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THE STATE OF THE WINE INDUSTRY IN KOSOVO

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



July 21, 2006

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THE STATE OF THE WINE INDUSTRY IN KOSOVO

THE REPORT IDENTIFIES AREAS IN WHICH USAID CAN ASSIST THE WINE INDUSTRY IN KOSOVO AND THE HIGHLY SPECIFIC CONDITIONS UNDER WHICH THAT ASSISTANCE SHOULD BE PROVIDED. THE REPORT EVALUATES THE BENEFIT OF THE KOSOVO CLUSTER & BUSINESS SUPPORT (KCBS) PROJECT PROVIDING ASSISTANCE TO THE WINERIES AND WINE PRODUCING VINEYARDS IN KOSOVO.

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PURPOSE OF ASSIGNMENT

The KCBS project is working with enterprises of all sizes in Kosovo to help them develop, and market, products that will command higher prices from demanding customers throughout developed markets. Focusing on enterprise-level productivity, KCBS will promote and strengthen three industry clusters, which will develop and execute strategies for improving income and will generate employment opportunities of client companies. For this reason, the development of the wine industry in Kosovo would be a natural fit in the Fruits and Vegetables Cluster, if it were to be determined that this was a feasible route for USAID to take.

The purpose of this report is to help determine the benefit of the Kosovo Cluster & Business Support (KCBS) project providing assistance to the wineries and wine producing vineyards in Kosovo, and to recommend whether USAID should modify the KCBS contract to include such assistance. This report will lay out the highly specific conditions in which USAID can assist the wine industry in Kosovo.

Should the project decide to work with the Kosovo wine industry, KCBS recognizes that it will be necessary to:

- (1) conform with the USAID policy set out in ADS 312.5.4e, which proscribes funding luxury items, including alcoholic beverages and equipment and suppliers for their production;
- (2) satisfy the limitations of section 513(a) and (b) of the FY 2004 Foreign Operations Appropriations Act; and
- (3) conform with the policy requirements as set out in Policy Determination 15 of 9/13/86 ("PD 15").

BACKGROUND

Grape-growing and vinification has existed in Kosovo for over 2000 years, owing to a climate that is incredibly well-suited to vineyards and the development of wine grapes; in fact, there are over 200 sunny days a year to help ripen the grapes, on par with some areas of California. While local small-scale wine-production was rampant over the centuries, the wine industry in Kosovo was only made large-scale in the 1970s through socialist diktat. Designed to produce cheap wines mostly for the German market, and thus earn the country hard currency, wine-making was predicated on a mass production system that valued quantity over quality. The four state-owned wineries, based in the west and south of the Kosovo region of Yugoslavia, were not so much as “wineries” as they were “wine factories”: capacity at the Rahovec facility alone was around 50 million liters (though it never ran at full capacity), of which nearly all was shipped abroad. Wine was shipped in bulk by train to Germany for a price of less than 1 DM per liter, peaking in 1989 with the export of 40 million liters.

After the dissolution of Yugoslavia, Serbian policies towards the wine industry in Kosovo took a nationalist tone, and the Albanian managers and employees of the four State Owned Enterprises (SOEs) were pushed out in favor of Serbian overseers. As a result of this loss of knowledge, and coupled with other external influences such as disruption of commerce during the Bosnian war, during the 1990s the wine industry in Kosovo stagnated precisely as the world wine market began to bloom and become more sophisticated. Production in the wine factories in Rahovec, Suhareka, Krusha e Vogel, and Gjakova was still oriented towards bulk wines and lesser-known varietals (but without the benefit of large export markets), while the rest of the world was experimenting with new techniques in viticulture and wine-making and new areas (predominantly Australia, New Zealand, Chile, and South Africa) were beginning to produce world-class wines. The great disparity between the world’s tastes and the socialist mentality in Serbia led to a precipitous decline in both the production of wine and the demand for Kosovar (Yugoslav/Serbian) wine in the international marketplace (see Annex 1).

The conflict in 1999 and the subsequent removal of Serbian influence in Pristina did not arrest the decline of the wine industry, and given the slow process of privatization and indefinite status of Kosovo on the international stage, many acres of vineyards were abandoned or oriented towards table grapes, while winery equipment was left to rust. The impact was disastrous in regions such as Rahovec, where, according to local estimates, 40% of the people living in the region were engaged in the wine industry. Weather difficulties have also played a part in the downturn in the wine industry, as in 2000 the harvest was damaged due to a spring frost and in 2002 once again the climate turned for the worse with hail occurring during the growing season. The privatization of some of the SOEs in 2006 has rekindled hope that Kosovo can capitalize on its natural advantages and once again turn its wine industry into a reliable source of income: what remains to be seen is if the industry has been isolated and fragmented to such an extent that it will never be able to return to its “glory days.”

EXECUTIVE SUMMARY

The state of the wine industry in Kosovo is, simply put, a mess. Long isolated from international best practices and plagued by older equipment and a lingering socialist mentality, the industry exhibits difficulties all the way along the value chain, from growing practices and vineyard management to winery operations and marketing of final products. Coupled with the glut of wine in the international wine market and the inevitable cutting back of production that many long-established countries are undertaking, Kosovo will face a tough road to regaining its former status as an exporter to Western Europe (mainly Germany) or even in meeting its domestic demand.

Despite these difficulties, there is some cause for optimism regarding the future. Kosovo's climate remains an advantage for the production of wine grapes, and the region's long history of wine production may mean it is ready to adapt to new international trends. The privatization process has at last begun to move the large state-owned wineries out the door, with the Rahovec NBI facility nearing completion of a successful sale. Moreover, owners of smaller private wineries exhibit the entrepreneurial spirit necessary to succeed in the international marketplace, and for the most part have newer and better equipment than their newly-privatized rivals. As the private wine industry takes over from the SOE model, market signals will move back down the value chain and signal to vineyard operators and wine-growers which varieties will need to be planted according to demand. All growers and producers in Kosovo are hampered, however, by a lack of access to finance and years of capital neglect, and their success will depend on overcoming this obstacle.

While many areas exist for USAID to offer assistance to the wine industry, the scale of the degradation of the physical assets and current state of flux means that it is not the right time for USAID to get involved on the production side. However, there is scope for KCBS participation in business training, which could be offered to winery owners and grape producers in order to effect the most impact for a relatively small investment. The limited resources of KCBS mitigate against any large-scale assistance to the industry, but targeted help in wine industry-specific business skills and broader skills such as marketing could be utilized to help Kosovo's producers through this uncertain time.

FINDINGS AND RECOMMENDATIONS

From its perch as a significant earner of hard currency for Belgrade as part of Yugoslavia, the Kosovo wine industry has been in a long downward slide from its peak of production in 1989. Currently comprising about 3% of all employment within Kosovo (based on Ministry of Finance and Economy labor force numbers), employment in the industry has remained steady at about 5000 people throughout Kosovo since the conflict (the Ministry of Agriculture fixes the number of workers, including in wineries and vineyards, at 5,380 in 2003-04), but production and tons of grapes grown have declined throughout the 1990s.

This trend in Kosovo coincides with world industry conditions, as a glut on the world wine market – what the EU has called a “lake of wine” – has led to reduced production and thinner vineyards, with producers attempting to sacrifice quantity for quality. However, in Kosovo, the reduction in vineyards and production has not come about because of a conscious effort to reorient the wine industry and streamline it in the name of competitiveness; it has come about from a degradation of facilities built in the 1970s and the destruction of vineyards planted around the same time. In short, the wineries are doing less with the same amount of people, while quality has suffered (at least in the former SOEs).

A large reason for this decline stems from Serbian policies during the 1990s, including the removal of much of the local knowledge of the wineries, but is also a consequence of the socialist wine production that Kosovo was engaged in until the conflict. The market was dominated by large SOEs and produced in bulk, with private wineries only beginning to start production on a small scale during the 1990s. Finally, the protracted privatization process has only begun to move the large wine factories out the door, meaning that the entire wine industry is now in a state of flux, a state that will only increase the longer that final status is unresolved.

In order to assess the current state of the wine industry and its suitability for USAID assistance, KCBS staff held meetings over a five-day period in Pristina, Rahovec, Suhareka, Gjacova, Istog, and Peje (a complete list of persons met is included in Annex 1). The information garnered regarding the wine industry in Kosovo can be classified broadly into five categories:

- Legal regime;
- Government Policies;
- Vineyards and grape-growing;
- Wine Production; and
- Markets

These will be dealt with in turn.

Legal Regime

The legal regime governing wine production in Kosovo is at a high standard, perhaps one of the finest in the world for such a small growing region. Benefiting from European advisors and most likely European technical assistance, the Wine Law (Regulation No. 2005/47, promulgated on October 14, 2005 and included in Annex 3) sets forth the legal definition of wine, conditions under which wine may be produced, and lays out a geographical system to identify Kosovar wine. The Law augments earlier regulations and directives from the Ministry of Agriculture defining wine quality and analysis, and is a huge improvement over the anarchic system that ruled the day during socialism (where consumer protection and information was not paramount). Indeed, during the 1990s, wine had no real labeling requirements, and bottles from the SOEs examined during the course of this technical

assistance sometimes even failed to state the vintage on the label (a disqualification that would prohibit export to the EU even if Kosovo were an independent nation).

The Wine Law, while fairly comprehensive, suffers from minor procedural flaws. Among these is that there is no provision for varietal labeling: that is, there is no legal definition of what wine can be called a Cabernet Sauvignon (in the EU and most other countries, at least 85% of a varietal must appear in the wine before it can be called by that varietal), and thus it is entirely possible that several of the wines on the market are not what they are labeled. The second shortcoming in the law is that there is no explicit allowance or prohibition of irrigation; while not an actual shortcoming (perhaps modeled on the US Constitution's philosophical basis that whatever is not explicitly prohibited is allowed), up until recently the EU prohibited irrigation for establishment or maintenance of vineyards except in tightly regulated "experimental" vineyards. Other areas in the world have no such prohibitions, and irrigation has been used extensively in the U.S., South Africa, and Australia. Mentioning explicitly in the governing regulation if irrigation is allowed or prohibited would send a clear signal to the rest of the world about the seriousness of Kosovar producers, as well as clear up some confusion on the domestic front that is sure to result.

While the Wine Law sets the basic parameters of regulation of the wine industry, several other administrative directives have been issued by the Ministry of Agriculture during 2006 to further clarify the state of the industry. Some of this work is excellent, but much of it confuses the issue and gives too much leeway to the government in policing the industry. A case in point is the registration system, covered under Administrative Instruction No. 06/2006, "For the Registration and License of the Cultivator of the Grape, Producers and Processors of Vine": any producer that sells **any** amount of wine is required to be registered, and registration is limited to people who have a narrowly defined base of experience in the wine industry or academic training (including degrees in agriculture and technology). Under the 2006 law, producers who do not have the requisite qualifications or do not employ someone with these qualifications would not be allowed to register, and thus, to produce. While not intended as such, the effect of the law will be to discourage experimentation and non-traditional approaches to winemaking. As an example, the first person to register his company with the Ministry in 2002 was Age Batusha of Dea SHPK Winery (who sells under the "Apollonia" brand). Age was trained as an economist and a financial professional, with a further qualification in philosophy. Given that he and his wife are the only full-time employees of the winery, if the 2006 regulation had been in place four years ago, Mr. Batusha would not have been allowed to register. Instead, he is planning to expand his operations and is hopeful for the future. In reality, this prohibition should be relaxed: it is not the government's job to say who is and who should not be a wine producer, as this is the purview of the market.

Beyond the governing regulation, and as so often happens in governments in transition, implementation of quality rules and the oversight of the wine industry in Kosovo is much more problematic. By law, the government's Agriculture Institute in Peje is charged with ensuring quality standards, performing all chemical testing and analysis of wine produced in Kosovo, ensuring label accuracy, and enforcing the Wine Law at supermarkets and the border (through customs). Wineries are required to furnish annual samples to the Institute, at least one of which is collected by a regional inspector (of which there currently are two in Kosovo), and these samples are then subjected to between 6 and 9 tests (examining pH, acidity, sugar and alcohol content, among others) at the Institute. While testing appears to be done at a fairly high standard and in line with other international oversight bodies, the fact that the Institute is located in Peje, away from the main wine producers, has appeared to have lessened the interaction that wineries have with the Institute, either for quality questions or for those seeking clarification of laws and regulations.

The greatest problem facing the Agriculture Institute, one that has dire consequences for the Kosovar wine industry as a whole, involves the quality control rules themselves, and the appellation system as established by the Wine Law. One of the greatest challenges for countries looking to produce high-quality wines for the international market is to assure consumers of consistent quality. Disparities in production and the chance that one bottle from a producer will taste entirely different than a different bottle from the same producer/vintage/variety plagues many of the Balkan and Central European nations, and thus needs to be resolved.

In the EU and other countries, this problem was resolved through the appellation system, governed by a complex set of rules that were created to enshrine traditional practices and ensure quality control for the consumers: for example, the AOC system (appellation d'origine contrôlée), which states for certain regions (say, Margaux in Bordeaux) that a wine bearing the label Appellation d'Origine Contrôlée have:

- Come from a tightly delineated geographical area based on soil composition;
- Utilized grapes that are "hallowed by local, loyal, and established customs;"
- Utilized viticultural practices (including planting distances and pruning methods) that have been traditionally utilized on this land;
- Come from a vineyard with a maximum allowable yield per hectare; and
- A minimum alcoholic degree.

This system, while somewhat cumbersome, was created to tie quality to region (given disparity of practices and climates) and provide the consumer with brand names that could be recognizable as quality.

