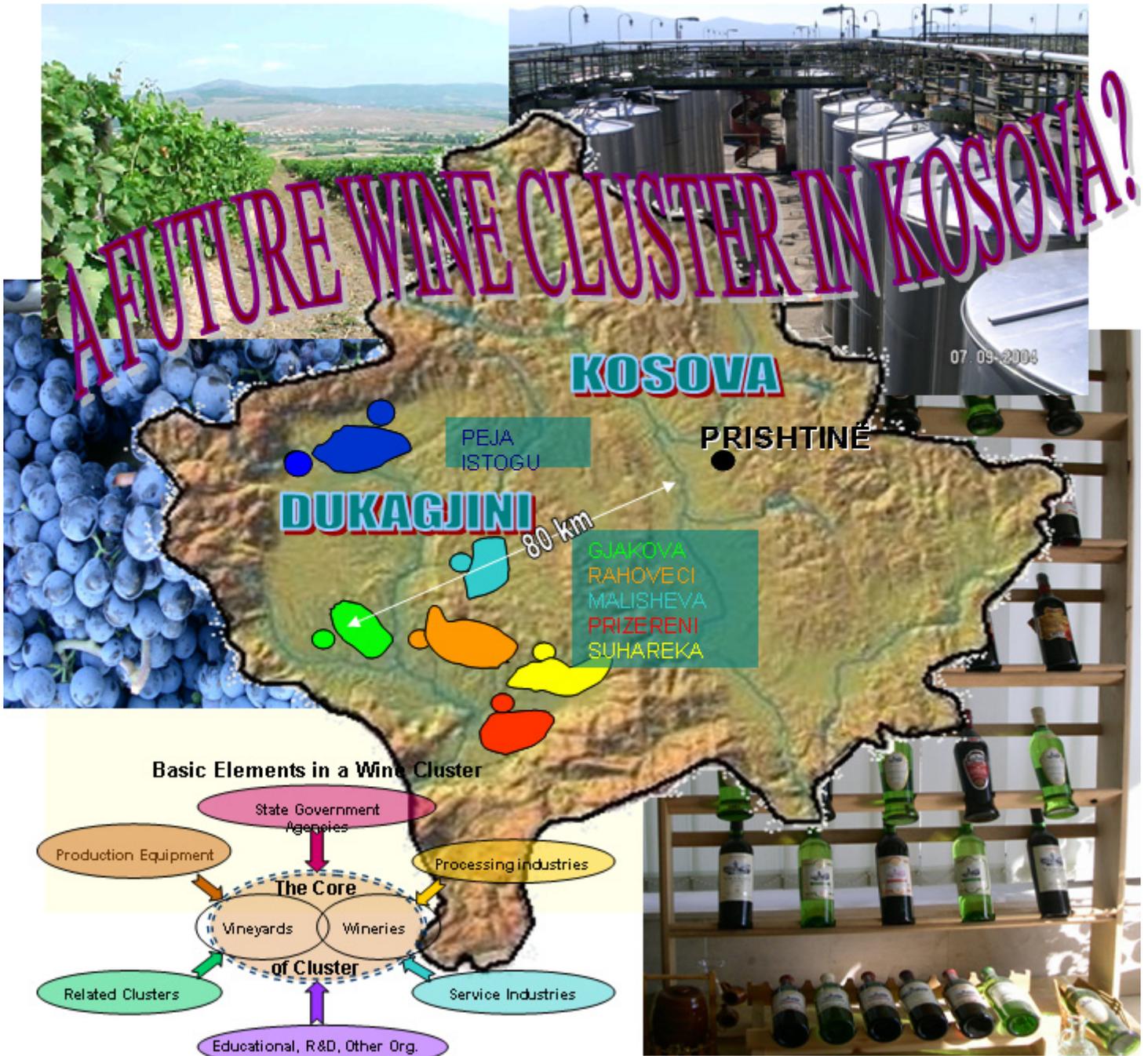


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A Future Wine Cluster in Kosova?

