



## Individual Advanced Research Opportunities Program

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### **Commercial Farming and Subsistence in the Wine Sector of Rural Georgia**

#### **Topic of Research:**

I wanted to explore how and why subsistence farmers have replaced large-scale grape producers since the fall of the Soviet Union, what effect this has had on the wine industry and what is the future potential for equitable, sustainable growth.

#### **Relevance:**

My research was designed to contribute to debates about the transition of the Newly Independent States of the former Soviet Union to a market economy. There is a widespread belief that collective farming would be teleologically replaced by commercial family farms if the agricultural sector is fully-exposed to the global market. Yet many new republics, such as Georgia, are stuck in a vicious circle of subsistence production and risk aversion, despite significant market exposure. Understanding why this has happened and how likely it is to continue is important for the country's social and economic development, as well as for broader theories of development and transition.

#### **Methods:**

I used a variety of methods operating at different levels. The bulk of my research came from semi-structured interviews with grape producers and wine processors. I basically wanted to find out how they meet their survival needs. I am currently blending this qualitative data with ongoing household budget surveys conducted by the Georgian Department of Statistics since 1996 and with migration data. This data is being examined using conceptual tools borrowed from what is called the

“articulationist” school, found in Latin America and African development studies. I also collected significant amounts of Soviet archival data regarding the establishment of Georgian collective farms and wineries prior to independence. Finally, I interviewed several high level politicians, economists and policy makers who were in power during the early 90s to understand why the collective farm collapsed so suddenly. My primary research sites were villages in the regions of Ratcha and Khaketi as well as the archives of Tbilisi.

## **Findings:**

I found that the Soviet Union exerted an extremely powerful influence on the development and perception of Georgia as a center for high quality wine production. Massive investments in the entire value chain of wine in the 1930s saved Georgian indigenous varieties from their virtual extinction by a deadly vine predator known as Phylloxera. What is extremely interesting is that Soviet Planners chose to restore indigenous varieties, despite their inability to produce mass yields and foreign predators, while in many other regions of the Soviet Union they chose to replace indigenous varieties with more resilient and higher yielding Western varieties. I found that this could be attributed to the personalities in power at the time (e.g. Stalin, Beria, Mikoyan). Yet as demands for Georgian wine increased, so did pressures to falsify their wine and by the 1980s Georgian wine production was rife with corruption. Nevertheless, the reputation of Georgian wine developed under the Soviet Union would play a crucial role in the way wine would be produced after the Soviet Union’s collapse.

Upon independence, the Georgian collective farm system utterly collapsed and grape production went with it. Former collective farm members were scattered about upon severely fragmented land plots and the agricultural sector was thrown backward into pre-Soviet/modernization conditions. Concurrently, a number of financial and privatization schemes in the early 90s enabled many high-level Georgian elites to accumulate massive fortunes and purchase the wine industry for symbolic prices. With new owners and the former Soviet institutions practically all in shambles, many Western experts speculated that it would be easy for Georgian wine to compete successfully on the global market.

Yet I found that the wine industry has had little incentive to invest in production and engage in the global wine market. On the one hand, the extreme fragmentation of grape producers translates into extremely high transaction costs for wineries who are now forced to deal with each farmer individually, obtaining grape inputs of varying quality at varying costs. One response has been to consolidate vineyard land into large plots. Indeed, several large-scale Western technical assistance donors have made this task easier through land titling projects designed to enable investors to easily obtain land from fragmented producers. But by far the biggest response has been to falsify wine. The amount of falsified wine, including wine not even made from grapes but from a grape powder blended with spirit, is almost unfathomable. For example, the FAO estimated that 9 out of 10 bottles of all exported Georgian wine is falsified, including those that travel to European and US markets. I found numerous examples and anecdotes of the vast extent of wine falsification. While not all of the falsification can be attributed to wine producers, a cross tabulation of the amount of land they own and grapes they purchase from farmers compared with the amount they actually export reveals some very wide discrepancies, especially amongst the large-scale producers. I should note that accusing any single winery of falsification is extremely dangerous – wine producers would not hesitate to use any means possible to maintain their image, including violence.

On the other hand, one of the biggest consequences of the collapse of Soviet authority has been a lack of coordination amongst producers at the grass roots level, as farmers have absolutely no interest in working with their neighbors to form farm cooperatives or associations which might aid their fight against poverty, exploitation and destitution. Decollectivization “freed” rural Georgians from the allegedly perverse effects of Soviet state welfare system, but the way in which it was done essentially

destroyed most of the community trust building institutions and organizations. Today, Georgian farmers go at it alone and the head of household stands as the only legitimate source of authority or coordination.