In contrast to this system, Kosovo currently has its geographical classification and its quality rankings entirely separate. The geographical classification appears to be a merely administrative exercise performed for the Agriculture Institute (geographical names are given to the different wine-producing regions in Kosovo, with all wine produced belonging to one of these appellations), while the quality system is based on a rudimentary "scoring" system. As part of the chemical analyses performed by the Institute, a panel of 5 experts (and 2 alternates) appointed by the Ministry of Agriculture are to taste each wine and score them according to color, aroma, taste, and clarity. These scores are then aggregated, and define where the wines are classified into one of the three categories: Table wines, Selection wines, or "Perpendicular" wines (presumably equivalent to grand crus or grand reserve wines). The quality system is thus entirely dependent on the tastes of 5 (or 7) people appointed in Pristina who are not subject to any vetting, confirmation, or screening process, and depending on the commission's makeup, may return different classifications for the same wine on different days. Perhaps nothing more will inhibit the development of the Kosovar wine industry than this archaic system – a substitute must be found in the next two years as the industry develops, or wine produced in Kosovo will be forever relegated to the low-end of the market.

A possible solution to this problem was the creation of a Wine Institute in Rahovec to oversee quality control: this idea will be explored further below.

Government Policies

In general, apart from the legal regime, the government has exercised a laissez-faire attitude towards the wine industry, keeping in line with their general agricultural policies. No subsidies are given to the sector (a policy that was criticized by many of the vineyard and winery owners I spoke with), and the government is pursuing a desultory privatization policy

that aims to put the entire industry into the private sector. The privatization process has gone in fits and starts, as of the four SOEs, there has been:

- *A Success:* Rahovec NBI is about to complete its privatization to a prominent American-Albanian businessman;
- *Two On-going and Less Successful Ventures:* Kosova Vera, based in Krusha e Vogel, had its privatization deadline extended by two months due to lack of bids, and was provisionally awarded to an undisclosed bidder on June 27th for 2.7 million euro. Suhareka NBI is still on the auction block, having been postponed from the 14th wave of privatizations to the 16th wave, and only recently to the 19th wave (probably at the end of the year) again due to lack of interest; and
- *One Left in Limbo:* Ereniku Winery in Gjakova is currently under the KTA mandate but has not been prepared for privatization as of yet. Ereniku is an interesting case study, as the director, chief technologist, and many of the employees are willing to start up production again, and even volunteer to maintain the equipment (covering their expenses through selling off of a 2 million liter reserve of wine from the last year of production, 2003). Continued political wrangling appears certain for Ereniku before it is liquidated.

Beyond the privatization process, the government policy that most directly affects wineries is taxation. Here, winery owners felt that excise taxes on the domestic market were exceedingly high, and in this the Ministry of Agriculture agreed. A recent change to the law on excise taxes regarding alcohol moved the duty paid from a flat 20 euro-cents per bottle to a graduated rate of 3 euro-cents per 1 percent of alcohol. Given that the average bottle of wine contains 11-14% alcohol by volume, this new policy translates into an excise tax of 33-42 euro-cents per bottle, or double the previous tax. This tax only applied to domestic consumption, so it appeared that the government's policy was to once again favor the export of Kosovar wine, despite the hurdles that exports would face (see below). All agreed that easing the burden of taxation in the domestic market was an important step the government could take.

Vineyards and Grape-growing

The structure of grape growing in Kosovo is stratified between huge (for Kosovo) vineyards and miniscule plots of land. The former SOEs own the largest vineyards (apart from Kosova Vera, which was purely a winery - see Table 1 below), with even larger areas under their control laying fallow, unused, or utilized for other agricultural purposes (thus the second category of unused land in Table 1 may not refer exclusively to vineyards). While there is no accurate data from the Ministry for Agriculture breaking down vineyards into active and non-active categories, the latest estimate they have from 2004-05 states that there are approximately 4,944 hectares of land under vine. If this is indeed the case, the formerly state-owned vineyards account for nearly 20% of all land planted with wine grapes in Kosovo that are active; assuming that all private land is active because of the incentive not to let land become inactive, the proportion of land that is tied up in SOE vineyards is even higher. The Ministry of Agriculture, taking into account all state-owned vineyards (including ones in areas that no longer produce, such as Malisheva), estimates that approximately 54% of all vineyards in Kosovo are in the state-owned or until-recently state-owned sector.

Table 1 – SOE Vineyard ownership

SOE/former SOE	Active Vineyards (ha)	Unused Land (ha)	Total Land (ha)
Rahovec NBI	350	1890	2240
Suhareka NBI	650	1200	1850
Kosovo Vera	0	0	0
Ereniku	0	500	500
TOTAL SOE owned	1000	3590	4590

Apart from the large SOE vineyards, the structure of ownership in Kosovo favors small production, with most private vineyards located somewhere between 0.5 and 2 hectares. The same MAFRD report estimates that approximately 3200 hectares are in private hands today, spread out over 4,190 employees (again, there is no distinction between vineyard and winery workers – however, most private wineries own at least 5 hectares of vineyards).

The wide dispersal between the vineyard sizes is also mirrored in the vast differences in vineyard management between the private and public or formerly public vineyards. In particular, through visiting some of the vineyards in Rahovec, Istog, and Suhareka municipality, incredible variation existed in floor and ground management (floor management refers to basically densities of plantings and keeping the vineyard free of other brush, flowers, and vegetation that could compete for nutrients with the vines). For the most part, vineyards prefer to have as little as possible in the vineyards apart from the vines (an exception is the presence of roses, which are used as early warning signals of frost in some continental climate vineyards). This was indeed the case in the vineyards that could be observed in Rahovec, which exhibited careful clearing of extraneous ground material, while even the active vineyards under Rahovec NBI's purview were overgrown with weeds and grass and generally not maintained.

Canopy management, or the pruning, training, and maintenance of vine leaves and grapes, exhibited few differences between public and private vineyards, in that it was mostly not practiced at all. Few vineyards exhibited any reduction of yields or "green harvest" (the removal of some bunches of grapes, leaving them in the vineyard, in order to have fewer but higher quality grapes available at the time of the harvest in September), and leaf canopies were exactly as nature had left them, with no leaf removal in order to maximize sunlight. Most vines were trained along wires, with no differentiation between varieties (some vines grow in bush form and should be left this way, while others require high trellising if their location is exceedingly hot or sunny). These problems were evident in every vineyard visited, and appear to be widespread in the region.

In addition to the vineyards that are producing, and the problems in maintaining them at international standards, there is a large amount of land that formerly produced wine but does not any longer. These lands, again mostly owned by SOEs or newly privatized, will entail a huge cost in cleaning up. As an example, Vneshtaria Vineyard in Istog (see Figure 1) was recently privatized, with 354 hectares of vineyards acquired by a private interest. In order to revitalize the old vineyards, Shefqet Dreshaj, the Director, estimated it will cost more than 120,000 euros to clean up (this does not include any cost to replant or graft new varieties according to market signals). An on-site inspection of the Istog site showed grapes growing slowly (due to lack of canopy management) and the widespread presence of odium (powdery mildew). All of these issues will most likely make revitalization much more costly, a scenario that can be expected on other formerly state-owned vineyards.

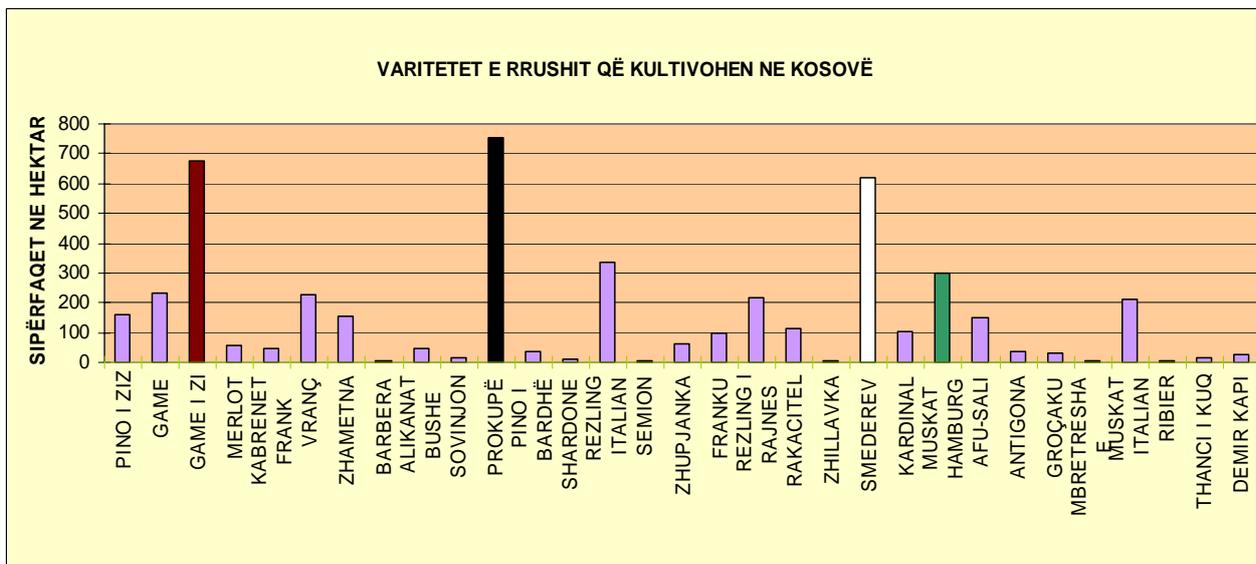
Figure 1
Vneshtaria Vineyard, Istog

Finally, what is actually planted in these vineyards is the subject of much debate, as Kosovo has approximately 32 different varieties, including 12 red wine grapes, 9 white wine grapes, and about 11 table grape varieties. According to a graphic from the Ministry of Agriculture (reproduced below as Figure 2), the indigenous grape prokupacs (also know as prokupe in Albanian and prokupec in Macedonia) is the most widely grown, followed by Gamay and then Smederevka (a white varietal also native to the Balkans). No other grape is planted significantly on over 100 hectares of land other than Italian Riesling (also known as Welschriesling or Olaszrizling, and not to be confused with the Riesling of Germany or Alsace).



The reasoning behind the planting of so many varieties can be traced back to the socialist system that Kosovo labored under, rather than any careful matching of soils and/or market demand to planting. As Nesim Morina at the Ministry noted, with the SOEs concentrated on turning out vast quantities of bulk export wine, they needed as many grapes as possible. Thus, on state-owned vineyards, any grape that could be grown was grown in order to meet the quotas. Given that many grapes are naturally occurring in the region, it was easiest to grow these in mass quantities rather than carefully study market demand and decide plantings according to tastes. Thus, varieties proliferated to an extent that is rarely seen elsewhere in the world. Indeed, most small countries tend to specialize in a very few grapes (typically no more than 2-3 red varieties and 1-2 white varieties), with other, more exotic grapes produced for home consumption only.

Figure 2 – Varietals and Their Plantings in Kosovo



Source: MAFRD

A final, major problem confronts the vineyards of Kosovo: the Ministry's figures on which varieties are produced and in what quantities is merely an estimate, as no cadastral work has taken place in Kosovo since 1992, when it was undertaken by a team from Belgrade. This comprehensive study matched every parcel of land under vine to a variety produced on it, and noted soil/topography as well as ownership. In the intervening 14 years and with the discontinuation of so many hectares of vineyards, the work done in 1992 is obsolete and a new study must be undertaken to accurately assess the variety plantings done in Kosovo's soils.

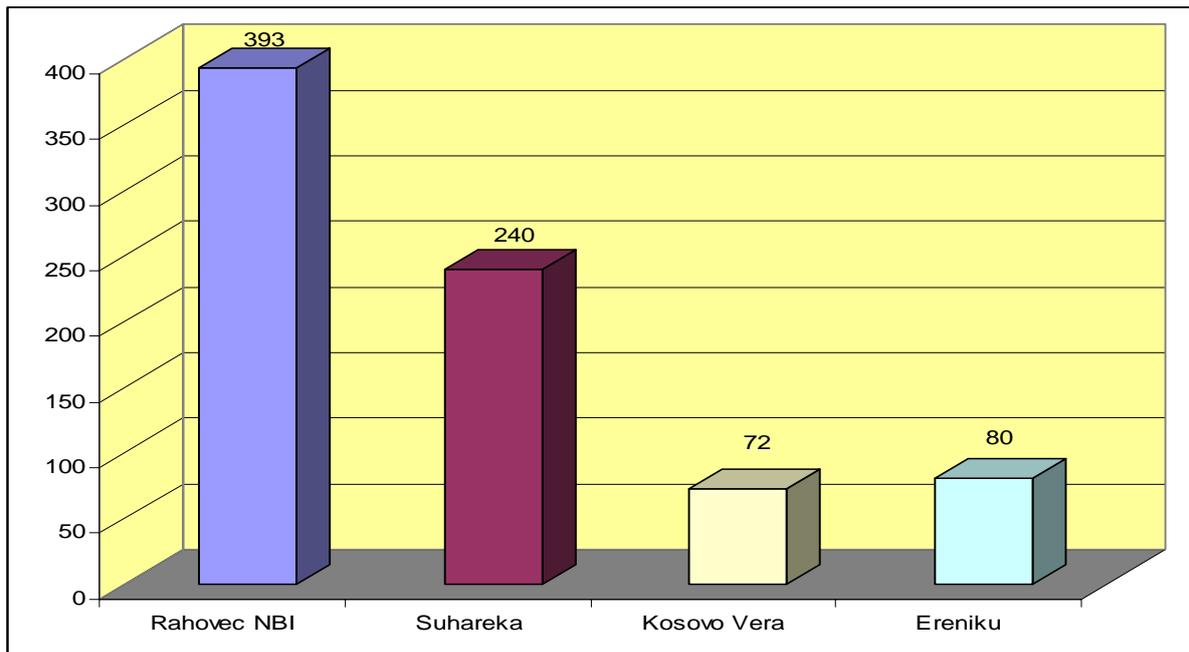
Wine Production

The state of the vineyards in Kosovo necessarily impacts the production of wine, as well. Because of such small plots and dispersed producers, wineries purchase from many different growers, causing great variation in quality. In places with established and quality wine production, variation in soils and practices can be huge: for example, in Bordeaux, France, humble plots of land classified as "cru bourgeoisie" and that produce adequate but not stellar table wine are adjacent to the great Premier Crus, such as Chateaux Margaux. If this wide variation in quality can occur on land directly adjacent to each other in a country widely accepted to be one of the best producers of wine, the variation within a small country with less history of quality winemaking will most likely be larger; and in a place like Kosovo, with dispersed plots and different, non-harmonized practices of viticulture, the quality differences are sure to be astounding. With differences in grapes, wine quality will suffer, as will consistency (as noted above, a crucial factor in establishing a brand).

