

# Assessment of Foreign Influence on the Armenian Wine Business

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## Abstract

For over 7000 years wine is produced in Armenia; hence as new discoveries show Armenia can be considered as the cradle of wine production. Despite of or because of this tradition nowadays Armenia is more recognized for its prime brandy production than for its wine. Starting to operate a brandy business Pernod-Richard started to introduce numerous innovations. They introduced new processing techniques but also they started a new system to procure grapes. Today, years after the market entry of this foreign company one has to notice that the whole brandy business has changed. As we have observed in our field study this development is not only limited to the brandy production but also is valid for the wine business. Hence, the aim of our article is to describe the development of the Armenian wine and brandy business and to discuss in this context the influence that foreign investors have taken in this development. We further try to give an outlook on the future role that foreign investors and their ideas will have for the Armenian wine and brandy business.

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## **1 Introduction**

For over 7000 years wine is produced in Armenia; hence as new discoveries show Armenia can be considered as the cradle of wine production (Fruitfull Armenia, 2011). Despite of or because of this tradition nowadays Armenia is more recognized for its prime brandy production than for its wine. Particularly during the Soviet time the brandy brand "Ararat" was known for its superiority throughout the whole Soviet bloc. In this context it was a brand icon. This brand value was also recognized by the French conglomerate Pernod-Richard. Hence, it bought the brand and its production sides in Armenia just shortly after the collapse of the Soviet Union. Starting to operate the business Pernod-Richard started to introduce numerous innovations. They introduced new processing techniques but also they started a new system to procure the needed grapes as they do not dispose over own vineyards. As grapes are the most important input they introduced procurement schemes that consisted of monetary but also non-monetary incentives such as farm assistance programs, and/or credits.

Today, years after the market entry of this foreign company one has to notice that the whole brandy business has changed. The Armenian competitors had to adapt these innovations in order to stay in business. For, example, as a result today more and more contractual arrangements can be found. In general, today there is no brandy producer that is not influenced by foreign ideas on production, marketing, or procurement side. As we have observed in our field study this development is not only limited to the brandy production but also is valid for the wine business. Hence, the aim of our article is to describe the development of the Armenian wine and brandy business and to discuss in this context the influence that foreign investors have taken in this development. We further try to give an outlook on the future role that foreign investors and their ideas will have for the Armenian wine and brandy business.

## **2 Research Setting**

It is generally known that foreign companies via their investments and ideas exert strong influence on transition countries (Stange, 2010). In our empirical study we want to see whether these theoretical findings can be found also in a specific setting. As the Armenian wine industry is at a turning point with some inflows of foreign investments (Fruitful Armenia, 2011) we decided that Armenia and its wine sector is suitable for our empirical research. Overall, thirteen interviews<sup>3</sup>

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<sup>3</sup>Support was given through the International Center for Agribusiness and Education (ICARE) in Yerevan, Armenia as well as the German "Gesellschaft für Internationale Zusammenarbeit"

were conducted throughout a field research in Armenia from 18th of April to 2nd of May 2011. The methodology is based upon Gagalyuk and Hanf (2009). In the next chapter available data give an overall image of the market environment and development that takes place. Nevertheless, in order to show the current situation of the market it is necessary to include personal opinions from different target groups. Interviewees that are in direct contact with the industry are highly aware of current changes, that might not appear on statistics yet. In order to ensure a wide range of opinions and perspectives interviewees were chosen from different branches of the wine and brandy industry. Two medium sized producers interviewed are located in the country side near Yerevan, they focus on wine and brandy production. Both businesses are set within a village community and are distinguished by close work with village farmers. Six big scale producers were interviewed. Two of the interviewees work for the biggest brandy producers of Armenia, the other four work within companies that diversified their production, not only focus on wine, brandy and sparkling wine production but also are active in other agro processing sectors. Their statements mirror the perspective of capital intensive investments. Five Experts were interviewed. They work in the field of consultancy, associations and international organizations that have experiences within the field of wine production and marketing. The interviews were conducted mainly within Yerevan, as many producing companies as well as experts are located in the center town. In addition to that interviews with the medium scale producers and two big scale producers were conducted in the regions around the capital, too. The interviewees were asked a set of open questions. Depending on their profession and the field of work, focus was put on different aspects, to gain deeper insights within the subject. The questions were set in different sections: 1) changes within the plantation of varieties planted; 2) contractual agreements; 3) external and internal facilities to overcome overall constraints; 4) importance of traditional markets; 5) competition within the sector; and 6) role of FDI and its influences on the wine and brandy sector.

