# THE PRICE COMPETITIVENESS OF HUNGARIAN WINES IN EUROPEAN UNION MARKETS

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## SUMMARY

**In the case of homogeneous goods (corn, eggs, milk, etc.) the price differential between products is the strongest determinant of success in market competition. In these days, however, it is more and more the highly processed foodstuffs that land on the consumer's table. Wine is one of these. This study appraises the price competitiveness of Hungarian wines on EU markets. The question is to what extent do price differences determine the competitiveness of wine on potential markets? Or does a lower price give a real advantage to a special product like wine? Or is the demand for a product due to factors other than price? Our findings show that most Hungarian wines, except bottled white quality wines, are compatible on EU markets as far as prices are concerned. However, the quantity of wine merchandised is at least as important as the price level. I tried combine the price level with the quantity merchandised and evaluate them together in terms of the so-called "quality competitiveness". According to this approach bottled white quality wines came out to be competitive, because despite rising prices this was only category able to increase its market share. A price advantage over competitors does not necessarily mean increased competitiveness, which in the case of wines can only be explained by other less obvious reasons. It is important to emphasis that national averages are presented in this study, whereas brands, wineries and wine growing regions are present on the markets.**

## INTRODUCTION

Having lost their traditional Eastern European markets following the change of political regime in 1990 Hungarian vine-growers attempted to orientate themselves to the Western European markets. This was not straight forward because the approach centering on quantity had to be gradually changed to that on quality. The sector has been and still is characterized by positive export balance of around 65-100 million Euros per annum and it contributes more than 12 billion HUF per annum to the national budget (mostly as VAT at 25%). However, increased competition especially from vine-growers of "third countries" posed an increasing challenge. In the stormy years after 1990 vine-growing and winemaking businesses nearly in all areas have been significantly restructured. Alterations in conditions of international trade and changes in market and consumer demands justify the study of this topic especially with respect to the character of trade and competitiveness. Having joined the European Union and adopted the Common Agricultural Policy created a new situation in trading. After the 1st May 2004 about 80% of Hungarian wines comes under intra-community

trade and various new community tariffs and quotas affect foreign trade. Due to the changed competition environment members of the sector and all others directly or indirectly affected are greatly excited.

## MATERIALS AND METHOD

Evaluation on the basis of prices is one method for measuring competitiveness. Price competitiveness of a country or enterprise may be defined as her ability to market the same product at a price lower than that of the competitors. The measuring unit is the ratio of the value and quantity (usually in kg or ton) of exported product.

A frequently used index of competitiveness is the price differences between countries or groups of countries. Although a number of critical comments have been made in the literature concerning direct price comparisons, nevertheless this method is widely used. The main argument against the index is that it cannot account for quality differences. In evaluating price competitiveness quality factors can only be taken into account to a limited extent, especially for differentiated products. It would be wrong to interpret an increase in the unit price of a product as a deterioration in competitiveness if it is accompanied by quality improvements. In certain cases a product may be even under- or over-priced for example for reasons of taxation.

The higher the level of processing of a product before merchandizing, the greater role human resources, technology, innovation, strategy, input quality, marketing, etc. play in its competitiveness. The question is how much is the cost content of the price? In most developed countries the processing of agricultural products involves highly skilled workforce as well as capital and skill intensive technology. In these countries the most important strategy is product differentiation (e.g. in the case of wine) where production costs are not that great compared with those of undifferentiated primary products. Production costs do not depend a lot on the characteristics of nature; the role of farm size and the cost of research, development and marketing is far more important. Increases in the trade of highly process agricultural products and their growing market share result in a relative reduction in the cost of transport and its impact on price. However, the comparison of data is not easy. Despite the single market of the European Union prices are heterogeneous and the scatter is rather significant. The EO COMTEXT provided the database used for the analysis. Custom tariff numbers in the database were used to differentiation for quality, packaging and color.