To be fair, the system of grape purchasing practiced in Kosovo is only starting to blossom, but producers can institute some steps to avoid these quality variations. One of the ways this can be done is in the application of long-term contracts between wineries and vineyards. While some wineries mentioned that their owners go out into the fields and personally sample the grapes from their suppliers to ensure quality, creating a long-lasting relationship with a single or multiple growers will help to ensure consistency. Again, a lasting legacy of the socialist system was the lack of a need for contracts, as SOE vineyards sold to SOE wineries, no matter what the quality, and it is only recently that private vineyards have had to search out new markets. Introduction of contracts for processing will help to forge links between wineries and grape producers, as well as introduce feedback mechanisms for vineyard owners on what varieties are demanded (there was an odd sentiment expressed from former SOE workers that the larger wineries were completely dependent on what growers are growing and thus are constrained in making wine, exactly the opposite of what the link should be).

Within the wineries themselves, there is a great disparity in capacity and the state of equipment between SOEs/former SOEs and the private producers that have arisen since the end of communism and the conflict. As may be expected in the SOEs, bureaucracy and employment are still too high (see Figure 3), and even privatized wineries have come under the KTA "special spin-off" mechanism, meaning that the new owners are obliged to keep the old payrolls. This has led to some tragic-comic results, as the one related to the KCBS team from the managing director of the Suhareka winery, Sedat Kuqi, who said that his winery had 38 administrators and required the permission of "20 people to buy a phone." In his words, if he had his way, he'd "employ only 3 people" in the entire winery.

Figure 3 – Number of Employees in State- and formerly State-owned Wineries



Even if there was significant paring down of the number of employees in the old SOEs, the former wine factories would still face huge problems in terms of outmoded equipment, outdated production techniques, and excess capacity for production that far exceeds any reasonable demand in Kosovo or abroad. To take just one example where these three problems come together, the state of fermentation and storage in the Rahovec NBI winery proves instructive. Over the past 20 years, there has been a move by producers the world over to use new French or American oak for flavoring, storing wines that are meant to be age-worthy into 225 liter barrels called “barriques”: these smaller barrels mean more wine is in contact with the oak, and the oak imparts either a coconut or vanilla taste (to white wines) or tannins (to red wines) to help them hold up over years in the bottle. As the years go by, the oak loses its ability to impart flavor, and generally after 5 years an oak cask is unsuitable for flavoring (it can still be used for storage, providing that it is thoroughly steam cleaned every year after storage, so as to not impart off-odors or become infected with bacteria).

This is an example of best practices, utilized in the world’s finest wineries. In Rahovec, the reality is quite different. For fermentation and storage purposes, red wine made at the Rahovec NBI winery are put into casks ranging from 6,000-10,000 liters, made from Croatian wood in 1976 (some casks are newer, having been made in 1982). Any ability that these casks had to impart flavor is long gone, and it is probable that the casks themselves have never been properly cleaned; continuing to use them may actually be detrimental. Given the advanced age of the oaks, as well, it is further probable that they have become more porous, and thus can contribute to early oxidation when wine is stored therein (as the wine comes into contact with air, it ages until it turns into vinegar). The cost of replacing these casks will be prohibitive if advanced wine techniques are to be used: to replace one 6,000 liter cask with 26 brand new French oak 225-liter barrels (to approximate the same capacity) would cost approximately \$15,600 (if one to two year old barrels were used, the cost would most likely be halved, as would using American oak, for American oak from Oregon runs much cheaper due to its lower production cost).

Problems with oak usage and storage were far from the only problem seen in the newly privatized SOEs. Again, in Rahovec, the “champagne” (sparkling wine) production facilities had been unused for a number of years, and visual inspection of the equipment used leads

to the conclusion that it will **never** be used again. Moreover, the potential capacity of all of the 4 former and current SOEs is somewhere in the range of 100 million liters of wine (an important caveat is that none of the SOEs ever produced up to their capacity), simply far too much for a medium-sized country with a developed wine market and export potential, much less for Kosovo. Significant reduction of capacity, along with employees, are imperative for the former state-owned factories, and this process should take place over the next few years as they learn to respond to market signals.

The smaller, private wineries (that had no legacy of state ownership) are currently in a much better state than the former SOEs, with the 8 that exist in the country having uniformly newer equipment, newer facilities, and much more interest in tailoring their capacity and output to the needs of the market. From a tiny 6,000 liter capacity at Baca Salo winery to Rahovec SHPK's 200,000 liters, the private operators we spoke to were much more modest in their ambitions, and had storage facilities that were stainless steel and jacketed for cooling during fermentation, mostly purchased over the past 6 years. Oak remained a problem, due to the high cost (Dea SHPK was using Slovenian barrels from the 1960s and 1970s for storage), and many of the smallest wineries the KCBS team met with utilized new polyethylene storage tanks (polyethylene presents its own problem, as it is microporous, and if not cleaned properly, will retain odors from the previous vintage and be unusable for quality wine). Lower-cost alternatives to oak ageing, such as staves or oak chips, were not used by the private wineries, due to lack of access to such new technology, but on the whole, the quality of wine in the private sector was much better than that shown in the former SOE sector. This superiority extends to some other basic facets of the wine production business, including marketing and branding: the Dea SHPK winery had been producing under the "Apollonia" brand for about 10 years (see Figure 4), while the Muja winery had built up its "Eko" brand and had a catchy label that was designed in conjunction with the Swiss.

Figure 4 – "Apollonia" Wines



Despite the advantages evinced in the private sector in production and marketing, it still lags far behind international best practices in quality and even technique, with many obstacles to be overcome before the wine industry in Kosovo is held in high regard. In the first instance, almost all wines sold and produced in Kosovo are single-varietal wines (Cabernet, Merlot, etc.), with no blending being done. The best wines of Bordeaux are predominantly Cabernet Sauvignon, but with Merlot (and in some cases Cabernet Franc) blended to round out the wine and add distinctive (or softening) tastes. Many "table reds" in the US or wines with proprietary brand names (such as Big Tattoo Red or Big Fin) are blends of several different varietals in order to achieve a specific taste envisioned by the winemaker. At present, this sophistication does not exist in Kosovo, although Muja Winery is planning to experiment with blends in the future. In addition to blending and the aforementioned problems of storage and fermentation, private wineries are

affected by many of the macroeconomic and business conditions that are not specific to the wine industry. Problems in distribution and the supply chain were heard from nearly all wineries, as was the simple problem of payments: Age Batusha of "Apollonia" noted that he sells his wine in local grocery stores, but sometimes has to wait as much as 6 months for payments from the stores for the shipment. Thus, capital is tied up in arrears and cannot be used for improvements in the winery. This is in addition to the lack of access to capital (see below) that is a major stumbling block for the industry's continued development.

Markets

Once wine is produced, it needs to be consumed, and for the last step of the value chain Kosovo also suffers many problems. The first problem was echoed from many producers: while grapes and wine may have been produced in Kosovo for eons, there is "no real culture of drinking in Kosovo" due to Muslim influence and the focus of the wine industry during socialist times on export. This assertion finds some credibility in the data, as consumption of wine in Kosovo in 1975 (the year that the wine industry was given its gigantism) was 0.5L per person, compared to about 3.6 liter average for the world in 1975 (as quoted on *the Wine Spectator* on-line) and 1.7L in the United States (according to the U.S. Department of Agriculture). Over the following 30 years, as wine quality has uniformly increased, some countries now consume in the range of about 54-62 liters per person (with Luxembourg consuming the world's most wine per capita, somewhere around 70 liters per person), it is doubtful that wine consumption in Kosovo has kept pace with the rest of the world.

There are no real estimates of demand either in Kosovo or abroad for Kosovar wine, and every producer KCBS spoke with was reluctant to put a number on their sales or their profits. Given this lack of information from the people who should be tracking it most closely (and again, owing to the short time of this trip), anecdotal evidence was gathered throughout Pristina, spending a half-day looking at supermarkets carrying wine and raki to get an idea of price points and demand. Most Kosovar wine was priced between 1 and 4 euros (with the vast majority clustered in the 1.5 – 2.5 euro range), with approximately about a 1/3 of the wine stock in each market devoted to Kosovar wine.

Speaking with wine/liquor/store managers at Interex, Kent Market, InterEminex hypermarket, and Ben-af, a clear picture emerged of the wine market in Pristina, as we were told time and again that Montenegrin wine was by far the most popular, with Plantaže going the quickest of any wines (the manager at InterEx told us that he goes through 15-20 cases of Plantaže wine in one week). Kosovar wine was the next most popular, with, surprisingly, the lower end wines from Rahovec and Suhareka (the former SOEs) selling briskly. The main reason for this, we were told, was both the relative cheapness of the wine (prices were generally in the 1 euro range) and the fact that these wines were not used for drinking as "wine," but as a base spirit to mix with other drinks, such as Coca-Cola.

In reference to the prices that Kosovar wine commanded, there was a widespread belief among market owners that pricing was appropriate, with quality matching price at the current moment. Interestingly for the future, we heard from the InterEx wine manager that, "if quality goes up and price matches it, people will still demand" Kosovar wine. In his estimation, the demand for quality wine was evident in Pristina at least, and wine from Kosovo had some room to move up in price if quality would also increase. This may also increase if the sophistication of Kosovar palates develop and there is a demand for wines in the middle to high-end of the price range.

CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

Based on our analysis of the wine industry in Kosovo, there are several areas where USAID can get involved, subject to appropriate caveats. These areas are:

1. Table Grapes
2. Raki Production
3. The Wine Institute
4. Regulations on Quality
5. Cadastral Work
6. Business Support Services

These will be dealt with in turn.

Table Grapes

The growth of production of table grapes has coincided with the decline of the wine industry, with approximately 18% of all grape production in the country being devoted to table grapes (mostly the Hamburg grape). The PISG, in the form of the Ministry for Agriculture, has mentioned in the past that it believes the table grape production in Kosovo is not sufficient and it wants to increase production in order to effect some modest import substitution. With the wine industry demanding less and less grape production (either at present or, hopefully, in the future), USAID could thus augment the market's direction towards table grape and concentrate on helping small producers bring their products to market.

This assistance could take many forms, including the provision of best practices in the table grape industry, an assessment of Kosovo's potential competitiveness in this industry, and projected trends in the world table grape market. However, assistance will be limited by a large fact, namely, that Kosovo is not well-suited for the production of seedless grapes. Given world grape trends and the overwhelming preference consumers have for seedless grapes, Kosovo's participation in the table grape market may thus be a non-starter. Smaller-scale assistance could then be targeted at import substitution, at least until the Kosovars themselves discover the benefits of seedless grapes.

Raki Production

Kosovo's dispersed grape-growers and mass-oriented producers are actually well-suited for the production of raki (distilled grape brandy) While uneven viticulture techniques among small grape-growers can seriously impact the quality of wines, the distillation process that creates raki can mask variations in quality of the grapes and still create a product that is drinkable and potent (if not a collectible). Every winery I spoke with in Kosovo already has some form of still for creating raki, with the large SOEs having enormous capacity to mass-produce raki: even if some facilities, such as the continuous still at the Suhareka NBI winery, will need intense cleaning and repair, the actual investment in equipment and in the vineyards will be a fraction of that needed to bring the wine industry up to international standards.

This alternative is admittedly fraught with problems, least of all the difficulty in procuring a waiver to assist the industry, coupled with the questionable impact that increased raki production and quality would bring to the country. As of yet, there is no concrete estimate of the demand for raki in Kosovo or elsewhere, although anecdotal evidence from supermarkets and shops in Pristina reveals that raki holds its own or exceeds sales compared to other hard liquors or base spirits. In reality, the small amount of people engaged in the

production with raki, coupled with the probably niche market for raki abroad, will make this recommendation infeasible.

The Wine Institute

The planned creation of a Wine Institute in Rahovec was an idea applauded by nearly all in the wine community, who believe that its proximity to the vineyards and its promise of new techniques will help to revitalize the industry. An idea that has “been around for 30 years,” according to the Agriculture Institute in Peje, the Wine Institute will be furnished by the German aid agency GTZ, with the municipality of Rahovec providing the building and the PISG (in theory) providing the support for salaries and upkeep. The specific details on what the Institute’s scope of work will be has yet to be hashed out, and similarly up in the air is its relation to the Institute in Peje (will one carry out research? Will Peje continue to perform chemical analyses and certification? Will there be overlap and duplication?), but it appears that this time at least, the Wine Institute will become a reality.

The benefits to the wine industry of having this institute are many, with the predominant being that it will serve the same function that UC Davis did in the United States. Davis led the charge towards quality and technology-based winemaking techniques in the 1960s and 1970s, and legions of Davis graduates fanned out across Napa armed with the latest techniques. In this way, the university changed the wine industry forever and put California on the map. It is desirable to see a similar effect in Kosovo, but it is not necessarily guaranteed, least of all because the organization is government supported: many winery owners already have no interaction with the Ag Institute, apart from quality certification, and the top of the line wineries will seek to do testing and quality control in-house. The benefit will be on education and training of those who know how to grow grapes but not make quality wine, and it is here that it can make an impact.

USAID’s support of the Wine Institute can come in the form of training the trainers, offering training to the staff of the Institute and exposing them to a broad array of international practices and institutions across the world. There can also be policy support, in the form of finding alternative sources of finance for the Institute, such as liquor licensing (at present, Kosovo treats sellers of alcohol and non-sellers of alcohol exactly the same for tax purposes. The creation of a liquor license could increase revenues for the PISG as well as create a pool of capital from which to fund the Institute). However, given the nascent state of the Institute, it is perhaps too early for USAID to get involved – it would be more advisable to see how the Institute takes form, the extent of GTZ’s involvement, and then in the future reassess its operations and make a decision whether to commit.