### **3 Description of the Armenian Wine Business**

Armenia is a country of variety and one of the oldest wine growing countries of the world. It is distinguished by a wide diversity of climatic conditions and various soil types (Ambrosi, 2002). Intense variations of topographic and climatic condition are also mirrored in the varying accasibility to water and fertility of soils, which directly effects the often fluctuating harvests (Scannell et al., 2002). Armenia is

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(GIZ) in Yerevan. The interviews were carried out in Armenian, and then translated into English and German, as well as in English and German directly.

located on the same latitudes as Barcelona and Naples. Mainly viticulture takes place in the southern parts of the country, often on high mountainous regions. (Ambrosi, 2002). The climate reaches from very dry desert and semi-desert to mediterranean and dry-sub-tropic conditions. Also, cool alpine vegetation zones can be found within the country. (Harutynyan, 2010) Temperature variations between summer and winter are huge (FruitfullArmenia, 2008). Armenia has five wine growing regions: the Ararat Valley, in which the majority of viticultural activities take place (73.4%), followed by the foothills of the Ararat Valley with 11.6%, the North-East of Armenia produces 8.3% of wines, followed by Vayots dzor region with 5.6% and Syunik with 1.1% (Harutynyan, 2010). Researchers found proof of the wild wine variety *Vitis Vinifera silvestries*, which is the archetype of *Vitis Vinifera* in the slopes of the old Armenia. The old Armenia reached over wide parts of eastern Turkey, parts of Azerbaijan and Georgia. Vines were planted mainly in the slopes of valleys. In the south-west of Yerevan during archaeological research evidence of irrigation channels, wine cellars and production tools such as clay pots were found, that date back to the 10th century B.C. (Robinson, 1999). Another source refers to archaeological findings of the 7<sup>th</sup> century B.C. that discovered evidence of sulfur, which proofs the high level of development and also popularity wine production had in these early years. Wine was used for consumption as well as for religious purposes, it was given as offers in form of grapes and wine, and for medical purposes (Kalatarayan and Harutyunyan, 2005).

According to Scannell et al. (2002) around 40 varieties are commonly planted, mainly in the Ararat Valley. Jancis Robinson (1999) refers to 48 varieties, of which 30 are used commercially. Another report reveals that originally around 800 indigeous and foreign varieties existed in Armenia. Though due to historical reasons many vanished. The widely planted white Mashali grape is used for brandy production. In addition to that white varieties like Voskeat and Garan Dmak are grown and used for wine produce. The most common red varieties for wine production are Areni (widely spread especially in the Areni region) and Kahet (Gasprayan, 2003). Due to climatic conditions, vinestocks are in danger of frost in late harvest and spring time. The technique of "earthing up", building up soil around the stems, is used widely (around 80%) to protect roots and stocks from cold temperatures. Different training systems are found, depending on the region grown. In many cases materials are outdated. Cement poles are common and vineyards are rarely set in order to mechanically harvest the grapes. (Esteve, 2011) The majority of vines is grown by a "4-wired vertical trellies" with high trunks (75%), followed by 10% that are trained in a "hedge system" and a around 10% that are trained in a "middle stemmed fan system" with a stem hight of around 50-60cm. 90% of the vines are self-rooted, leaving the rest for grafted

vines that are mostly located in the North-Eastern growing regions. The soil types of most vineyards are stony. (Gasprayan, 2003, P.54). These factors show, that the production costs of grape produce in Armenia are quite high, according to the FAO they are almost on the same level as Europe. This is mainly due to high costs of irrigation, different types of landscapes found and land preparation costs (FAO, 2009).

## **4 Results of the interviews**

### **4.1 Grape Varieties**

Armenia's markets are developing and besides traditional import and export partners from the former Soviet Union, new trade partners enter, too. Because of that, interviewees were asked whether these changes are mirrored within the plantation of varieties planted and about their opinion on international varieties. Manaseryan (2011) stated that within his company only autochthon varieties are planted. Though, he refers to one of their white varieties, which is also called Muscat and is described with similar attributes as the European Muscat - still, known to be pure Armenian origin.