In analyzing price movements HUF prices were converted to Euro or USD prices to eliminate at least partly the inflation component. In this way, however, the under and over valuation of HUF was carried into the analysis distorting somewhat the comparisons. But the error due to this distortion appeared still smaller than that of the 5% to 15% annual inflation rate included in HUF prices *(Orbánné, 2000)*.

## RESULTS

The price levels of bottled wines in Hungary and Europe are rather differentiated. Quality white wines in this category were sold at a relatively high price on EU markets. Next quality red wines and table wines independently of color were sold at 1,3 EUR/l and 1,6EUR/l. In the category of barreled wine red wines fetched higher price than white wines. The prices of wine appeared stable during the study period in all categories. Table 1 displays the concrete values.

**Table 1**

**Unit value index of Hungarian wines sold on EU markets (euro/l)**

| Wine category | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| White quality, bottled | 4.54 | 3.83 | 4.09 | 4.41 | 4.03 | 4.79 | 4.51 |
| White table, regional bottled | 1,29 | 1,44 | 1,33 | 1,4 | 1,35 | 1,4 | 1,4 |
| Red quality, bottled | 2,86 | 2,76 | 2,74 | 2,75 | 2,2 | 2,56 | 2,7 |
| Red table, regional bottled | 1,64 | 1,48 | 1,33 | 1,39 | 1,48 | 1,5 | 1,37 |
| White quality, barreled | 0,47 | 0,45 | 0,63 | 0,6 | 0,6 | 0,68 | 0,66 |
| White table, regional, barreled | 0,54 | 0,44 | 0,48 | 0,49 | 0,51 | 0,54 | 0,57 |
| Red quality, barreled | 0,61 | 0,68 | 0,56 | 0,68 | 0,69 | 0,79 | 0,68 |
| Red table, regional, barreled | 0,73 | 0,75 | 0,7 | 0,77 | 0,82 | 0,8 | 0,82 |

*Source:* own calculation based on COMEXT database

The analysis of imported wines shows that the price levels of white and red quality wines have been converging in recent years primarily because the import price of white wines has been continuously rising. In the bottled category table wines fetched 1,4 and 1,7 EUR/l. In the case of barreled wines the prices of red wines in all categories (quality, table and regional wines) are outstandingly high compared with those of white wines (Table 2).

**Table 2**

**Unit value index of wines imported into Hungary from EU markets (EUR/l)**

| Wine category | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| White quality bottled | 1,47 | 1,57 | 1,52 | 1,60 | 1,70 | 2,18 | 2,29 |
| White table, regional bottled | 1,28 | 1,42 | 1,49 | 1,35 | 1,67 | 1,56 | 1,48 |
| Red quality bottled | 2,14 | 1,80 | 1,85 | 2,05 | 2,24 | 2,22 | 1,87 |
| Red table, regional bottled | 1,64 | 1,62 | 1,69 | 1,77 | 1,70 | 1,63 | 1,61 |
| White quality, barreled | 1,22 | 1,15 | 1,09 | 1,17 | 1,20 | 1,05 | 1,06 |
| White table, regional, barreled | 0,47 | 0,46 | 0,47 | 0,40 | 0,58 | 0,55 | 0,52 |
| Red quality, barreled | 1,47 | 1,79 | 1,80 | 1,80 | 1,73 | 1,38 | 1,45 |
| Red table, regional, barreled | 0,75 | 0,71 | 0,87 | 0,75 | 0,58 | 0,58 | 0,58 |

*Source:* own calculation based on COMEXT database

The exchange ratio index (terms of trade) is the ratio of export price index and import price index showing whether the value of foreign goods utilized at home are more or less than the value of domestic goods utilized in foreign countries (*Sipos – Dedák – Bozsik, 2000)*.

The exchange ratio index shows that the ratio is the most favorable for quality white wines, although a moderate tendency of decline can be detected. The ratio for bottled quality red wines is less favorable, but stable. In the bottled category the ratio for table and regional wines shows an unfavorable tendency to decline; invariably its value is less than one. The ratio of barreled wines is the most favorable for the red variety; it is invariably positive. Somewhat less favorable but the tendency is similar for white table wines. Unfortunately the value and tendency of the exchange ratio index is unfavorable for both white and red quality wines. Table 3 displays the exchange ratio index of Hungarian wines.