Quality Regulations

As noted above, there are a few holes in the legal and regulatory framework governing the wine industry, and USAID could perhaps help to provide policy advice in closing these holes. Paramount amongst these is the quality/appellation system, which could be reoriented against benchmarks such as international standards of a varietal (such as blackcurrant distinctiveness of Cabernet Sauvignon) or against a “characteristic” Kosovar wine (such as the distinct acidity and taste of a New Zealand (Marlborough) Sauvignon Blanc versus a Pouilly-Fumé) rather than retaining its odd and subjective point system. Regulations could also harmonize the geographical system with the quality system, as is done in the EU: for example, quality wines are defined by EU law as being characteristic of their region and created by certain methods. Finally, varietal labeling laws could be created to ensure quality control and consumer awareness, so that a bottle of wine labeled “Pinot Noir” contains at least 85% of the pinot noir grape.

While these standards are necessary, there are also problems with USAID becoming involved in this arena. The first is the evolving nature of the regulatory framework and the Wine Institute, which may change these regulations on their own without any assistance

from USAID. The biggest problem, however, is most likely going to be political, in that UNMIK Pillar IV will surely push back against any interference from the Americans on altering the wine law, given that it was produced by Europeans mostly in accordance with EU standards. Points of national pride and heritage will surely come into play, and it is doubtful if USAID can have much of an influence on even these narrow amendments to the law. The marginal cost of pushing them through will surely be greater than the benefits to USAID and the Kosovar economy, which, as noted above, may sort itself out in future anyway.

Revised Cadastral Work

Tied in with the thorny issue of land titling, registration, and ownership, USAID can provide a big boost to the wine industry through updating the outdated geological and cadastral work that identifies vineyard locations, varieties grown there, and ownership. As noted earlier in this report, the last comprehensive studies done in these spheres were in 1975 (for the geology, including soils and subsoils) and in 1993 (for ownership), and both studies were carried out by experts in Beograd rather than from the area. While the Agriculture Institute in Peje has a copy of both of these reports, their information is outdated (useless, in the case of the 1992 report) and the significant deterioration of vineyards over the past 14 years and changes in ownership need to be catalogued in order to determine the actual state of Kosovo's grape-growing industry.

Undertaking a new cadastral study will involve the surveying of every vineyard and plot of land in Kosovo that grows grapes, cataloguing their owners and the varieties planted, and noting the climatic and geological conditions. While this will be an extensive survey, it will actually be easier in one sense than in 1992 because of the smaller number of land under vines - but of course will still be complicated by conflicting claims of ownership (especially for land that is still claimed by minorities or others residing outside of the country). The Agriculture Institute has no idea of the cost of redoing the survey, but they claim it can be done with a small staff and overhead (they noted it would take "one or two people, a reliable vehicle, and the surveying equipment") and would take approximately two years to complete, spread out over two vintages in order to provide more accuracy.

For vineyard owners and winery operators, knowing the extent of plantings across Kosovo, as well as scientifically analyzing if planted varieties are optimal for their current position, will be invaluable to ensuring the development of the wine industry. However, the prolonged time needed to complete the survey should give USAID pause as it considers whether or not to support this venture. The wine industry is just beginning its long road back in Kosovo, with the privatization of major SOEs still continuing; it is left to see what impact these privatizations will have on wine production and on what market signals will be sent to growers. As the industry moves towards a free market system, it is likely that many of the varieties now planted in Kosovo will be discovered to be uneconomical and will be replaced (either through grafting or grubbing up the vines). Thus, any survey carried out from 2006-2008 will most likely be out of date almost the minute it is completed. The industry is in far too much flux right now for a cadastral survey to be of much use within the next two years.

Business Services Support

The final area where USAID could make a difference is in the provision of business services. A surprising lack of basic business and marketing information exists in the Kosovar wine industry, extending through all segments (private, newly privatized, and still state-owned) of the industry. Everyone I spoke with, from the humblest vineyard owner to the directors of the largest wineries, were unable (or unwilling) to give me concrete estimates on their demand, information on their best selling varieties, detailed cost information and production issues, estimates of losses due to electrical or other problems, and details of their accounting systems. While some wineries are further along in solving these issues (Old Cellar Winery, given its diversification in other businesses, probably has the best handle on its costs and

potential profits), the rudimentary business skills of estimating demand and quantifying market share are non-existent in Kosovo. This represents a major obstacle to the development of the wine industry, because for the most part, the tip of the finger business acumen and entrepreneurial spirit exists; owners like Mustafa Hoxa, Age Batusha, and Nevzat Haxhijaha more than amply prove this with their willingness to enter into the market and take risks (as well as utilize some excellent marketing tools, such as labels and promotional materials). But without the ability to translate this desire into business plans and market their goods effectively abroad, the industry will continue to stagnate.

The largest example of the lack of concrete demand information concerned a longing for the past. As noted in the background section, the export market that the country focused on was Germany, peaking with exports of 40 million liters of "Kosovar" wine in 1989. There was hope, especially in the larger and just-privatized entities that this business would almost automatically restore itself once production resumed. In the intervening 17 years since Kosovo sent bulk wine to Germany, the world wine market has changed immensely, and the irony that Kosovars hope to resume exports that were sent from one country that doesn't exist anymore (Yugoslavia) to another one that doesn't exist anymore (West Germany) is lost on the business community. Representing the triumph of hope over experience, the Kosovars need to soberly assess their actual export markets (taking into account issues concerning final status) and target these accordingly.

The final issue surrounding business services in Kosovo is a familiar one: lack of access to finance. With interest rates hovering in the 12% range, the cost of capital is prohibitive to most wineries and vineyards looking to expand. The lack of appropriately structured lending instruments also hinders the development of vineyards/wineries (as well as other agricultural ventures), as most loans are designed for a 3-year term, with no grace period and immediate repayment required. For vineyards, where new vines take a minimum of 3 years to begin producing grapes, it is impossible for growers to recoup the monies utilized in a loan and repay to the satisfaction of the bank. This problem is as much attributable to the immaturity of the financial sector in Kosovo, but it has a real impact on the development of the wine industry.

USAID's contribution to mitigating these problems in business services would be invaluable in alleviating some of the bottlenecks in the industry and would have a far greater impact than some of the other recommendations offered above. In particular, USAID could provide:

- *An accurate market study:* Created at low cost by an expert or team of experts in the wine business, a survey of international wine trends, identifying where Kosovo would fit in, would be a first step for producers in Kosovo to understand their markets and how they might gear their production. The study could also examine wine consumption trends, how wine compares to other alcohol sold in Kosovo in terms of profitability, and form a base for profit analyses for wineries.
- *Basic business trainings:* Trainings focused on basic accounting techniques, basic marketing, and intermediate courses specific to the wine industry could be provided utilizing the existing KCBS mechanisms.
- *International wine exposure:* Universities and organizations throughout the world are already teaching specialized courses in wine business, as well as offering a look into emerging technologies and the problems specific to small and medium sized wineries and vineyards. Bordeaux Business School, UC Davis, and the University of Adelaide in Australia all offer short courses and degree-granting programs in enology, viticulture, and wine business, and study tours could be organized to take advantage of these courses for Kosovar producers at relatively low cost.

- *Working with the Financial Industry:* KCBS has begun some work in this area already, working with Raiffeisenbank to heighten their awareness of agricultural lending needs in Kosovo through better-structured products. Similar work could be done focusing specifically on wineries and the needs of vineyards. Consulting services could be brought in from any number of California investment houses or banks that specialize in winery operations.

Recommendation

Given the state of the Kosovar wine industry and the fact that it will be in flux for the next few years, it is too soon for USAID to support either producers or growers in any intensive manner. That being said, providing some minimal business support services has a chance to make a great impact, while also being fairly innocuous from a procedural standpoint (in that it is not direct support to alcohol production). Any support to the wine industry will necessitate increasing resources to the KCBS project, including the addition of one full-time person, as so would most likely not deliver enough benefits to be cost-effective. But outsourced business services work, done at discrete intervals, could provide some support to the industry during its time of transition.

ANNEXES

Annex I – List of Persons Met With

Annex II – Presentation to USAID on the Kosovo Wine Industry, 7/15/06

Annex III – Law on Wines/Directives Concerning Quality

ANNEX I: List of Persons Met with in Kosovo, 7/11-7/15/2006

7/11/06

Nesim Morina, Ministry of Agriculture, Pristina

7/12/06

Hysen Geci, Rahovec NBI

Several workers of Rahovec NBI (names not given)

Avdullah Kryeziu, Directory of Agriculture, Rahovec

Nevezat Haxhijaha, Old Cellar Winery (Podrumi Tradicional)

Mustafa Hohxa, Muja Winery

Gezim Vuciterna, Baca Salo Winery

7/13/06

Sedat Kuqi, Suhareka NBI

Rahmen Kabashi, Suhareka NBI

Ismet Haxhimuratil, Rahovec SHPK

7/14/06

Shahin Dula, Ereniku Winery

Age Batusha, DEA SHPK

Bardh Begolli, Agriculture Institute, Peje

Fadil Musa, Agriculture Institute, Peje

Shefqet Dreshaj, Vneshtaria (Istog)

7/15/06

Various store managers and owners throughout Pristina (4 stores visited)



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The State of the Wine Industry in Kosovo



Christopher A. Hartwell

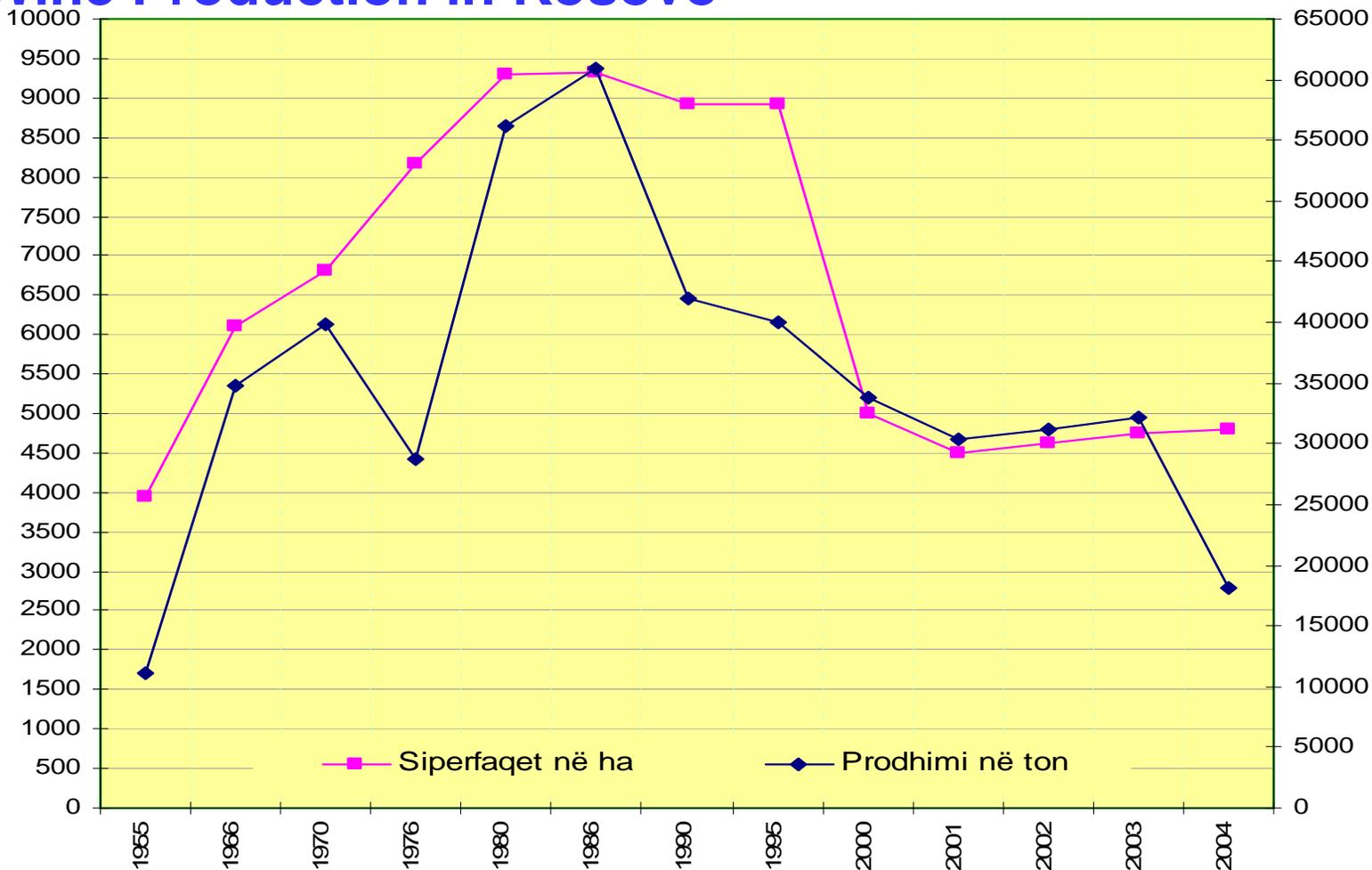
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Wine Production in Kosovo