The result is that today's grape producers have, in practice, very limited contractual rights and are frequently short changed by wineries or not paid at all for the grapes they produce. This is important, because proceeds from grape production are the highest form of cash income for producers in the region. As the cost of living has sky rocketed through all of Georgia, grape production now plays a crucial role in rural Georgian family livelihood strategies. Denying them these proceeds or, even worse, cutting them out of the production chain all together (as wineries plant their own vineyards), is already having a dramatic impact on their ability to survive and is forcing them further down the path of subsistence production.

Paradoxically, international markets are sustaining both the process of falsification and the persistence of subsistence. In regards to the first, Russian consumers still hold Georgian wine in high regards, due primarily to the reputation of Georgian wines perpetuated under the Soviet Union beginning with Stalin. The result is that Georgian wine production is very profitable on the Russian market, and falsification makes it even more profitable.

In regards to the second, most rural Georgians have shifted part of their family farm labor force away from agricultural production and into migrant labor activities. Again, the Russian labor market is the biggest destination and remittances sent back to migrant families have allowed them to meet increasing demands for cash. Thus, rural inhabitants still have no reason to cooperate with their neighbors and family networks extending across national boundaries will most likely sustain fragmented subsistence production for a while longer, thus preventing more effective collective action by farmers against wineries.

Yet the recent Russian embargo of Georgian wine and labor has hit both grape and wine producers extremely hard and demonstrates how fragile their dependency on the market can be. Small to medium wine producers have had the toughest time finding new markets, even though they are the ones most likely to produce the highest quality wine. Many have gone out of business and more will likely do so. Many of the larger wineries have done better, primarily due to their access to large amounts of credit from private individuals. Yet this has also entailed a dramatic change in majority share ownership, with all public Joint Stock Wine Companies changing hands in the past 2 years and with Russian capital as the new owners. Most likely, the other major wineries have also been bought out by Russian capital, but their Limited Liability status means that this information is kept strictly confidential. Perhaps these new owners will have more of an incentive to produce genuine wines for the Russian markets should the embargo be lifted, but the lack of small to mid-range competitors makes this proposition extremely unlikely.

Rural grape producers have been hit even harder. The collapse of small to medium wine producers has quashed all demand for small-scale grape production and most farmers consume their grape produce in a drunken stupor. Normally, these producers would shift even more human resources out of production and into the international labor market to make up for the shortfall, but the embargo has meant that migrant family members have been denied access to the main consumer of Georgian migrant labor as well. With no possibilities for "exit", one might expect rural Georgians to mobilize their political "voice" to lobby for positive change or intervention by the government. Yet the same organizational problems and lack of trust building institutions that have prevented their forming into groups less vulnerable to the whims of wine processors have also prevented any concerted action on the national level from taking place. Perhaps this is starting to change, as a number of "spontaneous" uprisings of Khakhetian farmers who demanded better terms for their grape produce occurred toward

the end of my visit. But what seems clear is that short and medium term migratory and urbanization patterns will most likely turn into permanent ones for those who manage to find new places of employment on the global labor market. Indeed, local labor shortages are already a widespread problem, although this could create favorable conditions for outside investment to create large-scale production enterprises in the long run. Regardless, the destruction of collective farming and the region's subsequent intense market exposure has not led to a vibrant commercial family farm sector. Instead, it has destroyed Georgia's collective grape producing base, created even more incentives for the falsification of wine, and led to an extremely volatile dependency on a politically contentious neighbor who has a history of imperialism throughout the region.

### **Policy Recommendations:**

The study was not designed to produce policy recommendations for U.S. circles save to encourage a more comprehensive and forward-thinking approach to agrarian change in the former Soviet Union. Western policy-makers and Georgian officials alike currently still favor a hands-off approach to developing agriculture so that markets can run their "natural" course. Yet it is clear that markets themselves are very much political phenomena and must be treated as such. I see very little room for improvement for Georgian grape and wine producers under the current market model and would instead advocate that the government and Western donors take a stronger role in encouraging the formation of collective action institutions for farmers such as cooperative and associations. But even if Georgian wineries and local grape producers manage to straighten out their problems with the supply chain and the embargo is lifted, they will face increasing amounts of competition from "New World" wines from Australia and Chile, who will undoubtedly aggressively push for substantial portions of Russian wine consumer market share once Russia is in the WTO. Can Georgia find new markets to take up the slack? The falsification problem is a significant obstacle to this, but, the intensification of global wine competition makes the prospect of finding new markets an even more daunting task. My conclusion is that the Georgian wine sector is unlikely to be a source of equitable, sustainable growth for the Georgian countryside in the near future. Instead, I believe that global migratory labor markets will be the most important source of income for Georgia's rural inhabitants. I would suggest that this as a very important topic of future research.