bottling under the PQUP and ASW mentorship program was launched; marketing support for individual ASW mentorship and PQUP program beneficiaries was provided.

Media - a tool to promote industry competitiveness and high-impact project activities. The media project targets all media – TV, on-line, written press, and radio. The project issues press releases, news, articles, and announcements through its outsourced local communications agency, and MCP invites journalists to project events to grow their understanding and knowledge of highly technical subjects. 16 national media channels have produced over 30 press materials about project activities, reflecting industry highlights. This kind of information dissemination helps increase the visibility of the effort.

Further country input for Azerbaijan, Armenia, Ukraine, and Belarus is necessary in order to complete thissection.

WEAK SME FUNDING ECOSYSTEM

EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
SMEs gap in financing needs	est. ≦ € 200M		

Bridge to financial institutions & investors			
Accelerator Programs / SMEs & Start-ups			
SMEs & Start-ups funded			
Funding raised / Grants extended			
Revenue generated			
Jobs created			

MOLDOVA

Initiatives: The Moldova Competitiveness Program extends the Association of Small Wineries Mentorship Program. Following a selection process in February 2020, 13 small wineries were pre-approved grant applications for the purchase of basic equipment -five of them are new beneficiaries that were mentored in 2020. Approved grants totaled almost $132,000 USD, or $10,000 USD per winery, leveraging private investment of almost $88,000 USD.

Further country input is necessary in order to complete this section.

LIMITED SME EXPORT ACTIVITY AND INTERNATIONAL EXPOSURE

Notes:

- Tracking the value of trade attained through resolution of foreign market access issues directly links market access activities in the trade policy space to the desired outcome of liberalized trade;
- The percent increase in value of exports illustrates the positive impact of free trade structures for the wine sector;
- The number of cases being pursued reflects the resources and expertise dedicated to holding trading partners to their commitments to maintain fair trade opportunities in the interests of the wine sector;
- Tracking the number of measures and issues raised with trading partners to address barriers to trade illustrates how trading partners are held accountable to their commitments;
- The number of visits to dedicated website/s, publications, and a comprehensive database shallillustrate the reach in providing expert information to stakeholders;
- The overall quality of supply and demand forecasts used by stakeholders to make sound business decisions.

EaP COUNTRY	Baseline Data FY 2018-2021	Target Year 1	Target Year 5
SMEs exporting branded wines to EU / USA			
Export Revenue / Volume as % of sales			
Export marketing Spend -€ / % of sales			
Ex-factory / FCA weighted avg. export price			
Structured distribution or sales agreements			
Sales cycle -days / Order frequency			
Markets absorbing > 100,000 cases / annum			

GEORGIA

Developments: Georgia produced 259.9 thousand tons of grapes in 2018, which is by 43.8% more than the same indicator in 2017. The activities implemented in recent years regarding the development of viticulture/winemaking, among them, vineyards cadaster program and market diversification, as well as the new approaches applied to vintage, have provided an additional stimulus for the development of viticulture and winemaking. The Georgian wine export reached record high rates in 2018, with 86.2 million bottles (0.75liters) exported to 53 countries worldwide.

Initiatives: The Georgian National Wine Agency (governmental) and the Georgian Wine Association (nongovernmental), jointly developed the Export Market Development Action Plan in 2011, which serves as the main strategic direction of the country. In July 2011, Georgia signed agreement with the EU on the mutual recognition of GI that opened the way for the Georgia GI to be recognized in the EU (WIPO Magazine 2012). The country is promoting its special traditional unique, natural wine - "Qvevri" wines, as a separate segment (and developing the brand for Chacha -Georgian high alcoholic spirit - distilled from pomace).

MOLDOVA

Developments: The Russian embargoes of 2006 and 2013 nearly destroyed the Moldovan wine industry. In response the National Office of Wine in cooperation with international sponsors, deployed critical programs to improve viticulture, winemaking, and quality standards. Today, two-thirds of Moldovan wineries meet Western quality standards and produce wines compliant with the EU quality framework.