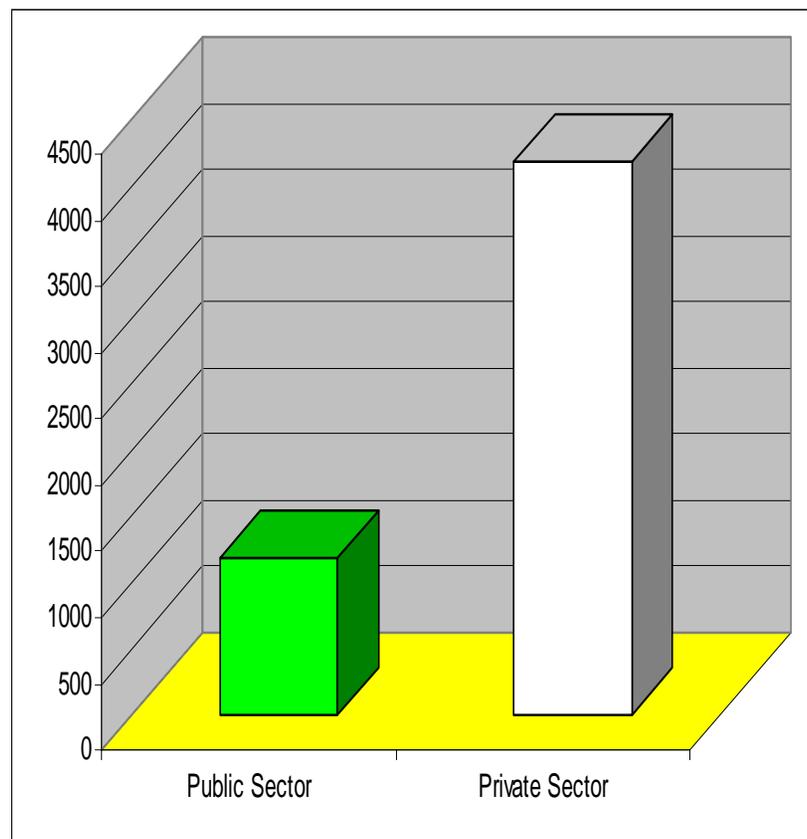


Source: MAFRD



Employment in the Wine Industry, 2003-04

Area/Commune	Public Sector	Private Sector
Rahoveci	555	2687
Therandë	232	450
Prizreni	170	520
Gjakova	70	100
Malisheva	70	433
Istogu	100	0*
Total per sector	1190	4190
Grand Total		5380



*vineyard since privatized



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KOSOVO

Legal and Regulatory Framework

Wine Law passed and promulgated (2005)

Adequate and up to International Best Practices in some areas:

- Defines grape/wine production
- Defines geographic quality areas
- Defines labeling and marketing rules

However, neglects:

- Varietal labeling
- Irrigation

Knowledge of wine law also low amongst producers



Legal and Regulatory Framework (continued)

- **Agriculture Institute as Overseer**

Peje-based institution charged with quality control (2003)

- **Directives on Quality (2006)**

Problems with classification system (awarded on points); no tie in with geography in basic Wine Law

- **Registration System (2006)**

New regulations give too much power to bureaucrats



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KOSOVO

Other Government Policies Towards Wine/Spirits

- Taxation

Excise taxes discourage domestic production

- Attitude towards Ownership

PISG does not want to retain any vineyards/wineries in public sector

- More or less Laissez-faire Approach

Implicit criticism by owners of lack of subsidies



State of the Vineyards

- Small size predominates

Most vineyards are private, only from 0.5 – 2 hectares large





Differences in Floor and Canopy Management



Former SOE vineyard, Istog



Private Vineyard, Suhareka



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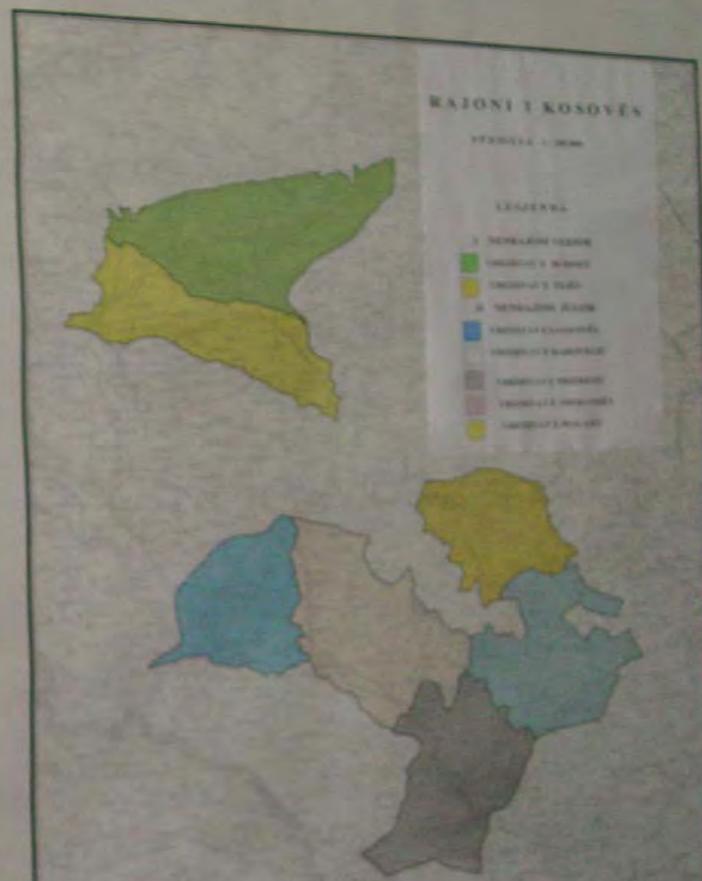
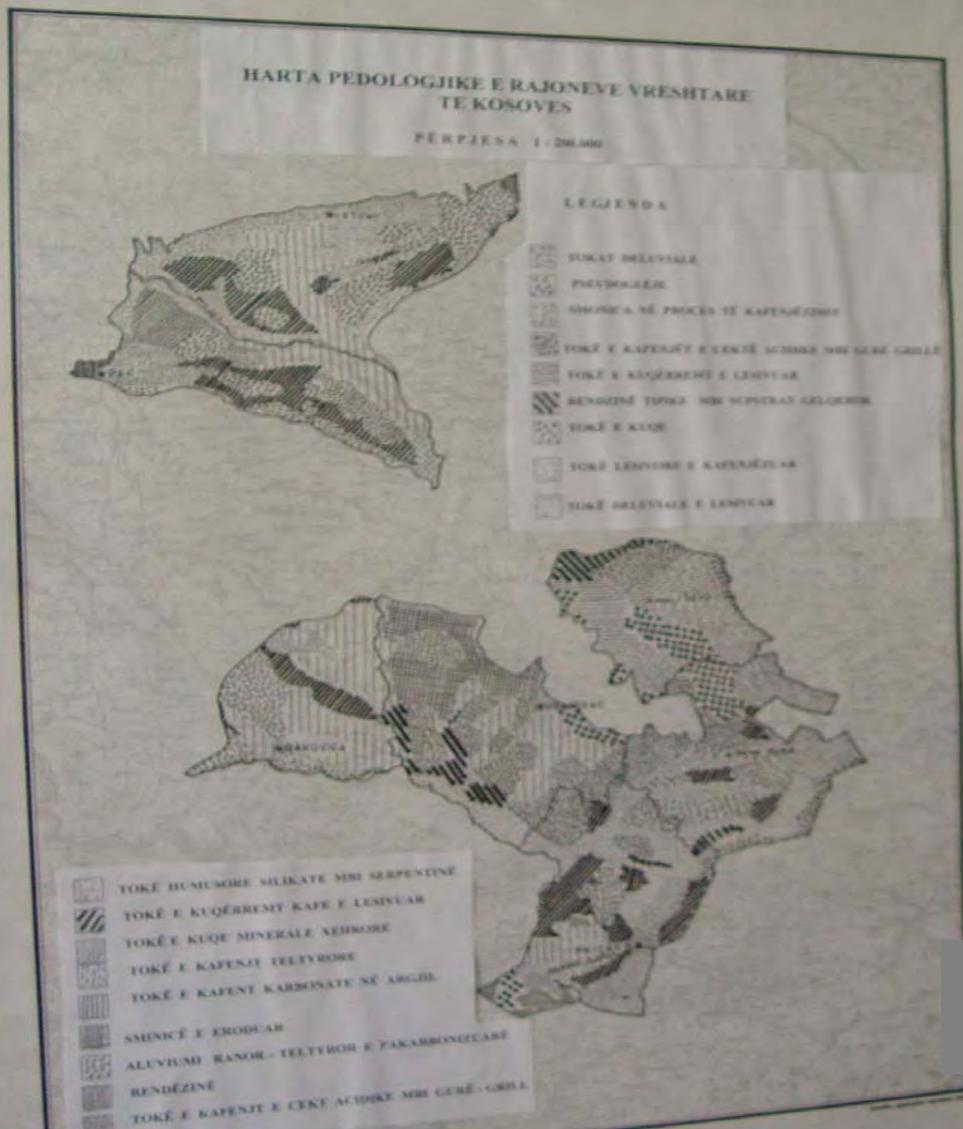
Two Years of Neglect





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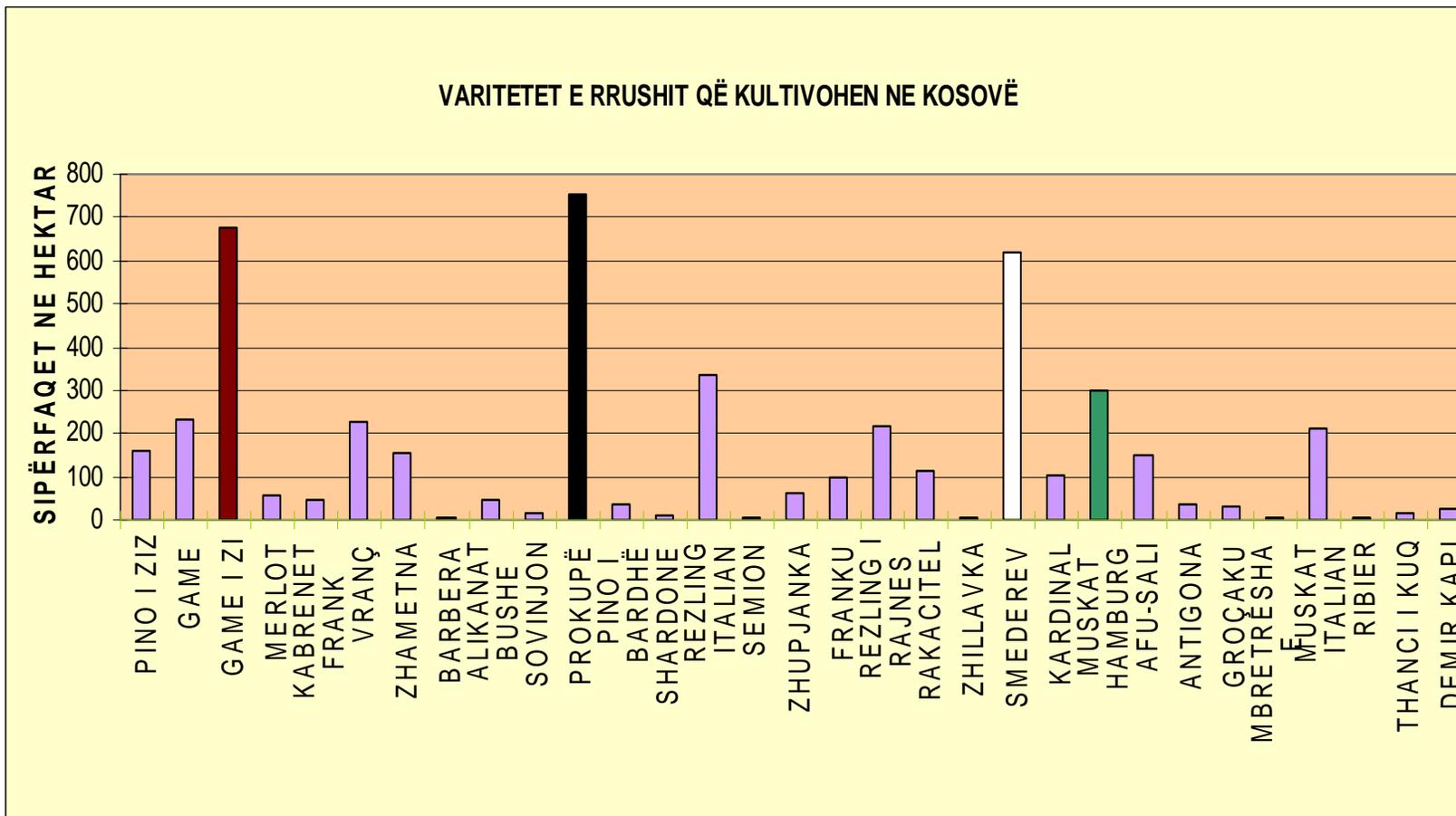
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Survey of Kosovo's soils carried out from Beograd, 1975



A Proliferation of Varietals



Source: MAFRD



From Vines to Wines

- Private versus Socially-Owned (or newly Privatized) exhibit large differences also in production

6000 liter
casks,
Rahovec NBI
winery





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KOSOVO

Where **USAID** Can Help

- Table Grapes
- Raki production
- Wine Institute support
- Regulations on Quality reassessed
- Cadastral work
- Business services training and assistance



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KOSOVO

Business Services Difficulties

- Lack of knowledge of markets and market share
- Reliance on old export markets – i.e. Germany
- Access to finance hindered



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KOSOVO

Business Services Opportunities

- Marketing Studies
- Basic Business Training (accounting, business plans)
- Exposure to international wine trends (study tours to Bordeaux, Davis, Adelaide, courses offered)
- Increasing access to finance (KCBS already working in this field)



PROVISIONAL INSTITUTIONS OF SELF GOVERNMENT

KUVENDI I KOSOVËS
СКУПШТИНА КОСОВА
ASSEMBLY OF KOSOVO

LAW No.02/L-8

THE WINE LAW

The Assembly of Kosova,

Based on UNMIK Regulation No.2001/9 of May 15, 2001 on Constitutional Framework for Provisional Self-governing in Kosova, Chapters 9.1.26 (a) and 5.1. (n)

With the aim of regulating production and distribution of grapes and the production of wine, the production and the distribution of wine and other products produced from the processing of grapes and wine:

Adopts the following:

THE WINE LAW

TITLE I
GENERAL PROVISIONS

Article 1

This law regulates the production and the distribution of grapes used for the production of wine as well as the conditions for the distribution of wine and other products produced from the processing of grapes and wine, the protection of wine produced in a certain geographical region, distinguished by the characteristics of its climate, soil and other factors.