**Table 3**

**The exchange ratio index of Hungarian wines on EU markets**

| Wine category | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| White quality bottled | 2,61 | 2,44 | 2,69 | 2,76 | 2,37 | 2,20 | 1,97 |
| White table, regional bottled | 1,01 | 1,01 | 0,89 | 1,04 | 0,81 | 0,90 | 0,95 |
| Red quality bottled | 1,34 | 1,53 | 1,48 | 1,34 | 1,21 | 1,15 | 1,44 |
| Red table, regional bottled | 1,00 | 0,91 | 0,79 | 0,79 | 0,87 | 0,92 | 0,85 |
| White quality barreled | 0,39 | 0,39 | 0,58 | 0,51 | 0,50 | 0,65 | 0,62 |
| White table, regional barreled | 1,15 | 0,96 | 1,02 | 1,23 | 0,88 | 0,98 | 1,10 |
| Red quality, barreled | 0,35 | 0,38 | 0,31 | 0,38 | 0,40 | 0,43 | 0,29 |
| Red table, regional barreled | 0,97 | 1,06 | 0,80 | 1,03 | 1,41 | 1,38 | 1,21 |

*Source:* own calculation based on COMEXT database

Another method for evaluating competitiveness is to compare the export price of a given domestic product with average import prices of the EU. This comparison is an objective measure of price competitiveness with other traders of external markets. From this approach a marked difference can be detected between the price ratios of bottled and barreled wines In the case of bottled wines the price advantage of quality red wines is outstanding compared with those of other suppliers. The price advantage of white table wines is also significant and constant. In the case of quality white and red table wines the price advantage is minimal with respect to foreign suppliers and it is highly variable. In the case of barreled wines the price advantage of quality red wines is the greatest; next is the group of quality white wines displaying similar tendency. The main segment of domestic export to EU markets is white table wines, which enjoy a small but stable price advantage. Red table wines are exported at prices similar to those of competing suppliers (Table 4).

**Table 4**

**Price ratio of EU import wines and Hungarian export wines to the EU**

| Wine category | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| White quality bottled | 0,71 | 0,84 | 0,95 | 1,17 | 1,31 | 1,26 | 1,31 |
| White table, regional bottled | 1,73 | 1,68 | 2,17 | 2,14 | 2,35 | 2,24 | 2,36 |
| Red quality bottled | 3,09 | 2,16 | 3,36 | 4,01 | 3,80 | 4,06 | 3,93 |
| Red table, regional bottled | 1,30 | 1,78 | 1,60 | 2,117 | 2,28 | 1,01 | 1,25 |
| White quality barreled | 2,66 | 2,36 | 1,74 | 1,72 | 2,03 | 1,65 | 1,92 |
| White table, regional barreled | 1,52 | 1,98 | 2,08 | 2,02 | 1,48 | 1,88 | 1,82 |
| Red quality, barreled | 2,74 | 1,84 | 2,48 | 2,25 | 3,91 | 3,06 | 3,21 |
| Red table, regional barreled | 1,02 | 1,09 | 1,23 | 0,97 | 1,09 | 1,12 | 1,1 |

*Source:* own calculation based on COMEXT database

Concurrently with price analysis it is important to study also the development of exports to potential markets, as a favorable selling price may be accompanied with a decline of demand (Table 5). The case is worst for wines. Our market share in the EU has declined in nearly all categories, even in those whose export prices have been reduced. An exception is bottled quality white wines, whose market share increased somewhat, but this segment of export is marginal and

does not affect significantly the Hungarian wine trade. On the whole the market share of bottled quality red wines declined, although for a few years an increase was registered (e.g. 2001). As for table wines our market share fell dramatically to half in the case white wines and to a third in the case of red wines. A similar tendency was observed for barreled wines. The market share of barreled quality wines fell to less than half in 6 years. Market shares also fell significantly in the case of table and regional wines; only red table wines were able to retain to their market share.