In 2019, Moldova exported 157 million liters of wine, generating US$ 176 million in export sales -the highest levels since 2013. The wine industry accounts for 5% of Moldova's exports. In 2019, Moldovan wines were exported to 67 countries including Romania-14%, Poland-13%, Czech Republic-12%, China-12%, and Canada-3%.

Initiatives: In February 2020, Moldova Competitiveness Project facilitated the visit of #Winelover representatives to Moldovan wineries. #Winelover is social media's largest community of wine connoisseurs. Furthermore, South Korean leading sommeliers visited Moldova and confirmed South Korea's interest in premium wines. South Korea is an emerging export destination for Wine of Moldova, and sommeliers play an increasingly important role in global wine consumption.

Moldova Competitiveness Project considers success in Romania as the platform for Moldova wineries to expand to the EU. The Program supports member wineries with cost sharing schemes for marketing and promotionalactivities, including social media. All activities are built on elaborate business and marketing plans, and the upcoming focus will be E-commerce sales.

According to European best practices, PGI wines traditionally achieve prices 15-20% higher than the same wine with a generic label. To facilitate winegrowers' ability to reach high value markets, ONVV will also focus on assisting members to adopt precision viticulture and modern agricultural intelligence equipment to adapt to climate changes and detect vine diseases.

The National Office of Vine and Wine (ONVV) approved its $3.3M annual budget for 2020 leveraging a 50/50 contribution from the public and private sectors. The equal financial contribution received from the public and private sectors demonstrates the commitment of the industry towards sustainability and establishes ONVV asa role model for good governance and private sector engagement, which can be replicated by other industries. Following the success of marketing activities carried out in 2019, which profiled the Moldovan wine tourism offer in over 450 international media publications including Forbes, ONVV allocated 71% of its budget to marketing activities.

Potential: There is currently a government subsidy of €1,500 per hectare for planting of wine grapes. However, the way the subsidy is structured it promotes planting high-yield, lower-quality wine grapes. Shifting the emphasis of this subsidy to fund planting of local wine grape varietals (e.g., Fetească albă, Fetească regală, Rară Neagră, Fetească neagră, Viorica) would support the transition of the wine sector to new, locally inspired wines. For example, the Purcari Company expressed interest in financing the planting and purchasing indigenous varietals from small producers in case these producers would be supported by the government to do so.

Further country input for Azerbaijan, Armenia, Ukraine, and Belarus is necessary in order to complete this section.

GOVERNANCE AND MANAGEMENT DEFICIT AND LACK OF SKILLS IN THE LABOR MARKET

Notes:

- Workforce ratings – how workforce is retained and motivated with both the needed talent and skillsets;
- Management actions detailed in audit recommendations completed by deadline to reflect how SME management prioritizes internal improvements, and to ensure performance, efficiency, and collaboration are at their highest levels;
- Projects that have increased a project participant's value of sales to understand progress toward competitiveness of those SME beneficiaries receiving support and the success of the respective program;
- Value delivered by each marketing and promotion campaign (tracking can be digital or physical).

EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
SMEs employing domestic educated enologist			
Domestic educated sommeliers -accredited			
International wine certifications			
White Papers on viticulture / winemaking			
SME workforce incentive plans in place			
Boards of Directors in place (non-affiliated)			

GEORGIA

Initiatives: With the initiative of the Ministry of Environment Protection and Agriculture of Georgia and with the funding of the Danish International Development Agency (DANIDA), a program started in 2018 for supporting new entrepreneurs in rural areas – "Young Entrepreneur". Main goal of the program is to support the economic growth and poverty reduction in the regions through providing financial and technical assistance to the youth, and the objective is to develop the private sector in the regions, to support the engagement of youth in businesses and to make investments in the production-sales chain of agricultural products.

Within the education reform, the flagship European School in Georgia will become a full secondary school in new premises.