Definition

Article 2

The terms used in law have the following meanings:

1) **Wine**: the product obtained exclusively from the total or partial alcoholic fermentation of fresh grapes, whether or not crushed, or grape must.

2) **Kosovar wine**: wine produced in the Kosova and derived exclusively from vine varieties, classified for the wine production. The minimum natural alcoholic strength by volume is [7,5 % vol.]. The actual alcoholic strength by volume is not less than [8,5 % vol.]. The total acidity content, expressed as tartaric acid, is not less than [3,5 grams per liter] or [46,6 mill equivalents per liter].

3) **Fresh grapes:** the fruit of the vine use in making wine, technically ripe and even slightly raisin, which may be crushed or pressed by normal wine cellar means and which may spontaneously produce alcoholic fermentation.

4) **Grape must:** the liquid product obtained naturally or by physical processes from fresh grapes. An actual alcoholic strength by volume of the grape must of not more than 1% vol. is permissible.

5) **Grape must in fermentation:** the product, obtained from the fermentation of grape must and with an actual alcoholic strength by volume of more than 1% vol. but less than three fifth of its total alcoholic strength by volume.

6) **Concentrated grape must:** uncaramelised grape must which is obtained by partial dehydration of grape must carried out by an authorized method other than by direct heat in such a way that the figure indicated by the refractometer at a temperature of 20° Celsius is not less than 50,9 %. Concentrated grape must has to derive exclusively from grapes, classified for the wine production in the Kosova. An alcoholic strength by volume of the concentrated grape must of not more than 1% vol. is permissible.

7) **Rectified concentrated grape must:** the liquid uncaramelised product which is obtained by partial dehydration of grape must carried out by an authorized method other than by direct heat in such a way that the figure indicated by the refractometer at a temperature of 20° Celsius is not less than 61,7 %. It has undergone authorized treatment for deacidification and elimination of constituents other than sugar. An alcoholic strength by volume of the concentrated grape must of not more than 1% vol. is permissible.

8) **Grape juice:** the unfermented but fermentable liquid product obtained by appropriate treatment rendering it fit for consumption as it is. It may be obtained from fresh grapes or from grape must, or by reconstitution from concentrated grape must or from concentrated grape juice. An actual alcoholic strength by volume of the grape juice of not more than 1% vol. is permissible.

9) **Concentrated grape juice:** uncaramelised grape juice obtained by partial dehydration of grape juice carried out by an authorized method other than by direct heat in such a way that the figure indicated by the refractometer at a temperature of 20° Celsius is not less than 50,9 %. An alcoholic strength by volume of the concentrated grape juice of not more than 1% vol. is permissible.

10) **New wine still in fermentation:** wine, in which alcoholic fermentation is not yet complete and which is not yet separated from its lees.

11) **Sparkling wine:** the product which is obtained by the first or the second alcoholic fermentation of fresh grapes, grape must or wine, which, when the container is opened, releases carbon dioxide derived exclusively from fermentation and which has an excess pressure, due to carbon dioxide in solution, of not less then 3 bar when kept at a temperature of 20° Celsius in closed containers.

12) **Aerated sparkling wine:** the product which is obtained from wine, releases, when the container is opened, carbon dioxide derived wholly or partially from an addition of that gas and which has an excess pressure, due to carbon dioxide in solution, of not less then 3 bar when kept at a temperature of 20° Celsius in closed containers.

13) **Semi-sparkling wine:** the product which is obtained from wine with a total alcoholic strength of not less than 9% vol.; it has a total alcoholic strength of not less than 7% vol. and an excess pressure, due to endogenous carbon dioxide in solution, of not less than 1 bar and not more than 2,5 bar when kept at a temperature of 20° Celsius in closed containers. It is put in containers of 60 liters or less.

14) **Aerated semi-sparkling wine:** the product which is obtained from wine; it has an actual alcoholic strength of not less than 7% vol., a total alcoholic strength by volume of not less than 9% vol. and an excess pressure of not less than 1 bar and not more than 2,5 bar when kept at a temperature of 20° Celsius in closed containers due to carbon dioxide in solution which has been wholly or partially added. It is put in containers of 60 liters or less.

15) **Wine vinegar:** vinegar, which is obtained exclusively by acetous fermentation of wine and has a total acidity of not less than 60 grams per liter expressed as acetic acid.

16) **Liqueur wine:** the product having an actual alcoholic strength by volume of not less than 15% vol. and not more than 22% vol. and an overall alcoholic strength by volume of not less than 17,5% vol.. It is obtained from grape must in fermentation or wine or a combination of these products by addition individually or in combination of neutral alcohol of vine origin and wine or dried grape distillate, having an actual alcoholic strength by volume of not less than 52% vol. and not more than 86% vol.. Concentrated grape must can be added.

17) **Wine lees:** the residue accumulating in vessels containing wine after fermentation, during storage or after authorized treatment and the residue obtained from filtering or centrifuging this product.

18) **Grape marc:** the residue from the pressing of fresh grapes, whether or not fermented.

19) **Grape marc wine (piquette):** The product obtained by the fermentation of untreated grape marc macerated in water or by leaching fermented grape marc with water.

20) **Wine fortified for distillation:** the product which has an actual alcoholic strength by volume of not less than 18% vol. and not more than 24% vol., is obtained exclusively by the addition to wine containing no residual sugar of an unrectified product derived from the distillation of wine and having a maximum actual alcoholic strength by volume of 86% vol. and a maximum volatile acidity of 1,5grams per liter, expressed as acetic acid.

21). **Quality wines:** wine produced in viticultural district, which is a specified region for production of quality wines.

22). **Regional wines:** wine produced in the area cultivating regional wines.

23). **Ministry:** is Ministry of Agriculture, Forestry and Rural Development.

24. **Person:** is any legal and physical person.

25) **Packaging:** means filling and closing the wine and other products as bottles, containers, wooden barrels or other material for the purpose of storing, preservation of physical, chemical and organoleptic characteristics.

26) “**Bottler**” means a person carrying out bottling or having carried out on their behalf.

27 “**Bottling**” means putting the product concerned up for commercial purposes in containers of a capacity not exceeding 60 liters.

Geographical origin
Article 3

3.1. The geographical origin of wine and other products shall be designated according to the geographical territory in which the grape is produced and where wine or other products have acquired certain special characteristics from natural causes or human activities.

3.2. Designations of the geographical origin of wine are of the following types:

- a) a small locality or group of such localities;
- b) a local administrative area or part thereof;
- c) a wine growing sub-region or part thereof;
- d) a region;
- e) a “specified region”

3.3. A designation of geographical origin is a collective right and may be used for wine and other products by those recorded in the Register of Grape and Wine Growers, provided that grape, wine and other products have been produced in the indicated territory and meet other prescribed criteria.

3.4. To protect and control the geographical origin of wine and other products, in compliance with this law, a list of geographical designations of wines and other products shall be kept. For this purpose, the viticulture territory of the Kosova is divided in two viticulture territorial areas.

Competent authorities
Article 4

4.1. The Ministry shall, directly or through its entities (Authorized Institutions)

- a) maintain the register of vineyards;
- b) maintain the Register of Grape and Wine Growers;
- c) prescribe the recommended and authorized varieties of vines and varieties of vine roots;
- d) monitor the ripening of grapes and determine the time of harvest;
- e) limit the per hectare maximum yields of grapes, regardless from variety and destination;
- f) evaluate and designate wine and other products.

4.2. The following professional, administrative, promotional and analytical tasks in viticulture and wine production, defined by this law and by the regulations issued in accordance with this law, shall be carried out by authorized organizations:

- a) consultation with, education and training of and knowledge transfer to grape growers and wine producers in technological, economic, ecological and other fields important for the development of viticulture and wine production;
- b) selection of vines;
- c) breeding and securing a sufficient supply of basic material for vines;
- d) monitoring of the prescribed technologies and methods of grape and wine production;

- e) evaluation of grapes and wines and classifying wine and other products according to their quality (laboratory analyses and organoleptic evaluations);
- f) issuing decrees on evaluations for wine and other products.

4.3. The Municipalities shall maintain a cadastral register of the existing plots of vineyards and potential plots for vineyards in positions classified for cultivation of grapes. The Municipality shall submit to the Ministry one copy of the cadastral registers of the vineyard plots as well as later amendments made to them.

TITLE II PRODUCTION OF GRAPES AND WINE Production

Article 5

5.1. Production of wine comprises all tasks carried out in a vineyard, including the harvesting of grapes, the processing of grapes and all enological practices and processes.

5.2. Wine and other products may only be produced by persons who are entered in the register of grape and wine growers.

5.3. Grape growers are legal or natural persons growing grape for the production of wine or other products and who:

- a) own, rent or hold (use) in some other way a vineyard of 0,05 ha or larger in the territory of Kosova or a vineyard smaller than 0,05 ha, provided they put grape, wine or other products on the market;
- b) have permanent residence in Kosova and own or rent vineyards in the border regions of those countries adjoining Kosova, provided they transfer the grape, wine or other products into Kosova.

5.4. Wine and other products producers are persons who produce wine or other products from grapes they grow themselves or from purchased grapes.

5.5. Processors of wine or other products are persons who process own or purchased wine or other products into new products.

Register of grape and wine growers Article 6

6.1. The Ministry shall hold records of persons who grow grapes, produce wines or produce other products, or process wine or other products.

6.2. The producers or processors of grape, wine and other products shall be registered with the Ministry.

6.3. A record kept in the Register shall consist of the following data:

- a) for producers and processors: the name, surname and address, the standardized personal code number of a natural person, the name, address and code number of a legal person or an independent entrepreneur;
- b) for vineyards: the cadastral district, cadastral municipality and cadastral parcel number, cadastral ranking and the net and gross areas of the parcel;
- c) for vines: the number and spacing of vines, the variety, the roots, the year of planting;
- d) for yields: quantities of grape per variety, quantities of wine and other products of own production;
- e) for purchase: quantities of the grape, must or wine of each variety purchased, quantities of other products purchased by type and origin;

6.4. A producer or processor of grape, wine or other products, who already works in this activity, must apply for entry in the Register. A producer or processor of grape, wine or other products requiring to commence this activity, shall apply for entry in register. The application must be carried out in the prescribed way, within the prescribed time limits, and must supply all the requisite documentation by the subsidiary act issued by the Ministry.

Register of vineyards Article 7

7.1. For the redaction of Register of Vineyards, the Ministry except the central Register utilizes other databases, which provides records of actual and potential vineyards. The register of vineyards shall be kept in conjunction with the cadastral register.

7.2. Only absolute viticulture positions may be registered as potential vineyards. An absolute viticulture position is an area of land on which growing grapes intended for wine production will result in qualitatively and quantitatively optimal yields, and will be more profitable than the cultivation of any other agricultural crops.

7.3. In order to create and maintain the Register of Vineyards, the Ministry shall make use of the following data:

- a) for producers: from the Central Register of grape and wine growers. For natural persons it is admissible to obtain the name, surname, address and standardized personal code number from the Central Register of Citizens; in the case of a legal person it is admissible to obtain the name, address, code number and other publicly accessible data from the Register of Registry of Business Organizations in either case, it is also admissible to consult the Register of Territorial Units and the Record of House Numbers in order to obtain the requisite data.
- b) for the vineyard position: data in the cadastral register, topographical plans, maps, and databases that is taken from the municipalities.

7.4. Maintainers or owners of the data shall supply the data to the Ministry free of charge, however, they may charge the direct material costs for any additional copies required.

Grapes Article 8

8.1. Grapes intended for production of wine may only be grown on registered viticulture positions, using only the recommended and authorized varieties of vine as prescribed for the particular viticulture territorial unit.

8.2. Grapes intended for production of wine must be cultivated with the technology appropriate for the anticipated quality class of wine.

8.3. In production of grapes and wines, the treatment of grapes, mash, must and wine has to preserve and develop all the natural qualitative characteristics of grapes, resulting in wine suitable for consumption.

8.4. It is forbidden to produce wine from imported grapes, mash or must. This provision does not apply to grapes produced by grape growers on land parcels they own in the border regions of those countries adjoining the Kosova, provided they transfer it, in compliance with this law and with regulations issued there under, into the Kosova.

8.5. A harvest of grapes intended for production of a high-quality wine must be registered beforehand at the authorized organization. Prior to the harvest, the authorized organization examines the quantity and quality of grapes intended for production of high-quality wines.]

8.6. The import of concentrated grape must is allowed in exceptional cases, if its use is intended only for purifying the quality of wine in accordance with the requirements and procedures set in a special subsidiary act.

Classifying of vine varieties Article 9

9.1. All classified varieties shall belong to the species *Vitis vinifera* or come from a cross between this species and other species of the genus *vitis*. In an implementing regulation vine varieties for the production of wine shall be classified.

9.2. Only those vine varieties which are shown in the classification may be planted, replanted or grafted within the territory of the Kosova for the purpose of wine production.

9.3. Areas planted with vine varieties for the purpose of wine production not entered in the classification shall be grubbed up, save where the production of those areas is intended exclusively for the consumption of the wine producers' family.

9.4. Where varieties are deleted from the classification, grubbing-up shall take place within 15 years of their deletion.

Wine Article 10

10.1. Notwithstanding the provisions of title VII the production of grape, wine and other grape and wine products must be carried out employing only the prescribed technological processes and allowed enological substances.

10.2. Improving of must and wine, and sugaring of grape, mash or must is not allowed, unless the Authorized institution issues a prescribed permit for sugaring of mash or must. The Authorized institution may issue the permit if the weather in a particular year is extremely unfavorable for the growing and development of vines, taking into account the viticulture territorial unit and the anticipated quality class of wine and the variety of grape. It is forbidden to issue a permit for sugaring if the mash or must are intended for production of a high-quality wine.

10.3. The permit referred to in the previous paragraph applies to all producers of grapes and wines of a particular variety in a specified viticulture territorial unit, and is issued as part of due official procedure. and one copy is sent to the appropriate inspectorate.

Blending of grapes, mash, must and wine Article 11

11.1. Blending of grapes, mash, must or wine of particular quality classes of wine, different years and colors of grapes is only permissible within the limits set out in this law and in sub law based thereon.