Samvelyan (2011) went further and emphasized, that in his opinion the future of Armenian wine is rooted in local varieties; especially because international varieties are found all around the world and are well established within global markets. He does not believe that Armenia has a chance to keep up with these developments, therefore should focus on current trends: the interest of customers in tradition and tradition varieties. He believes that also within the desert wine sector a niche is located.

Harutyunyan (2011) approves this by underlining that these "spiritual values" are a trend. Especially because of latest findings, that proof that Armenia is the birthplace of wine. Nevertheless the danger is located within neighboring countries, as many of them claim the same. He believes that whoever manages to use this best will win the markets. Also, within former Soviet markets the traditional varieties are of great importance, as they are well established and recognized. Still, he agrees that within quality orientation of customers, international varieties do gain importance.

Mkrtchryan (2011) sees exactly in this matter a difficulty. On one side she believes that the importance of local varieties is high and also does not see the ability of Armenia to compete with international varieties on global markets. Though according to her there is great need on "proper research" on high quality varieties, since so far only little try outs were planted to analyze potential. Therefore, in

her point of view the focus shall be put on local varieties. On the other hand Keushguerian (2011) reports that within the last year international varieties were successfully planted.

Alexanyan (2011) describes the dilemma, as so far international varieties are not of great interest for most farmers, but of great interest for companies. So far, prices are high on this produce, but try outs were successfully undertaken already. To overcome this matter they plan to introduce contracts, to promote cultivation of international varieties. Tierras de Armenia even started tryouts of 26 international varieties in addition to local ones and brandy varieties. In order to do so, they received a special permit, at the point of introduction these were not registered yet. Though, currently Tierras de Armenia works to get permission and so far registered six varieties already. For the future they plan to reduce the amount of international varieties to three to four ones that proof to give best results and emphasized on them rather than local ones. Quality production and plant quality is their aim and therefore French varieties turned out to be very successful. A reason for this is also the negative experiences they had with local varieties. Throughout cultivation the purchased varieties varied by 30% and turned out to be a different variety than purchased. The fact that mostly mixed fields of different varieties still exist might be a cause for that (Esteva, 2011). During the interview Esteva (2011) also mentioned another major issue of local varieties: There is a non-existence of local varieties with grafted rootstocks, as there is nobody available to do so within Armenia. The non existence of phyloxera resistant rootstocks is a subject that places Armenia behind other countries, even in Russia and Georgia one can find grafted plants. This lack, according to him, is rooted in overall out-dated, old fashioned technologies of Armenian wine making, and the lack of knowledge and certain stubbornness, towards new methods and techniques among people.

## **4.2 Contracting**

The next questions are based upon the fact that grape purchases within Armenian wine and brandy making are very important. Interviewees were asked to describe the agreements between grape growers and processing companies. Further on, they were questioned whether they notice any changes within these agreements, if so in which way, and how far the presence of FDI has any influence. Interviewees report a consistent contact with grape growers. Trainings are not common, but financial assistance is given in many cases. Also, checks in vineyards are undertaken right before harvest. Many producers report that they are satisfied with the grapes quality, so they do not see any need for further improvements or additional trainings. On the other hand, some report that trainings and controls are an essential

tool; as well organized and done work eases the work load throughout harvest time and reduces basic problems (Manaseryan, 2011; Samvelyan, 2011). According to Keushguerian (2011) as far as most companies refer to contracting, it is all artificial and proper, contractual agreements hardly exist. The only exception is Yerevan Brandy Company (owned by Pernod Ricard). Melkoyan (2011) states that Yerevan Brandy Company works with 5,200 contracted farmers. The contractual agreements are control contracts. Contracted farmers are offered inputs for free; they themselves have to follow set standards, for pesticide use etc. Also, time of harvest is set by them, especially to organize the time of grape delivery, so that only little waiting time for further processing takes place. The quality of the delivery is controlled, by taking samples. If standards are not met, or farmers are found cheating all grapes are returned to them.