Potential: As per 2017 data, the number of registered new businesses by owner gender is: 31% female, 51% male and 18% nonidentified. There are 12,699 individuals employed in the agricultural sector, which is only 1.8% of the employed population. According to the latest 2015 data, 50.5 percent of employed in the agricultural sector are women. The distribution of land by sex is as follows: men own 81% of agriculturalland and women only 19%. The distribution of households per farmers age shows that the farmers below the age of 35 (38,090) only represent 6% of the total number (639,963 individuals).

MOLDOVA

Initiatives: To date, the Moldova Competitiveness Project, in collaboration with the National Office of Vine and Wine (ONVV), has enabled more than 70 Moldovan sommeliers and over 200 local industry professionals to receive training in the basics of wine service and presentation. Efforts continue to increase the number of qualified sommeliers in Moldova and to support the Wine School initiative aimed at consolidating the sommelier and wine connoisseur communities. Moldova now has over 90 sommeliers with internationally recognised qualifications, with some members of the community achieving important successes in regional contests, further contributing to the increased visibility of Wine of Moldova.

Further country input is necessary in order to complete this section.

LIMITED INNOVATION ACTIVITIES AND LOW R&D EXPENDITURE

EaP COUNTRY	Baseline Data FY 2020	Target Year 1	Target Year 5
Wine quality improvements -SMEs/liters			
Bulk to premium conversion -SKUs / tons			
Vineyard surveillance for vine diseases			
Investments in tech upgrades -€own/grant			
Patents / Intellectual Property Listings			
R&D Expenditure			
Innovation funded EUR -VC/other; start-up stand alone or SME incubated			

GEORGIA

Company Qvevri.XYZ create old-school earthenware wine vessels with 3-D printers, which they claim offer higher quality and greater consistency.

MOLDOVA

In 2019: Wine quality improvements have addressed 17 SMEs and 250,000 liters of bottled wine. Bulk wine has been converted to premium bottled wine resulting to 63 SKUs or 161 tons. Vineyard surveillance for vinediseases has covered 1,600 ha with 200 PCR tests. There have been a minimum 2 investments in tech upgrades.

Further country input is necessary in order to complete this section.

WEAK ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PRACTICES -SUSTAINABILITY

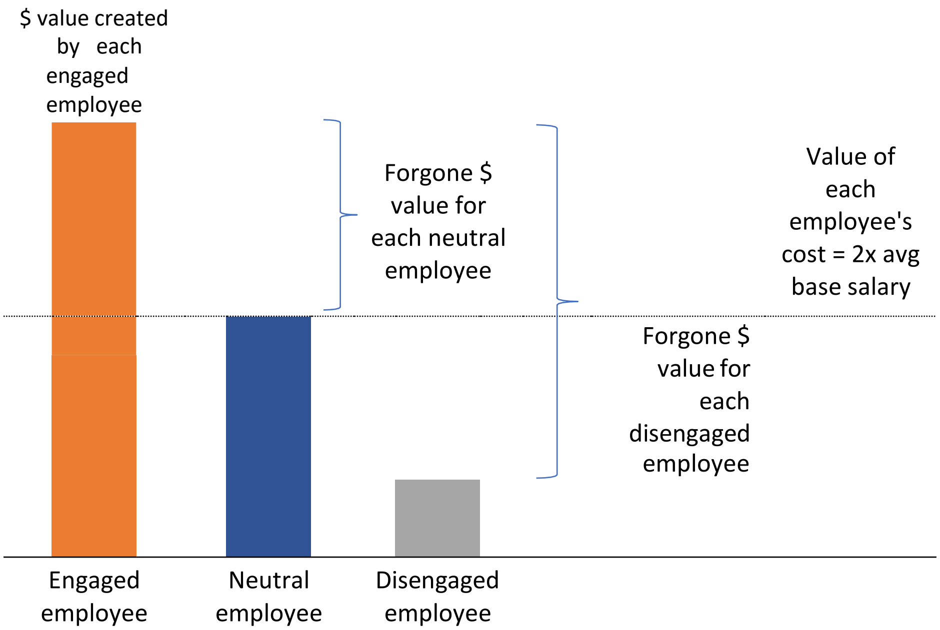
The Corporate Sustainability Framework:

- ✓ Social Capital -how to create measurable results: the relationships that the EaP's SMEs create with suppliers, EU SMEs, and communities where they operate;

It should be noted that organisations that in particular actively employ people with disabilities will not only cultivate good will from their communities, but also see: 89% higher retention rates, a 72% increase in employee productivity, and a 29% increase in profitability.

- ✓ Natural Capital -how to create quantifiable results; transitioning sustainability programs: the land, water, biodiversity and other ecosystem services for grapes to grow;
- ✓ Human Capital -empowering women and youth: the talent, skills, dedication and inspiration of the SMEs' workforce, and their responsibility to keep them safe;
- ✓ Intellectual Capital -investing in future growth: the knowledge and IP that EaP SMEs create and use to keep them at par with or ahead of international competition; and
- ✓ Intangible Capital: the trust in the EaP countries and SMEs' brands and their reputation which will help establish multiple stakeholder partnerships.

Economic Value-Added Model:



EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
SMEs with corporate strategy that includes sustainability as a core component			
SMEs with specific measurable ESG practices			
Value generated by engaged employees			
Stock of Natural Capital -SME range & avg			
Protected genetic resources			
Energy efficiency – (MJ/9LE)			
Water efficiency – (L/9LE)			

Total CO_2-e emissions – (tons CO_2-e)			

Total solid waste generated (tons)			
% Solid waste to recycling			

GEORGIA

Developments: Climate change and its negative impact on Georgia's ecosystems and economy pose a major threat to the country's sustainable development. The country's geographical location, complex terrain, diverse land cover and specific climate, covering almost every climate zone, create the conditions for a wide range of negative effects of climate change in Georgia. Significant steps are planned to adapt the agricultural sector to climate change -e.g., (a) preparation and implementation of plans for rapid response to droughts, floods, and other extreme events in agriculture; (b) introduction of innovative methods of irrigation management and water use and more.

Potential: In regard to surface water and groundwater resources, Georgia is one of the richest countries in Europe. Per capita, there is 14,000 m^3 fresh surface water in Georgia, whereas this indicator is on average only 9,300 m^3 in Europe.

Further country input is necessary in order to complete this section.

WEAK DIGITALIZATION AND SLOW DIGITAL TRANSFORMATION OF THE EAP WINE SECTOR

EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
Partners implementing the Principles of Digital Development			
SME digital investment (solutions) -#SMEs / €			
SME digital Investment (infrastructures) - #SMEs / €			
EU sponsored digital solutions -#SMEs / €			
Established digital best practices incorporated in SMEs' governance			
E-commerce measurable growth (customer conversion and retention)			
Information security policies			

MOLDOVA

PGI Associations. The authorized tasters and representatives of the PGI associations have evaluated over 330 wine samples in blind tastings, following the internationally accepted 100-point OIV scale and using tasting software developed with MCP support**.**

Further country input is necessary in order to complete this section.

WEAK SME INSTITUTIONAL AND OPERATIONAL ENVIRONMENT

The institutional and operational environment should be assessed as to:

- Whether and how it affects jobs and job creation related to SMEs
- Whether it imposes costs that exceed benefits, and as such, it is outdated, unnecessary, or ineffective
- The role of the private sector -and in specific that of the SMEs as the direct stakeholders
- Whether it creates or will create inconsistencies or interference with regulatory reform initiatives, policies, and priorities

EaP COUNTRY	Baseline Data FY 2020-2021	Target Year 1	Target Year 5
Value generated by engaged SME employees			
Avg. monthly rural wine household income			
Lost time injuries per million hours worked (LTIFR -safety)			
SME regulatory impact assessment			

GEORGIA

Initiatives: The national statistics office (Geostat) may also consider carrying out periodic analyses to highlight major trends in the SME sector. The analysis could be published online and shared with policy makers and business associations to better inform the dialogue on SME policy with quantitative evidence.