11.2. It is forbidden to blend Kosovar and foreign wines.

TITLE III PRODUCTION OF QUALIY WINE Article 12

The provisions of this law and implementing sub acts covering the production of quality wines shall be based on the following factors:

- a) demarcation of the area of production (specified region);
- b) classification of vine varieties suitable for quality wine;
- c) regulating of cultivation and wine making methods;
- d) determining a minimum natural alcoholic strength;
- e) determining a maximum yield per hectare;
- f) analysis and assessment of organoleptic characteristics.

Specified region Article 13

13.1. "Specified region" shall mean a wine growing area or a combination of wine growing areas which produces wines with particular quality characteristics and which's name is used to designate the quality wine.

13.2. Each specified region shall be precisely demarcated, as far as possible on the basis of the individual vineyard yard or vineyard yard plot. Such demarcation shall take into account the factors which contribute towards the quality of the wine produced in those regions, such as the nature of the soil, the climate and the situation of the individual vineyard yard or vineyard yard plot.

13.3. The geographical name designating a specified region must be sufficiently precise and familiarly linked to the area of production.

13.4. The specified regions of the Kosova are demarcated in an subsidiary act or laid down direct in the law.

Yield Article 14

14.1. The maximum yield per hectare is fixed for quality wine originating from Kosova shall be regulated by an Subsidiary act.

14.2. The use of the geographical origin is prohibited for the entire harvest, if the yield referred to in Paragraph 1 this article, is exceeded.

Wine tests Article 15

15.1. For quality wines producers are obliged to perform the organoleptic and the analytical tests in an institution authorized by the Ministry. The appropriate inspectors shall take samples for the analysis.

15.2. The organoleptic test relates to color, clarity, smell and taste.

15.3. The analytical test shall enable the determination of factors relating to the wine reaction, to a microbiological test and to a physical and chemical analysis.

15.4. The upper and lower limits for these factors shall be laid down in an Subsidiary act.

TITLE IV VITICULTURAL TERRITORIAL UNITS Division in territorial units

Article 16

16.1. Taking into account the ecological circumstances (relief, climate, soil, agro biological factors and viticultural sciences), the principal organoleptic properties of wines, and historically traditional aspects of viticulture, the viticultural territory of the Kosova shall be divided into the following territorial units: viticultural regions, sub-regions, zones, and locations.

16.2. A viticultural region is a major viticultural territorial unit, with similar climatic and soil conditions, which, combined with agro biological factors, affect the principal organoleptic characteristics of the wine produced in the region. The viticultural regions are the Region of Dukagjini and the Kosova Plain.

16.3. A viticultural sub-region is the basic geographically-determined territory, with similar climatic and soil conditions, similar varieties of cultivated vine, and similar other agro biological factors, which together make it possible to produce grapes and wines possessing organoleptic properties which are characteristic for the viticultural sub region.

16.4. Viticultural territorial units smaller than viticultural sub-regions are viticultural zones and viticultural and viticultural locations. These are all geographically-determined

parts with similar climatic, soil, elevation, and other environmental factors, and with specific varieties of cultivated vine, which all together enable production of grapes and wines different in quality and organoleptic properties from grapes and wines produced in other viticultural territorial units of the same viticultural region. Viticultural sub regions, zones and locations shall be designated by an Subsidiary act.

Vine selection
Article 17

In individual viticultural zones it is permitted the planting grapes and production of wine only from determined vine varieties.

TITLE V
CLASSIFICATION AND EVALUATION
Wine categories

Article 18

18.1. According to this law, wines are:

- a) still wines,
- b) sparkling wines,
- c) aerated sparkling wines,
- d) semi-sparkling wines,
- e) aerated semi sparkling wines
- f) flavoured wines,
- g) liqueur wines,
- h) other special wines.

18.2. By the color wines are classified as white, rosé and red wines.

18.3. By the residual sugar content wines are classified as follows:

- a) still wines: dry, semi-dry, semi-sweet and sweet;
- b) sparkling, aerated sparkling, semi-sparkling and aerated semi sparkling wines are classified as very dry, dry, semi-dry, semi-sweet and sweet.

18.4. The criteria for wine classification according to sugar content:

- a) dry: wine that contains residual unfermented sugar not exceeding 4 grams per liter,
- b) medium dry: on condition that the wine concerned has a residual sugar content exceeding 4
- c) medium sweet: on condition that the wine concerned has a residual sugar content exceeding 12 grams per liter but not exceeding 45 grams per liter,
- d) sweet: on condition that the wine concerned has a residual sugar at least 45 grams per liter.

18.5. Considering the provisions of title III, classification of wines into quality classes depends on the attained quality of grape, the yield per hectare, which must not exceed a

preset limit, the sugar content, the natural alcohol content and other ingredients of wine, and the organoleptic properties of the wine, as follows:

a). table wines:

- table wine,
- table wines with geographical origin.

b). quality wines of certified and protected geographical origin

- quality wine*,
- high-quality wine, which is further classified with respect to the ripeness of the grapes and the method of harvesting or aging

c). sparkling wines:

- sparkling table wine,
- regional sparkling wine,
- quality sparkling wine.

d). Semi-sparkling wines:

- semi-sparkling table wine,
- semi-quality sparkling wine.

Evaluation of quality wine

Article 19

19.1. Considering the provisions of title III, quality wine and must suitable for quality wines, which are destined for the market, have to be evaluated, observing a prescribed procedure, before they are put on the market. A quality wine destined for the market must not be altered once it has been officially evaluated. If a quality wine has changed for any reason whatever after the evaluation, it must be evaluated anew before it is put on the market.

19.2. Imported wines have to undergo an evaluation.

19.3. Imported wines are evaluated to determine the compliance with the accompanying documentation and the certificate issued by the country of the exporter and their suitability for rendering into trade in the Kosova.

19.4. An appeal may be lodged, within eight days of receipt of the evaluation, at the Ministry. The results of this second evaluation are final.

Control label

Article 20

20.1. On the label of quality wine in trade a quality control label must be featured.

20.2. The authorized organization shall issue a quality control label to wine producers on the basis of the quantity of wine which the producer has submitted for evaluation and which has passed the evaluation positively.

20.3. The authorized organization shall maintain the prescribed records on control labels issued.

Tasting committee
Article 21

21.1. The organoleptic evaluation of quality wines is carried out by a committee of at least five members, representing grape and wine growers, consumers and experts from the fields of viticulture and wine production.

21.2. In the case of the request of another evaluation, members of the original committee are excluded from the second evaluation. The second evaluation is carried out by an committee of nine members.

21.3. The tasters for organoleptic evaluation of wine and must are appointed by the Minister.

21.4. Prior to appointment, a taster must be examined for his tasting abilities, and knowledge of enology and regulations on viticulture and wine production.

21.5. If a taster is also a producer or employee of an subject that processes wine or must, his opinion is disregarded when wine or must evaluated are of his own production or are produced by the subject of which he/she is the employee.

TITLE VI
LABELING

Article 22

22.1. "Labeling" means all descriptions and other references, symbols, illustrations or marks which serve to distinguish the product and which appear on the container, including the closure, or on the tags attached to the container.

22.2. The compulsory particulars, except the lot number, shall be grouped in the same visual field on the container, and presented in easily readable, indelible characters large enough to stand out clearly distinguishable from all other content of the labeling.

22.3. Prior to the placement on the market in a container the container shall be labeled. Such labeling shall be in accordance with the provisions of this law or the detail rules adopted by implementing Subsidiary act.

Article 23

23.1. The terms on the label must not be incorrect or likely to mislead the consumer.

23.2. These terms must not particularly cause confusion regarding the characteristics of the wine and other products for example their nature, composition, alcohol content, color, quality, vine variety or vintage year. The indication of persons who have been involved in the production or distribution, in particular the indication of the bottler.

Compulsory particulars
Article 24

Compulsory particulars for table wines, table wines with geographical indication and quality wines:

- a) the trade name terms;
- b) the geographical origin;
- c) the nominal volume;
- d) the actual alcoholic strength by volume;
- e) type of wine;
- f) the name of person and the address of the bottler or, for containers with a nominal volume of more than 60 liters, the consignor.
- g) the evaluation number, only for quality wines.

Optional particulars
Article 25

25.1. Optional particulars for table wines, table wines with geographical indication and quality wines:

- a) the name and address of the person(s) that took part in marketing;
- b) the type of the product;
- c) a particular color.

25.2. Optional particulars for table wines with geographical indication and quality wines:

- a) the vintage year;
- b) the name of one or more varieties;
- c) an award, medal or competition;
- d) indication for raw material concerning the means used to obtain or method used to manufacture the product;
- e) other traditional terms;
- f) a term indicating, that wine was bottled on the estate.

25.3. Optional particulars for quality wines:

- a) reference to a geographical area smaller or larger than the specified region;
- b) information to the effect, that bottling took place in the specified region.

25.4. Labeling may be supplemented by other particulars, provided that they are true and not likely to cause mislead the consumer.

Languages
Article 26

26.1. The information on the label must be given in a language so that the final consumer can easily understand.

26.2. Notwithstanding the first paragraph geographical indications and traditional terms can be given only in the Kosova languages.

Brand names
Article 27

27.1. Brand names on the label may not contain any words, parts of words, signs or illustrations, which are likely to cause confusion or mislead the consumer.

27.2. The labeling may not bear brand names containing words, parts of words signs or illustrations, which contain false information, particularly with regard to geographical origin, the vine variety, vintage year or a reference to a superior quality.

Alcohol content
Article 28

28.1. The actual alcoholic strength by volume shall be indicated in percentage units of half units. The strength shown may not differ by more than 0,5 % vol. from that given by analysis.

28.2. The figure shall be followed by “% vol.” and may be preceded by “actual alcoholic strength”, “actual alcohol” or “alc.”.

28.3. The actual alcoholic strength shall be indicated on the label in characters at least 5 mm high if the nominal volume is over 100 cl, at least 3 mm high if it is equal to or less than 100 cl but more than 20 cl and 2 mm high if it is 20 cl or less.

Bottler, packager
Article 29

29.1. The indication of the bottler shall be supplemented by the words “bottler” or “bottled by”. In the case of contract bottling, the indication of the bottler shall be supplemented by the words “bottler” or, when the bottling is done on behalf of the third party, should be supplemented by the words “bottled for....by....”.

29.2. This applies also to containers other than bottles. The words “packager” and “packaged by” shall replace the words “bottler” and “bottled by”.

29.3. The closing devices for wines and other products as referred to in this law and implementing regulations may not be enclosed in lead based capsules or foil or other materials that are harmful for health.

Indication of the activity
Article 30

30.1. The indication of the bottler, the consignor or the person involved in marketing shall be accompanied by an indication showing their activity using expressions such as “wine-grower”, “harvested by”, “merchant”, “distributed by” or similar expressions.

30.2. These optional particulars may be used only with the agreement of the person(s) concerned.

30.3. The criteria for the submission of the data in the label concerning the year of harvest, varieties of vitis the awards and traditional names, will be regulated by an subsidiary act.

Geographical origins
Article 31

31.1. Geographical origin may only be stated on wines of a certain quality class, produced in a certain viticultural territorial region, and possessing specific characteristics of that viticultural territorial unit.

31.2. Only the prescribed names of viticultural territorial units may be used for designating the geographical origin of wines.

31.3. The name of a viticultural region is used to designate a regional wine; the name of a viticultural zone or smaller viticultural territorial unit is used to designate a quality wine.

31.4. Designating a wine of a certain quality class with the name of a viticultural territorial unit precludes the use of the same name as designation for wines in any other quality class.

31.5. The designation of geographical origin must be the most prominent component of the label.

31.6. If the business name of an enterprise, involved in the marketing of the wine, contains a geographical reference, then this name may only be put on the label in less prominent letters and in a manner which is in no way misleading as to the geographical origin of the wine.

31.7. If the trademark of the wine contains any explicit or implicit geographical allusion, then the trademark may be used only if the wine was produced in the territory explicitly or implicitly alluded to by the trademark.

31.8. In the case of identical geographical names, both geographical territories must be sufficiently precisely defined so that it is impossible to be misled about the geographical origin.

TITLE VII
ENOLOGICAL PRACTICES AND PROCESSES

Article 32

32.1. For the production of products covered by this law authorized enological practices and processes are established by this law and implementing Subsidiary acts. They may only be used for the purpose of ensuring proper vinification, proper preservation and proper refinement of the product.

32.2. Only grapes belonging to varieties listed in the classification of Subsidiary act may be used for the manufacture of table wine, regional wine, quality wine, top quality wine and other products.

32.3. White wine must not be blended with red wine.

32.4. Raw materials used for the production of wine not originating from Kosovo may not be turned into wine or added to wine in of Kosovo, except the cases permitted by the present law and in case when it is used as an addition jointly with the raw material from Kosovo for wine production. These products may not undergo alcoholic fermentation

within the territory of Kosova. Blending Kosovo wine with wine not originating from Kosovo is prohibited in the Kosovo.

32.5. Wine and other products, whether imported or not, which have not undergone enological practices not authorized by this law or implementing regulations, are not of sound and fair merchantable quality, or do not comply with the definitions or further conditions of this law or implementing subsidiary acts may not be offered or disposed of for direct human consumption.

Sulphur dioxide content Article 33

33.1. The total sulphur dioxide content of table wine, regional wine and quality wine, may, on their release to the market for direct human consumption, not exceed 160 mg per liter for red wines and 210 mg per liter for white and rosé wines.

33.2. Notwithstanding paragraph 1, the maximum sulphur dioxide content may not exceed 210 mg per liter for red wines and 260 mg per liter for white and rosé wines, as regards wines with a residual sugar content, expressed as invert sugar, of not less than 5 grams per liter.

33.3. For top quality wines with higher residual sugar content and for other products limits are prescribed in an implementing Subsidiary act .

Volatile acid content Article 34

34.1. The maximum volatile acid content may not exceed 18 mill equivalents per liter for grape must in fermentation, 18 mill equivalents per liter for white and rosé wines, 20 mill equivalent for red wines.