He adds that vineyards are controlled regularly from consultants, located in the different wine growing regions of Armenia. In addition to that, farmers are trained and advised by experts who received their knowledge abroad. As an additional appeal, annually the most successful farmers (10-15 people) receive a price, usually a tour to the cognac region of France. The overall influence of Pernod Ricards is shown firstly in the ten times value growth, since the procurement. Secondly in the fact that they were the first to set standards in business collaboration, thirdly in the effect those competitors try to copy their models and entice partners away. Also, Yerevan Champagne Wine Factory works with contractual agreements and provides farmers with prepayments after the contracts are signed, in order to support them financially in purchasing new inputs. They undertake controls of sugar content and color, when purchasing grapes. Grapes are procured directly from farmers and are processed at processing branches, located around main grape growing areas of Armenia. Prices are not set prior to harvest. If the grapes do not meet the standards, they are sent back as well. In order to ensure fully ripened grapes, technologists are sent to the vineyards upon the ripening process. The contractual agreements are set annually and Martirosjan (2011) believes that the knowledge the farmers have about grape growing is already very high, so there is no need for additional trainings. Yerevan Ararat Wine Factory uses contractual agreements, too. Since they do not have own vineyards, throughout contracts they can ensure the delivery. Contracts are reset annually. Also in this case contracts are not written, though farmers can be ensured (trust-based) that their produce is procured, as long as quality standards are met. Financial aid is given to farmers in order to improve production methods, but no special trainings are given through an agro-manager or a similar position. Khachatryan (2011) underlines, that in case quality standards are not met, the produce is returned to the farmer. Farmers are paid directly, without time delay. Still, most agreements between

farmers and producers are, long time established and trust based (Manaseryan, 2011; Samvelyan, 2011). The issues of not obeyed contracts are also found in Armenia. Previously written contracts were set, but were not followed. Due to this great mistrust was built upon farmers. At the end of the Soviet Union new producers entered the market. The issue of quality, especially for many start-up companies was a big problem. Nowadays, the issue is about to be overcome and few companies, like the Yerevan Champagne Company, set positive examples for the industry. He sees in this form of contractual relation an overall positive effect on producers and from the total production, other companies try to adapt the methods (Babayan, 2011). Another factor that was overcome because of the support of foreign market participants was within grape purchasing, as prices are a major issue, too. Mkrtchyan (2011) reports of cases, when farmers lacked market knowledge, so they ended up selling their prices at prices that covered production costs only or even lower. In this case foreign market participants helped, as they rose prices. This way they ensure that contractual relations with farmers can be set on long term basis, without ruining them and losing contractual partners in the long run.

#### **4.3 The Role of External and Internal Facilities**

The legal framework, in its current existence, does not really have an influence on quality of the wines. It does exist, but is hardly followed in reality. Keushgueriang (2011) believes that quality insurance can more likely be maintained by forming private associations, which inner organs are in charge of quality controls. The role of certification is similar difficult to the role of the legal framework, as certifications exist, but can easily be falsified. Manaseryan (2011) emphasizes the importance of maintaining quality insurance internally, especially because his company has set as a family business. He himself or his father are personally present throughout all steps of production to control maintenance of hygiene. Also, wine quality is tested within the company, as they own a laboratory. In addition to that quality controls are undertaken right before harvest in the fields, to check whether grapes are ripe yet. Armenia Wine even has own distribution networks, to overcome difficulties. In addition to that storage facilities are set at the company ground as well as in bigger cities, from where villages can be accessed more easily (Alexanyann, 2011) Yerevan. Champagne Wine Factory follows ISO standards and has certified production lines. Internal labs exist for local markets, but to ensure neutrality external labs are used as well. Within the internal quality controls, also experts check the vineyards the quality and ripening grad of grapes, before harvest. Generally, states Gagik (2011) almost all processes are undertaken within the company. Already negative



experience (within distribution), price saving, efficiency and the fact that it is easier to control are the reason for that (Martirosjan, 2011). Khachatryan (2011) from Yerevan Ararat Wine Factory adds in addition to the fact that they also have their own laboratory that new workers undergo several trainings in different departments of the company, as their own training method. Simonyan (2011) from Areni mentions that government visits the winery annually, in order to keep up assurance of compliance. Other than that, everything is done by the owner's individual responsibility. He emphasizes that through the state, the "Certificate of Origin" is given, which is of importance to export to Russia. Other than that Samvelyan (2011) adds, that in comparison to Georgia, where the states interest is put on wine production, in Armenia, the state focuses on brandy produce. Currently the state only controls certain amounts of production, though the greater control and quality control needs to be undertaken internally. In his opinion state controls are rather a side effect. Also, associations exist, but up to now are not of great importance. They still need to develop further. Babayan (2011) points out that there are no real controls through the state on wine production. Controls only take place, when there is a complaint. Currently these controls only exist in written form, but through this corruption can easily be overcome. Another issue is the fact that many inspectors are poorly trained and lack knowledge. He sums up the issue of external services. Overall distribution and logistics is difficult and often, when company is in its initial stages to start up production, at the same time they try to include a logistic unit. This is, because external companies exist rarely or are costly. In addition to that it is very common that big producers of beverages also have their own integrated lab, as again external ones are costly, time consuming or not very reliable.