MOLDOVA

Developments: ASW has advocated successfully through the Wine of Moldova lobby and Advocacy Program on easing certification procedures (less and cheaper) and setting a favorable regime for small wine producers.

The Product Quality Upgrading Program is mandated with the conversion from bulk to higher added value bottled wine production, targeting to position the Moldovan wine in the premium and upper premium price segments. In 2019, two grants for technological upgrades were pre-approved, and 11 small wineries in transition were assisted. Overall, 20 post-Soviet wineries producing almost 40% of industry's output have benefited.

The USAID and its Moldova Competitiveness Program have supported the country's law on vine and wine, and the regulatory model for the protected designation of origin (PDO)/protected geographical indication (PGI) wine-production system. The Program also launched the official country wine brand, "Wine of Moldova: A Legend Alive" and built tools and infrastructure for using the brand to promote the sector. This included such tools as a Marketing & Promotion Framework; brand book; communication strategy, sustainability framework and legal enforcement concept, and a website for ONVV. It also supported the organization of industry promotional events and assisted sector enterprises directly in promotion and establishing linkages in EU markets.

Initiatives: To date, the Moldova Competitiveness Project has assisted 45 women-owned companies (16% ofits total assistance). In 2019, 96 women and 107 youth (out of a total 263) participated in the Program's 8 capacity building activities. The ASW Mentorship Program is designed to stimulate young winemakers to launch small wineries and/or to support the development of emerging small wineries (Carpe Diem, Minis Terrios, Gogu Winery, Atu Winery, Crama Mircesti, Unicorn Estate, Teba Prim, Vinaria Lupascu, Pomusoara Dulcisoara).

The availability and common use of shared equipment is one of the most important services that ASW providesto its members, as most of the wineries cannot afford to invest in expensive pieces of winemaking and sales equipment that are critical to quality wine production and sale but are used infrequently throughout the year.

AZERBAIJAN

Developments: The State Program on the Development of Winemaking in Azerbaijan (2018-2025) supports the sustainable development of winemaking.

Further country input is necessary in order to complete this section.

ANNEX XII: AGOGE PARTNERS QUESTIONNARES & LIST OF INTERVIEWS / CONTACTS WITH BSOs AND OTHER STAKEHOLDERS

EaP Country	Stakeholder	Contact
Georgia	Chamber of Commerce and Industry	Mr. Aleksandre Papiashvili Director of International Relations and Project Management Department
Moldova	Chamber of Commerce and Industry	Mr. Mihai Bilba Vice President
	Chamber of Commerce and Industry	Ms. Ludmila Pascal Head of International Projects
	Moldovan Small Wine Producers Association	Mr. Ion Luca President (and winery owner)
Azerbaijan	Chamber of Commerce and Industry	Ms. Elnaz Gahramanova Head of Department
Armenia	European Business Association Armenia	Ms. Diana Sarumova Executive Director
	Chamber of Commerce and Industry	Mr. Vladimir Amiryan Director of Operations
	Vine and Wine Foundation of Armenia	Ms. Liana Abelyan Head of International Projects Department
Ukraine	Chamber of Commerce and Industry	Ms. Olga Suhenko International Cooperation Department
Belarus	Chamber of Commerce and Industry	Mr. Roman Mokretsov Lead Expert, Foreign Economic Activities
	Sommelier; Wine bar owner	Alexander Kulbachko Wine expert

QUESTIONNAIRE 1

1. Is there an official country strategy in place, as well as growth guidelines? If not, what is the closest available plan?
2. What is the size of the Wine Sector?