34.2. For certain wines, in particular top quality wines, which have matured over a period of at least two years, or have been produced according special methods, and wines with a total alcoholic strength by volume of at least 13 % vol., exceptions to paragraph 1 may be prescribed in an implementing Subsidiary act.

Enrichment limits Article 35

35.1. When climatic conditions have made it necessary, the authorized institution may allow an increase in the natural alcoholic strength by volume of fresh grapes, grape must, grape must in fermentation and new wine still in fermentation.

35.2. An increase in natural alcoholic strength by volume may not be authorized in respect of the products referred to in paragraph 1 unless their minimum natural alcoholic strength by volume is 7,5 % vol.

35.3. The increase in natural alcoholic may not exceed 2 % vol.

35.4. The increase in natural alcoholic strength by volume may only be effected in respect of fresh grapes, grape must in fermentation and new wine still in fermentation by adding [sucrose], concentrated grape must or rectified concentrated grape must, and in respect of grape must by adding [sucrose], concentrated grape must or rectified concentrated grape must, or by partial concentration.

35.5. In no case shall the above-mentioned processes have the effect of raising the total alcoholic strength more than 13,5 % vol.

Acidification and deacidification Article 36

36.1. Fresh grapes, grape must, grape must in fermentation and wine may be subject to [acidification and deacidification].

36.2. Acidification of that products, other than wine, may be carried out only up to a limit of 1,5 gram per liter expressed as tartaric acid, or 20 mill equivalent per liter. Acidification of wine may be carried out only up to a limit of 2,5 gram per liter expressed as tartaric acid, or 33 mill equivalent per liter.

36.3. Deacidification of wine may be carried out only up to a limit of 1,0 gram per liter expressed as tartaric acid, or 13,3 mill equivalent per liter.

36.4. Grape must, intended for concentration may be partially deacidified.

36.5. Acidification and enrichment and acidification and deacidification of one and the same product shall be mutually exclusive processes.

Further conditions Article 37

37.1. Enrichment, acidification, deacidification and sweetening of wines shall be reported to the Ministry. This also applies for the used amounts of sucrose, concentrated grape must and rectified concentrated grape, and this shall be done by the producers, bottlers, processors, and merchants at the same time and same place where they report issues on grape must and fermented grape must or huge quantities of wine in bulk.

37.2. Enrichment, acidification, deacidification and sweetening shall be registered and relevant documents shall be issued to show that the products have undergone the process and may be distributed.

37.3. Enrichment and sweetening, reduced as a result of exceptional climatic conditions, can be carried out only before 1. January and only for products of the grape harvested immediately preceding those dates.

TITLE VIII SALE

Article 38

38.1. The commercial sale and circulation is prohibited:

- a) wine produced from classic hybrids, and other products containing alcohol from such grapes,
- b) spoiled or defective wine,
- c) quality wine which was not officially evaluated,
- d) wine with characteristics or geographical origin not corresponding to that which is declared and
- e) wine which is a blend of Kosovo and foreign wine.

38.2. Wine producers and others engaging in the sale of wines are obliged to distinctly mark any containers holding spoiled wine and to immediately report all quantities of such wine to the competent authorities – appropriate inspectors.

Legal bottling and labeling Article 39

39.1. Wines may only be supplied to the final consumer legal bottled and labeled. Wines are legal bottled and labeled if they are filled in prescribed packaging and labeled as defined by this Law and Subsidiary act.

39.2. Notwithstanding paragraph 1, wines that are not legal bottled and labeled may be supplied to final consumers:

- a) by registered producers or grapes and wines, if they offer wines or must of their own production in their own cellars or within close vicinity, and have for this activity a license from the authorized institution.

39.3. Legal bottled and labeled wines and other products may be marketed by those legal persons and independent entrepreneurs that are registered for this activity, satisfy the prescribed conditions for it and have a prescribed permit for carrying out the activity.

Accompanying documents Article 40

40.1. The products, covered by this law, may be put into circulation within Kosova and exported only with an officially checked accompanying document.

40.2. The largest quantity of not legal bottled and labeled wine which is allowed to be transported without accompanying documents must not exceed [20 liters], except for the transport of own-produced wine from the own cellar to the permanent residence of the producer.

40.3. Persons or groups of persons who hold products covered by this law in the exercise of their trade, in particular producers, bottlers, and processors or merchants are obliged to keep goods inwards and outwards registers in respect of those products.

40.4. These registers must reveal the essential data about quality and quantity and the geographical origin of must and wines in the cellar. Data about the wine intended for private consumption have also to be kept.

40.5. Detailed rules for the accompanying documents and the inward and outward register are laid down by an implementing Subsidiary act.

Processing areas for quality wine Article 41

41.1. Quality wine may be produced only by processing grapes into grape must and by processing the must thus obtained into wine within the specified region where the grapes were harvested.

41.2. Notwithstanding the provisions of paragraph 1, the Minister for agriculture may, upon the request of a producer of grapes or wines, exceptionally permit, for a specified quantity of wine, producing the quality wine in an area in immediate proximity to the specified region in which the grapes were grown if:

- a) it is objectively impossible to produce or package the wine in wine cellars within the specified region where the grapes were grown, or
- b) the grape grower grows grapes in two or more adjacent specified regions.

Time limits Article 42

Quality wines may be put on the market after 15 December of the year, in which the grapes were harvested. Top quality and special wines may be put on the market after 31 January of the next year.

Import Article 43

43.1. Wines and other products, imported for sale within the Kosova, must comply, with regard to quality and labeling, to this law and to the Subsidiary acts issued there under and must be accompanied with a certificate from the exporting country inclusively an analytic evaluation from an authorized institution of the exporting country. If a particular product from grapes or wine is not covered by laws or regulations of the Kosova, the product must comply with the regulations effective in the exporting country.

43.2. A wine that is imported in bulk must be bottled before it is marketed to the final consumer.

43.3. The certificate of the exporting country or the analytical evaluation of the authorized institution of the exporting country must provide: the name of the exporting country, eventual designation of geographical origin, quality designation in compliance with the quality level, analytic and organoleptic notes.

43.4. Every shipment of imported wines, except bottled wines up to the quantity which an individual can import free of duty in compliance with customs regulations, must be officially sampled by an [agricultural inspector], who submits the sample to the authorized organization, unless otherwise determined by international agreements. The authorized organization evaluates the imported wine within four working days of the samples receipt, except when otherwise stipulated by international treaties.

43.5. The importer must not commence the domestic commercial sale of the imported wine prior to receipt of the evaluation.

43.6. If the results of the wine evaluation carried out by the authorized organization are not in agreement with the quality or the geographical origin stated in the certificate from the exporting country, the importer may opt to

- a) return the wine, or
- b) equip the wine with appropriate certificates and analytic evaluation from the exporting country, or
- c) use the wine for production of other products, provided it satisfies the requisite conditions.

43.7. If the evaluation reveals that the quality of wine does not fulfill the criteria as set out in the laws and regulations of the Kosova, the importer may:

- a) return the wine, or
- b) use the wine in production of other products, provided it satisfies the requisite conditions, or allow it to be safely destroyed.

The evaluation of imported wines follows the same procedure set out in this law and in regulations issued there under applicable to wine produced in the Kosova.

43.8. Detailed rules for imported wine are laid down by an implementing subsidiary act.

Export Article 44

44.1. Wines destined for export must pass all criteria set out in this law and in Subsidiary acts issued there under, and all the criteria imposed by the law of the importing country.

44.2. Every shipment of wine for export shall be accompanied with a certificate upon which the authorized organization confirms the evaluated quality and the indicated geographical origin.

44.3. Notwithstanding the previous paragraph, small quantities of wine, up to 100 liters of the same wine, but altogether not more than 500 liters, intended for presentations, may be exported without the evaluation.

44.4. Quality wine shall only be exported legally bottled and labeled.

TITLE IX INSPECTION

Inspectors Article 45

45.1. Supervision and implementation of the provisions of this law and of the Subsidiary acts issued there under shall be carried out by appropriate inspection services of the Ministry.

45.2. A appropriate inspector, in addition to the conditions set out in on inspection, this law and Subsidiary acts, shall also have relative education, work experience and training in the field of wine production

Authorizations Article 46

46.1. Inspectors are authorized to examine:

- a) vineyards;
- b) processing premises, such as cellars or filling stations etc;
- c) storehouses used for storing grape, wine or other products;
- d) working premises where grape, wine, must, other products and enological substances, destined for the market, are produced, processed or stored;
- e) import, customs warehouses in the presence of a customs officer;
- f) premises where grape, wine or must are sold to the final consumer;
- g) the equipment for production, processing, tending, bottling and storing grape, must, wine and other products;
- h) grape, mash, must and wine and other products at production facilities, in transportation vehicles, and at places where they are sold to the final consumers;
- i) enological substances;
- j) labels;
- k) accompanying documents and cellar records;
- l) the register of grape and wine growers and the register of vineyards;
- m) other documentations about grape, wine and other products held by producers, processors, caterers and traders.

46.2. Inspectors are authorized to take the following measures:

- a) to order the complete elimination of all vine stocks on a plot planted with not classified varieties (grubbing-up);

- b) to prohibit temporarily the commercial sale wine or other products until an evaluation is obtained, if it is suspected that the wine or other products do not meet the prescribed criteria;
- c) to prohibit the sale of wine and other products that do not meet the criteria set out in this law, in Subsidiary acts issued there under or under international agreements;
- d) to confiscate spoiled or falsified or defective wine or other products and to order their destruction;
- e) to order the reclassification of wine into a lower quality class, if the wine does not meet the criteria for the declared quality class as set out in this law, or if the wine was blended in a cellar contrary to the legal provisions for the protection of geographical origin;
- f) to prohibit the sale of wine that was put on the market accompanied by documentation that does not correspond to the actual characteristics of the wine;
- g) to prohibit the sale of wine and other products not legally labeled;
- h) to set a time limit for re-establishing the legal status of wine and other products;
- i) to prohibit the continuation of further activity, if the working premises or the equipment of a producer, a processor of grape and wine, a caterer, a trader, a packer or a tender do not go conform with the conditions set out in this law and subsidiary acts issued there under;
- j) to prohibit the import or the export of wine or other products if they do not go conform with the criteria set out in this law and subsidiary act issued there under;
- k) to propose the initiation of a procedure for a misdemeanor for a criminal offence;
- l) take samples in case where there is a doubt that wine, must or other products do not meet the criteria set out in this law and in the Subsidiary acts issued subsequently, which are sent for an analysis in the authorized institution.

46.3. Producers, processors, bottlers, traders and caterers, with regard to the provisions of the present law, are obliged to facilitate the work of the inspector and to provide the necessary data and information related to their work

Analyses of samples Article 47

47.1. The owner of the products or equipment from which samples have been taken must provide the packaging and pay for the costs of the analysis if it is observed that the products or the equipment from which samples have been taken do not meet the conditions set out in the Law.

47.2. If the results of the analysis show that the samples meet the criteria, the cost of the analysis shall be paid by the entity who's inspector sent the samples for analysis and results.

TITLE X
ADMINISTRATIVE SANCTIONS

Sanctions
Article 48

48.1. Legal and natural persons shall be fined with the amount of 500 up to 30.000 Euro for the commission of any of the following offences by acting in contravention of provisions foreseen in this law or in subsidiary acts:

- a) producing grapes or wine, processing wine, producing other products, tending or bottling wine whilst not registered or not supplying data for the Register in a prescribed way and within set time limits;
- b) producing wine or other products whilst not satisfying all the prescribed conditions;
- c) the sale of wine, produced from grapes that at harvest time has not attained the required sugar content;
- d) processing grapes with unsuitable technology;
- e) producing wine from imported grapes, mash or must in contradiction with effective legislation;
- f) producing grapes, wine or other products employing illegal methods or enological substances;
- g) blending grapes, mash, must or wine in an illegal manner;
- h) cultivating vines that are not classified for a particular viticultural district;
- i) marketing or selling unevaluated quality wine;
- j) labeling wine or other products contrary to this Law or subsidiary acts;
- k) marketing or commercial sale of wine or other products that are prohibited for sale;
- l) failing to store spoiled wine in separate, distinctly marked containers, or to report spoiled wine to a cellar inspector;
- m) the commercial sale, transporting or storing of wine in a way that does not preserve the organoleptic and characteristic physical-chemical properties;
- n) transporting more than 20 liters of wine that is not legally bottled and labeled or is not accompanied by the prescribed documentation;
- o) dispatching or accepting wine lacking the requisite documentation;
- p) failing to keep a prescribed cellar record;
- q) marketing or selling wine prior to a prescribed time limit;
- r) the commercial sale of imported wine which was not evaluated as required by the law and subsidiary acts issued there under;
- s) not respecting the directions and decisions of the inspector; and

t) obstructing the inspector in taking samples and performing the checks.

48.2. The responsible person the organization of unified labor or of the legal person shall be fined between 500 and 2.000 Euro for offences from paragraph 1 of this Article.

Article 49

Financial means from fine punishments shall be deposited in Kosovo Consolidated Budget.

TITLE XI PROVISIONAL AND FINAL PROVISIONS

Provisional provisions Article 50

50.1. Producers of grapes, wine or other products must be registered no later than 6 month after the entry into force of this law.

50.2. The register of actual and potential vineyards shall be established no later than 1 years after the entry into force of this law.

50.3. Wine produced from grapes grown in vineyards already existing at the time when this law entries in force on not classified viticultural positions, may until the cessation of the fertility of the vineyards, but not exceeding 5 years after this law takes effect, only be designated as wine without geographical indication irrespective of the actual quality of the wine while, after the expiration of the time limit, it will be forbidden to market such wine.

Article 51

On the day this law enters into force, it shall supersede the provisions of the laws that are contrary to it.

Entry into Force Article 52

The present law shall enter into force after adoption by the Assembly of Kosova on the date of its promulgation by the Special Representative of the Secretary-General.

Law No. 02/L-8
23 February 2005

President of the Assembly

Academic Nexhat Daci