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I. Abstract

This thesis deals with the Kosovar agricultural economy and the introduction of new approaches. Kosova is an economy in transition with high unemployment, young population and structural problems. The privatization process promises a better future and economic growth. However, hard work and new approaches are needed. Privatization does not mean immediate growth. Hereby, clusters are considered as an appropriate approach to develop rural areas. Especially the wine sector in Kosova could be an example for cluster development as it is a promising sector. Wine has a long history in Kosova although wine consumption is not widespread. This sector is a rare example where exports are higher than imports. Climate conditions cheap working force and as stated the background make this sector attractive. Foreign agencies and investors are very interested in this sector.

This thesis will show the main problems and main opportunities of this sector. It will describe the structural changes and current developments. Cluster creation is not a government function. Further, it is not a tailor-made solution. In fact, clustering involves many roles. Each participant has certain duties but the whole process needs coordination. The monitoring and supervision of the whole process, the identification of needs and permanent exchange of the participants are organized in a cluster. At the end, a win-win situation is created even if competition is raised to a high level. Competition and the functioning of free markets guarantee the success of the sector and as a results regional development. One cluster helps to create another. Starting one process means that many others could follow. By reading this thesis, the reader should recognize potentials and understand the local circumstances. This is the aim of the study.

II. Acknowledgements

First of all, I want to thank my family, my wife Burbuqe and my children, Genta, Art and Fat, for supporting and encouraging me to go to Sweden to begin with the Master studies.

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A Future Wine Cluster in Kosova?

1. Introduction

The impression from Jan-Evert Nilsson's lectures 'Perspectives on Innovations and Regional Competitiveness' encouraged me to do research on *Sustainable Development* in Kosova by focusing on the interaction between economic, social and environment issues – the agricultural sector.

Kosova's economy, like most economies in the Balkans is an economy in transition for which the agricultural sector plays an important role. One of the promising industries in the agricultural sector is the wine industry. Kosova has an old history in cultivating grapes and producing wines. Nevertheless, the current production is still based on the former state owned enterprises and old equipments, although the new small start-ups just started their activity with new technology. By the introduction of new concepts and investments the wine industry promises to develop a key factor for the agricultural and economic growth.

Is it possible to initiate a wine cluster in Kosova as a successful practice?

The regional cluster concept emphasized by Porter, which is defined as “geographic concentrations of interconnected companies and institutions in a particular field” (Porter, 1998), promises to be adequate to achieve the goal of sustainable development in the wine industry. By using Porter’s diamond model, his studies in the Californian wine cluster for comparison reasons, and considering local specifics, this thesis will try to respond to the above question. However, the aim of the thesis is not to be a manual book offering advice about what exactly to do to succeed. The focus is to show the advantages and opportunities for sustainable development in this sector by using the elements of clusters.

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This thesis will start with describing the main aim of the study and offer a short explanation of the methodology. In Chapter 3 a definition of clusters and a description of the diamond model of Porter will follow. Continuing with a description of the main elements of Californian wine cluster, will help to understand the situation of the wine industry in Kosova. This chapter will finish by highlighting cluster initiatives.

In the next chapter, include information about the wine production in Kosova, the wine industry will be described in detail by giving the history, structural changes in the wine industry and its current state.

Finally, with this overview as a background, the creation of wine clusters in Kosova will be discussed and recommendations given, as well as the conclusion will give an insight in further needs to achieve sustainable development.

1.1. Facts about Kosova

Kosova, with more than two million inhabitants, is spread along 10.887 km² (or 1.1 million ha), of which 53% is arable agricultural land (around 570.000 ha), 41% forest area, and 6% is appointed as other area. The majority of agricultural land is privately owned, 88% while 12% is owned by public and socially-owned enterprises. The agriculture participates in GDP (gross domestic product - Monthly macroeconomics, 2003) with 25 -27%. Based on statistical data, Kosovars use around 55% of the family budget for food provision, while the EU average is around 22%.