2.1. Wineries -breakdown by bottles shipped per annum and by value
2.2. Vineyards -total area under cultivation (planted area of wine grapes)
2.3. Per capital annual consumption of wine
2.4. Exports vs Imports vs Local consumption

3. What is the current stage of the following?
   3.1. new consumer trends
   3.2. new categories of products
   3.3. new forms of sales and e-commerce
   3.4. new technologies enabling sales and marketing
4. Is there a national organization that invests in promoting the country's wines? (*e.g., in 2021, the Portuguese wine organisation that markets national wines, Wines of Portugal plans to invest $8.7 million in international wine promotions*)
5. What are the national marketing activities in place or planned for international wine promotion?
6. Which are the priority/strategic export markets and why? Are they approached in a systematicmanner or independently by the wineries?
7. Which venues do you target and how? -e.g., major international wine fairs, wine tastings, and master classes.
8. Which stakeholders do you target and how? -e.g., importers, sommeliers, influencers, media, etc.
9. Why are your wines different from the competition? Who are your direct competitors?
10. Are there any imported wines? From which countries? Which is the market share of the importedwines? Which type?
11. Which of the following would apply to you?
    11.1. Is the local purchasing power increasing?
    11.2. Are consumers targeting more and better wine?
    11.3. Is there an interest in premium quality wines?
    11.4. Are there local trendy wine bars and other establishments fueling wine consumption?
12. Which are the varietals cultivated? Are there any local varietals?
13. Is there as a support scheme for the restructuring and conversion of vineyards (e.g., Portugal countson a budget of $61 million for the 2021-2022 season)
14. Are there any priority criteria for vineyards? -e.g., intended for organic production, producers withfamily farming status, historic vineyards, and projects of national interest, etc.
15. Has there been a package of measures due to the Covid-19 pandemic and the closure of the hospitality sector, to support the wine sector? (e.g., for distillation, storage, etc.)
16. What do you know about Direct-to-Consumer sales and marketing mechanisms? What is the respective status in your market?
17. Please describe the following:
    17.1. Are the country's wine consumers knowledgeable of the product and what are themeasures to that effect?
    17.2. Is the new generation of winemakers well-traveled and up to date with respect to the international developments in the wine sector?
    17.3. Is the wine sector a major driver of the country's economy? What are the State's policies and actions to grow the wine sector and/or sustain its importance?
    17.4. What is the contribution of the wine sector to maintaining the rural areas?
    17.5. How is the wine sector related to employment, investments, economic stability, and environmental sustainability?
18. How is distribution in the country structured?

19. What are the tariffs and the alcohol tax?
20. Are there any barriers to export to the EU and to other parts of the world?
21. Are there any export incentives?
22. What kind of wine and agriculture technologies have been or are being adopted?
23. Is there an umbrella Agricultural Policy and SME Support Scheme?
24. How is entrepreneurship supported and enabled in your country?
25. To what extent have funding mechanisms been developed in your country -e.g., accelerators, VC ecosystem, angel investor networks, etc.?
26. Are there research and innovation support programs?
27. To what extent are you cooperating with organizations such as the International Wine Organization (OIV); Trade Data Monitor (TDM); Development Agencies; etc.?
28. Please feel free to add any other information you wish to contribute.

QUESTIONNAIRE

	All Winemakers - ONLY bottled and branded wines													
		Annual Production		Bottle Sales		Average Sales Price		Types of Wines			If yes			
	Name of Winery	Bottles	€ value ex-winery	Domestic	Export	Domestic	Export	Indigenous or blends incl. indigenous varieties	Only foreign varieties	Does Winery also own vineyards ?	m2	kg grape production	% indigenous varieties	% foreign varieties
1														
2														
3														
4														
5														
6														
7														
8														
9														
10														