#### **4.4 Markets**

Though markets change, Armenia's most important trade partner is. The interviewees were asked whether overall changes and presence of national as well as international market participants also mirrored in companies' market approach, or whether future focus will remain in traditional markets. Harutyunyan (2011) states that still, most of Armenian produce is sold on local markets. Though, tendencies towards exports increase. Simonyan (2011) supports this as he states that many of their sales go to local markets and 1/3 to Moscow. Though he notes the overall interest in extending exports, he states that bad experiences from others, such as payment delays within other countries of the former Soviet Union and an overall lack of market knowledge limits them to do so. Mkrtchyan (2011) describes the changes of the market, as up to now vodka and brandy consumption is still

highest within Armenia; she believes that this is a reluctant of the time of the Soviet Union. Though, she notes that wine consumption is on a rise. Also the interest of Diaspora and foreigners on Armenian wine exists, but the quality is still an issue. Though, she believes that Armenian wine currently is at a turning point. Overall, Mkrtchyan (2011) says, that the main focus is still put on the Russian market, which holds some dangers. She asks, what will happen if Russia closes the borders, as it did with Armenian cheese production, that lead into a disaster. She believes that the key is to maintain current markets and also focus on ethnic stores and other niche markets apart from Russia to diversify sales. Also, Russian markets change towards more quality wines, which proofed the fact that when Georgian wines were excluded from Russian market it should have been Armenian wines to take their position, but due to poor quality it were new world wines instead. Martirosjan (2011) underlines this, as their main market is also Russia. They even have storage facilities in Moscow, to ease distribution and work together with Russian partners. He adds that further approaches are towards Europe and USA, too. Especially countries with a high number of Diaspora communities are the target. Melkoyan (2011) describes the marketing strategy of Yerevan Brandy Company and underlines the advice given by Mkrtchyan (2011). Though, they do not show any interest in wine making and focus on brandy production only, market strategies are similar. Traditional markets are still the backbone of their company and they just recently invested in a product re-launch which was developed by an English and Dutch company. At the same time they try to spread their produce on new markets, such as Australia, Europe as well as more exotic countries like Uruguay and Vietnam. He describes also, that through ethnic stores, in the example of Germany, they entered the market and from their got the access to other chains, such as Rewe and Edeka. Khachatryan (2011) from Yerevan Ararat Wine Factory on the other hand states that still over 90% of the produce is sold to Russia, followed by the local markets. Overall he says that especially within the former Soviet Union interest of their produce exists. Other markets such as Europe and USA exist as well but only take a small share. The new focus is set on China. On the other hand, Esteva (2011) tells about the strategy of Tierras de Armenia. He sees a strong contradiction between the generally poor quality of local produce and high quality wines. A problem lies in the fact that generally it is best for a country to firstly develop itself as a brand and from there on to enter the markets. The fact that this is not the case in Armenia, troubles overall marketing approach, as quality improves but customers are not aware of it. As Tierras de Armenia's sister company is located in Argentina, the marketing entrance is eased for them. They can attend international fairs with them and appear as an international brand, rather than "only" an Armenian brand. Therefore, Tierras

de Armenia's focus is put on international markets and local markets are planned to be kept as a sideline.