Therewithal, based on climatic conditions within Kosova, the territory is divided into two agro-ecological areas:

- The Dukagjini Plain, which covers around 43 % of the total area, with continental climate conditions under impact of the Mediterranean, with an annual

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precipitation at 770 mm and 196-225 days without frost (the south-western part with 234.132 ha of agricultural land from a total of 430.885 ha), and

- The Kosova Plain, the north-eastern side, which covers 57% of the total territory, a more continental climate, with an annual precipitation at 600 mm and 170-200 days without frost (with around 295.000 ha agricultural land from a total of 658.757 ha).

Ten years after the war and nearly two decades of economic stagnancy due to political troubles the economy in Kosova needs a restart. Kosova is situated in the heart of the Southeastern Europe countries which experiences an economic transition. The territory is currently under the UN (United Nation's Interim Administration Mission in Kosova) administration since June 1999. The European Union takes the leading role, of the development initiatives, by supporting the Kosova economy, through multilateral and bilateral donor agencies and direct investments.

The major objective of the donor agencies and the Government of Kosova ("PISG" - Provisional Institutions of Self-Government) – while waiting for the final solution of the political status - is the development of the private sector. In support of private sector investments, UNMIK and PISG have adopted a set of laws to ensure an investor-friendly environment including regulations on foreign direct investments (FDI), repatriation of capital, the purchase of real estate, the registration of businesses and land, and the establishment of 99-year leasehold for land formerly used by SOE-s (Socially-Owned Enterprises).

1.2. The Kosova economy

The economy of Kosova is massively depending on foreign add and transfer payments of Kosova diasporas. The consequences of 50 years of socialism and finally the war at the end of 90s lead to an economy with deep structural

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problems. Lack of access to international financing and investments due to its uncertain status are main issues for the economy. Kosova's GDP per capita at just over 1100 Euro is the lowest Southeast Europe and growth is weak. Unemployment is estimated about 50 % but considering the fact, that Kosova has the youngest society in Europe, the figure of 60 % youth unemployment highlights the economic disaster even more¹. However, most alarming is the trade balance. There is hardly production in Kosova. That's why exports cover only 6 % of imports. Most businesses are relatively small-scale trade and tiny family businesses. Although Kosova could be self-sufficient in food, the agricultural resources are quite under-utilized. In brief, Kosovos economy depends on foreign aid at the moment but the underdevelopment allows new approaches and should be attractive for investments. Another important factor is the privatization process which started years ago.

The Kosovo/a Trust Agency (KTA) established since June 2002 have the responsibility for the privatizations of SOE-s, and started in July 2003 with the sale of finalized privatization tenders. Up to November 2005, nearly 500 SOE-s, have been identified which operate in a variety of sectors like metal processing, agro-industrial, agriculture, forestry, wineries and vineyards, brewing, building materials, construction, textiles, mining, hotels, plastics, paper, tobacco, and retail and wholesale trade.

Kosova's economy is like most economies in the Balkans an economy in transition with high importance of agriculture sector. One of the promising industries in the agriculture sector is the wine industry. Kosova has an old history in cultivating grapes and producing wines. Nevertheless, the current production is still based on the former state owned enterprises and old equipments, although the new small start-ups just started their activity with new technology.

¹ Retrieved on May 03, 2007 from: www.enrin.grida.no/htmls/kosovo/SoE/economy.htm

2. The Aim of the Study

The aim of the study is to introduce the cluster opportunities for the economic development, through an agriculture profitable sector, considering the three pillars of sustainable development: economic growth, environmental and social development, to achieve the competitiveness.

Ever since the cluster virtues were announced many policy-makers, from all over the world, have been trying to discover the possibilities to find them in their own local or national constituencies.