**Table 5**

**Hungary's share of the EU' s total wine import (%)**

| Wine category | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|
| White quality bottled | 1,8 | 2,0 | 2,8 | 3,4 | 2,1 | 3,3 | 3,2 |
| White table, regional bottled | 10,6 | 8,0 | 7,5 | 7,6 | 6,7 | 6,6 | 5,3 |
| Red quality bottled | 0,5 | 0,4 | 0,5 | 0,6 | 0,8 | 0,3 | 0,2 |
| Red table, regional bottled | 3,7 | 5,6 | 4,3 | 2,9 | 1,6 | 1,6 | 1,2 |
| White quality barreled | 12,2 | 11,0 | 8,3 | 8,6 | 7,1 | 7,6 | 5,8 |
| White table, regional barreled | 9,7 | 12,5 | 10,5 | 10,6 | 9,7 | 7,5 | 6,2 |
| Red quality, barreled | 8,8 | 10,9 | 8,8 | 4,6 | 5,4 | 4,3 | 3,5 |
| Red table, regional barreled | 2,8 | 3,4 | 2,5 | 2,4 | 2,1 | 2,5 | 2,8 |

*Source:* own calculation based on COMEXT database

Yet another method for evaluating price competitiveness is to compare our export prices with the internal trade prices of targeted market. If we compare the prices of bottled wines with the internal trade prices of EU, only the prices of white table wines are lower than the internal prices of EU. The prices of quality red wines are comparable with those in the EU. The export prices of Hungarian quality wines are higher than the internal trade prices of EU. In case of barreled wines the prices of our quality wines are lower than the internal price of EU, whereas the price of table and regional wines are higher than those in the EU. Tables 6 and 7 display internal prices between 1977 and 2003.

In the literature the combination of relative price change and relative market share is interpreted as quality competitiveness. Table 8 illustrates the essence of the method.

**Table 6**

**Indices of internal trade prices of wines in the EU (1997, EUR/ l)**

| Wine category | France | Italy | Spain | Intra EU | Hungary |
|---|---|---|---|---|---|
| White quality bottled | 2,69 | 1,73 | 1,54 | 2,49 | 4,54 |
| White table, regional bottled | 1,78 | 1,59 | 1,79 | 1,72 | 1,29 |
| Red quality bottled | 3,6 | 2,31 | 2,67 | 2,72 | 2,86 |
| Red table, regional bottled | 1,44 | 1,11 | 1,05 | 1,35 | 1,64 |
| White quality barreled | 1,25 | 1,05 | 1,12 | 1,21 | 0,47 |
| White table, regional barreled | 0,54 | 0,35 | 0,33 | 0,39 | 0,54 |
| Red quality, barreled | 0,84 | 0,77 | 0,63 | 0,74 | 0,61 |
| Red table, regional barreled | 0,47 | 0,38 | 0,41 | 0,45 | 0,73 |

*Source:* own calculation based on COMEXT database

**Table 7**

**Indices if internal trade prices of wines in the EU (2003, EUR/l)**

| Wine category | France | Italy | Spain | Intra EU | Hungary |
|---|---|---|---|---|---|
| White quality bottled | 3,15 | 2,16 | 1,84 | 2,36 | 4,51 |
| White table, regional bottled | 2,6 | 1,83 | 1,96 | 2,41 | 1,4 |
| Red quality bottled | 3,44 | 2,78 | 3,05 | 3,35 | 2,7 |
| Red table, regional bottled | 1,87 | 1,78 | 1,8 | 1,82 | 1,37 |
| White quality barreled | 1,54 | 1,22 | 0,96 | 1,23 | 0,66 |
| White table, regional barreled | 0,56 | 0,45 | 0,35 | 0,42 | 0,57 |
| Red quality, barreled | 0,84 | 0,58 | 0,65 | 0,65 | 0,68 |
| Red table, regional barreled | 0,48 | 0,44 | 0,45 | 0,47 | 0,82 |