#### **4.5 Competition**

Market data show that since the economical and financial crisis took place, wine consumption and production is on a rise. Interviewees were asked in how far changes within the sector are noticeable and in what way they were introduced through national as well as international competitors. Martirosjan (2011) states that since independence not only an overall market growth is recognizable, also competition is changing. This directly effects goods positively as well as prices. Alexanyan (2011) adds: the positive effects come through the rise in competitions. Firstly, quality insurances and secondly, the improved prices for farmers. He describes another effect of competition, as they are the first to undertake investments in these dimensions they expect to have great effect on overall business. Firstly he believes that many will try to copy and adapt business models, secondly they hope to influence Armenian wine culture and peoples' wine awareness in general positively. Also, new producers bring new technologies in the markets, which spread the knowledge on new production techniques. Samvelyan (2011) sees competition as a positive signal that market grows. Mkrtchyan (2011) names an example of a pioneer work of a single medium scale winery. Its owner was willing to introduce changes and accessed new technologies. The first steps were undertaken by him personally, then with the support of USDA. He started to introduce western standards and firstly began to produce consistent quality of goods and systematically improved further steps of production. She then recognized that other companies, that firstly showed resistance towards changes, started to realize positive effects and adapt certain methods themselves. Mkrtchyan (2011) describes the overall interest on the Armenian wine market as existing, though it could be bigger, but it exists. Armenians as well as international actors show interest, such as Italians that started investments and Americans that plan to do so. Also she names Pernod Ricard. The overall growth in interest from Diaspora, locals and foreigners on the wine sector is also shown in the grow demand recognized at CARD Agro Service, that provides services in the field of agriculture. Keushguerian (2011) describes recent changes in the wine market of Armenia. As in the brandy sector, new investments were already undertaken, in wine this is a different "story". Due to the growth of wine demand and its position in the markets as a luxury good, local as well as international demand is on a rise. Within the surrounding competition of Armenia until 2009, when Armenia started the big investments, Vedi Alco was the biggest player and experienced no competition pressure. Then Armenia entered

the market, immediately did great investments, aggressive marketing and took over around half the market share of Vedi Alco. In return, Vedi Alco was forced to keep up competition to invest in equipment, which up to then was outdated. Mkrtchyan (2011) sums up this statement by saying that Vedi Alco, up to the point of Armenia's market entrance was lazy and did not invest in new technologies or methods to improve quality. As a reason the new competitor Armenia could easily take over great parts of their market share. Babayan (2011) describes the effects of competition on the market are shown when looking at the example of Yerevan Ararat Wine Factory and Yerevan Brandy Company. As Yerevan Brandy Company is the biggest competitor of Yerevan Ararat Wine Factory and the only way to win over them is to compete on markets. Therefore, Yerevan Ararat Wine Factory began to invest in 2002 as a response to the purchase of Yerevan Brandy Company in 1999 by Pernod Ricard. Main competition takes place on the Russian market as it is the biggest market outlet for Armenian brandy. In addition to that he names changes in the market of juices that can be exemplified to certain extend to other goods as well. The juice market had undergone tremendous changes as a grown import rate increased competition. Competitors often were lower in price, had better quality, flavor and design. Armenian producers reacted towards market demands. They started to redesign bottles, even patent-registered them, extended their portfolio from locally grown fruits to other fruits also and adapted the price. Now different price ranges from cheap to high price are available, often within one company under different brands. Babayan (2011) sees similar changes already in the wine and brandy sector and believes further changes are about to happen. Another aspect of change was described by Khachatryan (2011): They have vineyards in several wine growing regions. These collection points to buy grapes right in the regions from farmers are set within these areas. Similar to the way their competitor set their collection points. This modern set up is ideal, because they are easily accessible for farmers and they do not have to undertake the trip to Yerevan but can sell their goods within their region. A difference to YBC is that they do not press or distill at the collection points, all steps of processing are still undertaken in Yerevan. Keushguerian (2011) states that the issue of quality is still present but can easily be overcome. He describes that quality grape produce has direct effects of overall wine market, as Tierras de Armenia notes a grown interest of wineries that are willing to purchase grapes. Indirect effects are also present as competitors start to rethink about production methods and try to copy and imitate in order to improve their own produce. Overall, Keushguerian (2011) believes that the issue of quality can be overcome; it all is a matter whether investments are accessible.