On the other hand, as a planner at the Kosova Institute for Spatial Planning, Ministry of Environment and Spatial Planning, it is of high interest to me to look into the possibilities to initiate the development of a wine cluster in Kosova. Hopefully, that this study will be a little contribution to the economic development of my native country, and believing in the next planning and implementing steps will be taken. Perhaps, in the not so far future, someone open minded will be attracted, and go further, translating it into certain available projects which can be implemented with or by provided sufficient investments.

Analyzing the current situation and the potential and key factors for the adoption of successful practices the methodology of comparison is chosen. Therefore the case of California wine cluster will be described in detail. The analysis is based on Porter's innovation theory and his diamond model. With the help of this background a case for a wine cluster in Kosova will be proposed by considering the potential strengths and possible weaknesses.

3. The Cluster Perspective

The four long-term focused innovation policy concepts are the “Regional Innovation System”, “Cluster Initiatives”, “Triple Helix” and “Urban Design”. The latter motivated me in my research to understand better the meaning behind the concept. These three main concepts of innovation, in a new economic era, are formulated by researchers from different disciplines and describe the road map in order to achieve the economic development by innovation lead policies.

		The Economic	The Business	The Science	The Geographic
		P e r s p e c t i v e s			
T H E O R Y	Institutional Theory Douglass C. North	Industrial Districts/ Cluster Alfred Marshall	Mode 2 Michael Gibbons	The Creative Class Richard Florida	
	P O L I C Y	National/ Regional Systems of Innovation Chris Freeman	Cluster initiatives Michael E. Porter	Triple-Helix Henry Etzkowitz	Urban Design Aspa Gospodini

Source: Jan Evert Nilsson PP presentation.

Fig. 1. The four Innovation policy concepts

Until, the *Regional innovation system* is the “institutional infrastructure supporting innovation within the production structure of a region” (produced innovation through regional networks of innovators, local clusters and the cross-fertilizing effects of research institutions (Asheim B.T & Gertler M.S, 2005))². The

² Asheim B. T. & Gertler M. S., 2005. *The Geography of Innovation: Regional Innovation System*. From Jan-Evert's Lectures: "Perspectives on Innovation and Regional Development". Retrieved: from December 2006.

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geographical dimension added to the economists' theory of innovation system. Innovation process is about matching two-sided activity, the technical-knowledge possibilities in constructing the products or services and the recognition of market potential for new products or services.

Triple-Helix as a non-linear innovation process is used to understand the dynamic interaction between universities, corporations and government, and their contribution to the regional/national knowledge-based production development. *Clusters*, on the other hand are defined as “groups of firms that swarm together, learning from each other and drawing on common assets, to create urban or regional economies that can continue to grow through continuous innovation. One competitive industry helps to create another in a mutually reinforcing process (Porter 1990).”³ Porter's cluster description was the turning point that prompted my curiosity in choosing the thesis work.

3.1 The cluster concept

The industrial competitiveness basis has shifted gradually, in the globalization process from static price competition to one dynamic improvement, where knowledge and innovation management bring competitive advantages and sustainable benefit to the firms. The emerging knowledge-based economy, through innovation is characterized as the reorganization of the existing production process, the production of new or improved, respectively redesigned goods or services with provident costumer benefit.

In many cases firms in related or same industries tend to locate in the same place for substantial reasons, trying to profit by the location pattern and advantages

³ Retrieved: from December 11, 2006 Jan-Evert's lectures: "Perspectives on Innovation and Regional Development, (Michael E. Porter *The Competitive Advantage of Nations 1990*).