*Source:* own calculation based on COMEXT database

**Table 8**

**Competitiveness matrix**

| | Market share change | |
|---|---|---|
| Relative export change | Not competitive export (decreasing export-market share) | Competitive export (increasing export-market share) |
| Increasing relative export price | Price not competitive | Quality competitive price |
| Decreasing relative export price | Quality products, not competitive | Competitive products |

*Source:* Oblath, 2004

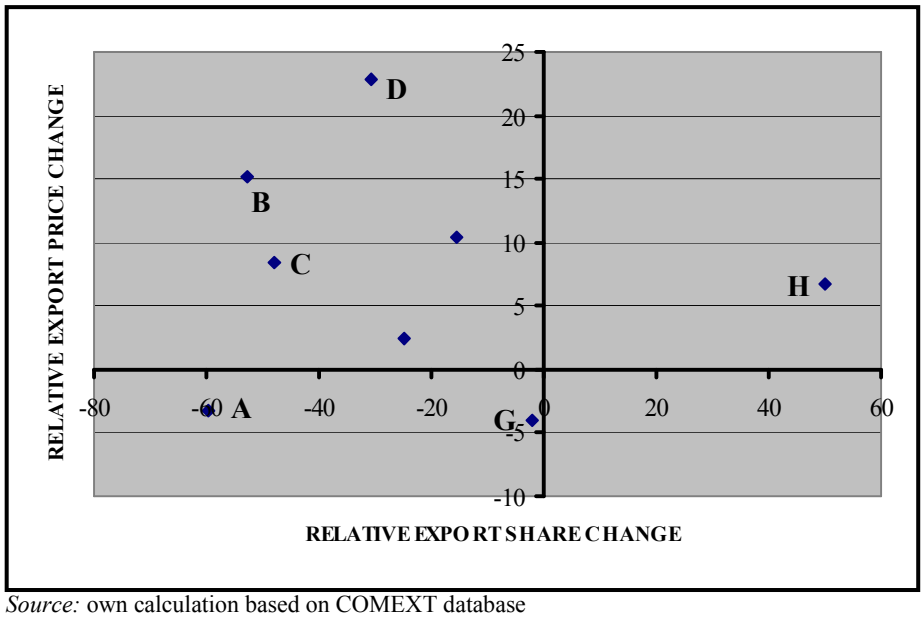
The table places products, groups of products into the coordinates of market share and export change. The right upper box includes qualitatively competitive products, which are able to increase their exports despite increasing export prices. The right lower box contains competitive products, which are able to increase exports with decreasing relative export prices. Fig. 1 displays the competitiveness of our wine exports placed in a competitiveness matrix. Average values of relative export change and relative market share change during 1997-1999 period were compared with those during the 2000-2003 period and the following conlusions can be made.

The right upper box of competitiveness matrix includes only one group of products; these are bottled quality white wines (h), which could increase their market share while increasing their export prices above those in the base period. In most cases product groups has to classed into the left upper box; these are white table wines, bottled regional wines (e) and all wines belonging to the barreled category (b, c, d, f). These products are not competitive, even though their export prices are lower than those of other suppliers. This may appear to be controversial or economically rather irrational. How could the market share of a product decrease, if export prices decline? What is the reason for this? Despite overproduction within the internal market and the consequent sharp competition often it is not the price advantage that determines demand. In the case of products involving a high degree of processing (such as wines) the decisive factor affecting purchase is often the brand.

Unfortunately we also find two product groups in the lower left box; these are the categories of bottled quality red wines (g) and regional table wines (a). The loss of market share in the case of bottled quality red wines is minimal, thus it could said that they are stagnating. But the remainder lost market share despite declining export prices.

**Figure 1**

**Competitiveness matrix of Hungarian wines**




*Source:* own calculation based on COMEXT database

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