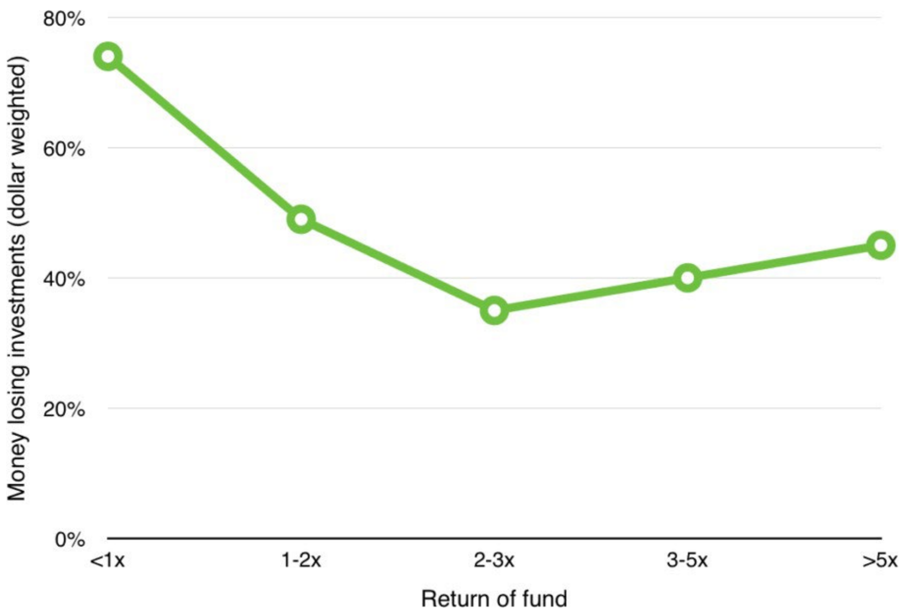
ANNEX XIII: VARIOUS TABLES

E-Commerce Growth

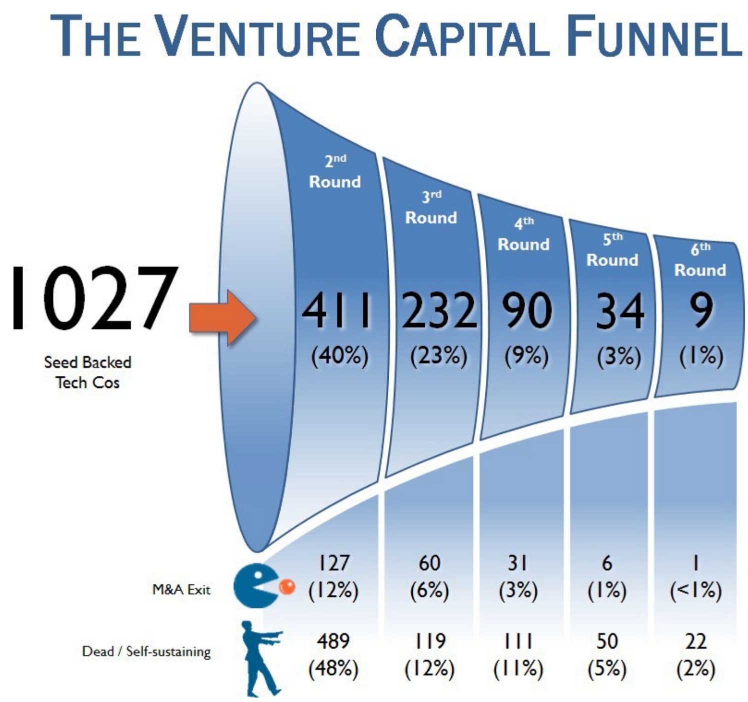
Business-to-Consumer E-Commerce Worldwide by Region (USD Billions, 2012–17)