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which are linked to this concentration. Many researchers of economic geography but also of economics and business studies assume that localized clusters are efficient and profit-making to the participants of the cluster. Of course this cluster is not a group of members with different membership. In fact, a cluster is more likely a group “of independent and informally linked companies and institutions in a robust organizational form that offers advantages in efficiency, effectiveness and flexibility.”⁴

As a matter of fact, Michael E. Porter defines cluster as “groups of companies and institutions concentrated in a specific geographic region and linked by interdependencies in providing a same and/or related group of products and/or services” (Porter 1990, 1998). In addition he goes on to explain that

“The competitive industries in a nation or region will not be evenly distributed across the economy. ... A nation’s successful industries are usually linked through vertical (buyer/ supplier) or horizontal (common customers, technology, channels, etc.) relationships. ... The reasons for clustering grow directly out of the determinants of national advantage and are a manifestation of their systemic character. One competitive industry helps to create another in a mutually reinforcing process.” (Porter 1990, p. 148, 149)

Following that, clusters are important because they allow companies to be more innovative and productive in interconnected groups instead of being in isolation. Also, they are important, because they reduce the barriers for new start-ups businesses to entry into relative clusters to other locations.

In addition, Christian H. Ketels continues that utilising the proximity among them (in activity and geography terms) cluster participants benefit from specific location positive externalities like access to specialized human resources, suppliers, knowledge spillovers, high competition which results in better

⁴ Porter, M. E. (1998) Clusters and New Economics of Competition. *Harvard Business Review*, November/December: 80.

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performance and again in more innovation, and closed interactions with customer and other network effects (Ketels C. H. 2003, p. 4)⁵.

Aftermost, clusters arise because they increase the productivity with which companies can compete. While becoming the focal point of new policy initiatives in the policies of the European Union today, the potential is seen as critical to reach the ambitious goal for competitiveness, “making Europe the most competitive and dynamic knowledge based economy in the world”, set out in the Lisbon Agenda by European Council in 2000. And from the Commission communication (COM 502 final 2006, p.7) derived that:

“Being part of a cluster is an important competitive strength for business. **Clusters** help to close the gap between business, research and resources, thereby bringing knowledge faster to the market. Successful clusters promote intense competition along with co-operation. They enhance productivity, attract investment, promote research, strengthen the industrial base, and develop specific products or services and become a focus for developing skills.”

3.2 The Porter’s “diamond” model

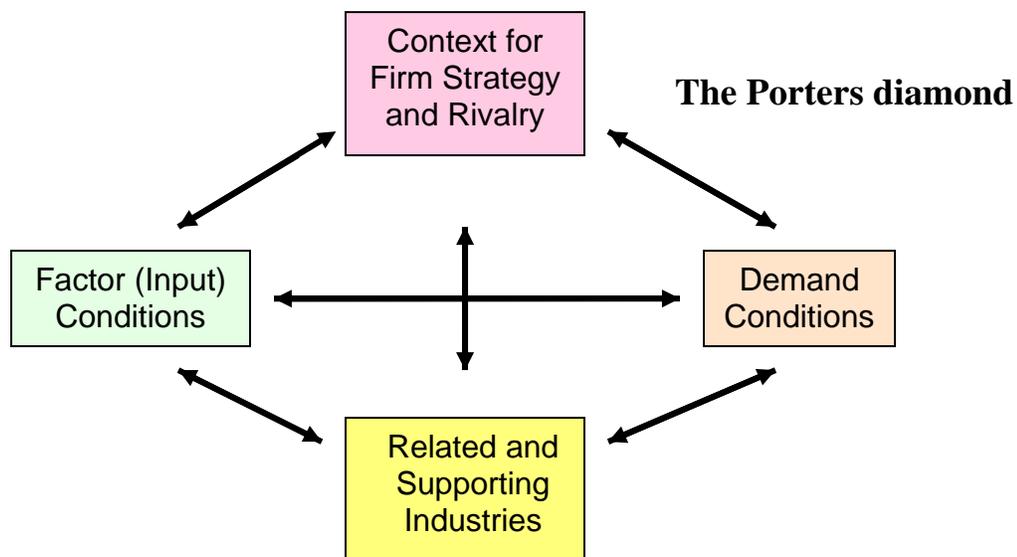
The diamond model is, as well promoted by Michael E. Porter, and helpful to understand the position of geographic regions. The determinants of national advantage, in reality, can affect and “reinforce each other and proliferate over time in fostering competitive advantage in an industry” (Porter 1990, p.132). Clusters play an important role in this model as these agglomerations can lead to sustainable development of a nation/region. A region is able to build up a comparative advantage when the four two-way arrows interlinked determinants in the cluster are considered to interact positively. “Government role at the local,

⁵ Ketels Christian (2003) Harvard Business School: The Development of the Cluster Concept – Present Experiences and Further Development. Prepared for NRW Conference on Cluster, Duisbyrg, Germany, December 5, 2003.