#### **4.6 FDI in the Sector**

The inflow of FDI in the wine and brandy sector is, according to estimations, much higher than in other agricultural and agro-processing fields. This share leads to the expectation that influences must be recognizable within Armenia. Interviewees therefore were asked about local and international driving forces within the wine and brandy sector. In general, Babayan (2011) sees only few examples of the influence of FDI on the entire agricultural sector - mainly in the processing sector, such as juice, wine and brandy. Many Diaspora are located in Russia and from there invest in Armenian businesses. A main reason for this sees Babayan (2011) in the good reputation of Armenian goods and the high prices they get, especially on the Russian market. Overall the level of FDI on Agro-businesses and the wine/brandy sector are difficult to measure. According to Babayan (2011) there are many ways to reallocate money. Especially when a company is founded through FDI, there is an option to repay VAT later on. Therefore, many Armenians are interested to invest and try to make use of this tool, by channeling investments through other countries, such as Russia, and from there sending money back to Armenia. Melkonyan (2011) from Yerevan Brandy Company divides the influences from FDI in two sections. According to him investments from Russia and Diaspora Armenians are comparable to investments of Armenians in the country, as business methods are similar and overall there are only little differences. Investments from other countries, such as from Tierras de Armenia or Pernod Ricard exist but take only a small share in comparison to overall investments. Babayan (2011) estimates the share overall share of foreign investors lower than the share of investments through Diaspora Armenians. Though, expects it to be higher in the wine and brandy sector. Keushguerian (2011) underlines this, as he states that a great share of investments within Armenia is done by Armenian, either Diaspora or wealthy local ones or foreign development organizations. Armenians have a strong affinity to their country and their investments are often distinguished by emotional binding and the interest in receiving high reputations within the community. He believes that the most important Foreign Direct Investment was done by Tierras de Armenia, through Eduardo Eurnekian, whose family originates from Armenia. Esteva (2011) adds that they were the first to introduce big scale grape growing, introducing new standards, such as setting up vineyards that meet requirements in order to accomplish a mechanical harvest. Apart from that a great share of foreign money comes from Russia. Keushguerian (2011) also names the example of Pernod Ricards investment from France to the Yerevan Brandy Company. The investments through Armenian businessmen are also found in the example of Armenia Wine and Yerevan Ararat Wine Factory.

Though, both owners have in addition to the beverage industry other businesses ranges of sectors. In case of Yerevan Brandy Company, the owner also owns a Brandy factory in France (Babayan, 2011). Also, Yerevan Ararat Wine Factory is 100% owned by an Armenian oligarch. Armenia Wine is the first company that started with such high investments in that field of wine making. Their overall goal is to make wine according to European style and quality (Alexanyan, 2011; Khachatryan, 2011). Mkrtchyan (2011) sees high potential in these investments to overcome overall problems of the wine sector. Especially from Diaspora, since they bring an understanding of the language and the culture as well as financial aids to support a fast development. A constraint for investments sees Keushguerian (2011) in the high production costs that Armenian wine production has. The temperatures, cold in winter and hot and dry in summer require additional technical support on top of the lack of infrastructure within the country as well as high transportation costs to send goods abroad make it difficult to raise interest of international Investors. Mkrtchyan (2011) describes the overall reaction of Armenians towards foreign investors as very positive. She believes this is because of the general focus on successful business making Armenians have. Another aspect, according to her, is the fact that positive experiences with foreign investors, such as Pernod Ricard, are widely known. Pernod's work can be looked at as a "model project". This supports the positive attitude of locals towards them. Mkrtchyan states that generally Armenians might be "stubborn" towards something new and modern, but throughout generations this issue is overcome.

## **5 Conclusion**

Summing up the results of the interviews, it shows that the attitude of grape growers and producers towards international varieties varies greatly. Some believe the plantation will help to open new markets, others see Armenia's chances within traditional varieties. Within the field of grape procurements, trust based contracts are still most common in Armenia. Though, examples show the development towards more intense types of contractual cooperation between grape growers and processors. In terms of quality controls and other aspects through which, external facilities can be used, the interviewees underlined, that external facilitations and services available in Armenia appear overall poor. Therefore, in order to set standards and to have well functioning distribution, companies either introduce internal facilities or vertically integrate existing systems (such as logistics) within their company. Armenian wines are sold mostly locally as well as in Russia. In addition to that many producers show interest to diversify markets, too. The market developments in terms of a growth of national as well as international

competitors appear overall positively. This results in a steady improvement of machinery, which mostly originates from Europe. With the procurement of equipment, knowledge is purchased as well. Most of the inflow of FDI originates from Diaspora Armenians or from investors with personal linkages towards Armenia, but other international investors are present, too. Also, it is likely that great amounts of FDI originate from Armenians, but is channeled through Russia, in order to pay VAT later on. The overall effect of FDI is considered positive, within society and for overall developments. Constraints still exist, but examples show that interest of investors exists and difficulties can be overcome.

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