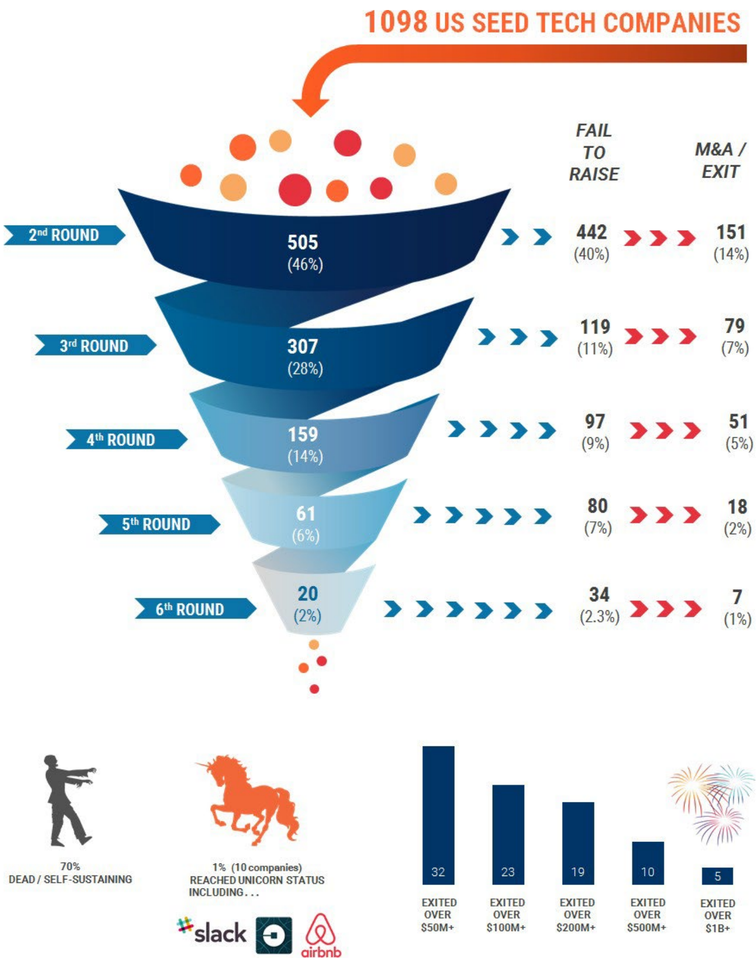
Region	2012	2013	2014	2015*	2016*	2017*
Asia-Pacific	301.2	383.9	525.2	681.2	855.7	1,052.9
North America	379.8	431.0	482.6	538.3	597.9	660.4
Western Europe	277.5	312.0	347.4	382.7	414.2	445.0
Central and Eastern Europe	41.5	49.5	58.0	64.4	68.9	73.1
Latin America	37.6	48.1	57.7	64.9	70.6	74.6
Middle East and Africa	20.6	27.0	33.8	39.6	45.5	51.4
Worldwide	**1,058.2**	**1,251.4**	**1,504.6**	**1,771.0**	**2,052.7**	**2,357.4**

Venture Capital Figures



Source: Chris Dixon


THE VENTURE CAPITAL FUNNEL
1027
Seed Backed Tech Cos
2nd Round
411
(40%)
3rd Round
232
(23%)
4th Round
90
(9%)
5th Round
34
(3%)
6th Round
9
(1%)
M&A Exit
127 (12%)
60 (6%)
31 (3%)
6 (1%)
1 (<1%)
Dead / Self-sustaining
489 (48%)
119 (12%)
111 (11%)
50 (5%)
22 (2%)


1098 US SEED TECH COMPANIES
FAIL TO RAISE
M&A / EXIT
2nd ROUND
505 (46%)
442 (40%)
151 (14%)
3rd ROUND
307 (28%)
119 (11%)
79 (7%)
4th ROUND
159 (14%)
97 (9%)
51 (5%)
5th ROUND
61 (6%)
80 (7%)
18 (2%)
6th ROUND
20 (2%)
34 (2.3%)
7 (1%)
70%
DEAD / SELF-SUSTAINING
1% (10 companies)
REACHED UNICORN STATUS
INCLUDING . . .
slack
airbnb
32
EXITED OVER $50M+
23
EXITED OVER $100M+
19
EXITED OVER $200M+
10
EXITED OVER $500M+
5
EXITED OVER $1B+

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