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state and national level can influence competitive advantages in an industry if its policy influences one or more of four determinants”⁶ of diamond which are: factor conditions; demand conditions; related and supporting industries; firm strategy, strategy and structure.

Firm strategy and rivalry guarantee a context, in which investments and sustained upgrading (like intellectual property protection) are encouraged. Direct competition enhances firms for productivity increases.



Source: Michael E. Porter

Fig. 2. The Porter’s diamond model

Further, strengthening the regional rejuvenation and economic development process, Porter gives a distinct role to the cluster development by emphasizing the importance of open and vigorous competition among locally based rivalry (e.g. Mercedes and BMW in Germany, Volvo and Scania in Sweden, etc.). On the other hand, demand conditions improve competitiveness because demand intensive conditions put pressure on the firms to come up with constant improvements, innovations and high quality service or products.

⁶ (Porter E. Michael 1990, Chapter 12, Government policy, page 619).

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Furthermore, unusual local demand in specialized segments could show global trends, and first-mover advantages are possible in bigger markets. Lead-users could show the problems of the future or demand products which are not available yet but promise potential for the future. Additionally, the exchange of information, ideas and innovations could be facilitated by the close connection in one region to related and supporting industries. Finally, easily accessible factor (input) conditions allow the development of comparative advantages when specialized natural, human and capital resources are available in needed quality in this geographic region. Physical, administrative, information and scientific infrastructure help to create the key factors for comparative advantages. The government here has to play the role of a catalyst and pushing instance, which encourages the firms toward higher performance and investments. The government can stimulate the demand for advanced products and to build up necessary trade conditions and regulations.

The section that follows will describe the development of a cluster by considering these four conditions and the interaction between these conditions.

3.3 The California wine cluster

(As an empirical based model)

Today, the Californian wine industry is a global player in the world market with approximately 740 wineries. The wine history started in the 18th century, when Spanish missionaries began to cultivate grapes for wine. In the late 19th century commercial producers managed to produce wine in such good quality that they were accepted and invited by the French to compete in important fairs. The development of the wine industry stagnated due to laws and remained a supplier for inexpensive wines, which apparently met the tastes of the Americans.

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In 1966 the Robert Mondavi winery took a lead in higher quality production to meet the standards of premium European wines. By the help of science and technology Californian winemakers started with quantitative analysis and new techniques to produce quality wines. Innovations spread out very fast through the winemakers which were located in one region, Napa valley. The Viticulture and Enology Department of the University of California at Davis helped to use the innovations by supplying new technologies such as drip irrigation, field grafting and mechanical harvesting.

During the same time the development of other industries supported the vintages. The founding of Alice Waters Chez Panisse in Berkeley in 1971 was the beginning of “California Cuisine”. By establishing a Californian food brand the consumption of high quality wines in domestic markets assisted. The formation of cluster allowed the use of innovations by most producers

Even tourism (see the picture below) was a part of the cluster because with the growing number of visitors and tourist programmes, wine tours began to be an important factor in consumer education and by increasing demands helped the wine processing. Another part of the industry was the publication of specific wine journals. The “Wine Spectator” became a promoter of Californian wine and informed and educated the consumers and influenced their tastes.

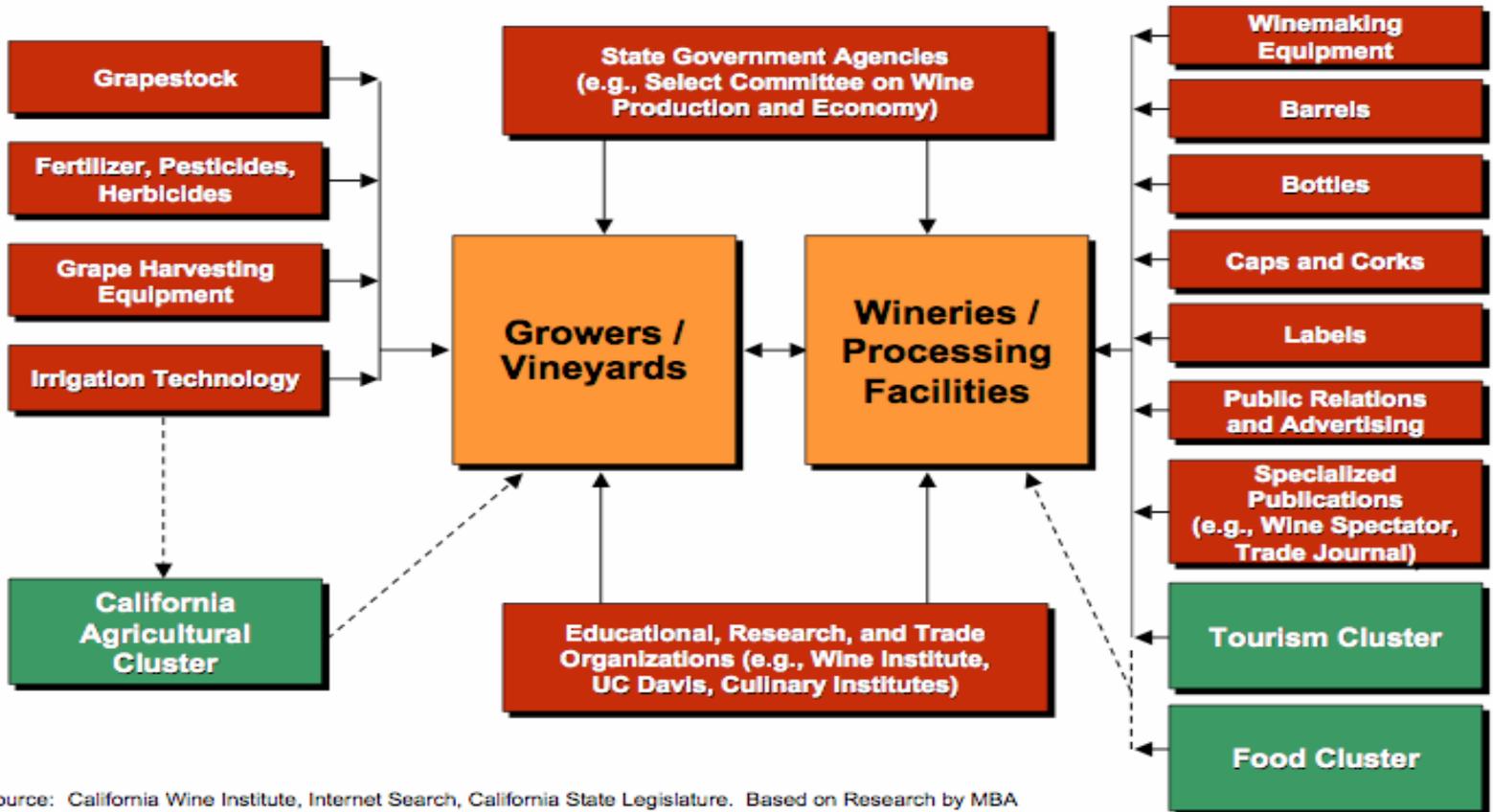
If education for a good wine is low, then proper marketing becomes a major influence of the tastes. In this case, the annual list of world’s best wines published by the “Wine Spectator” impacted the US consumer tastes. The result was a raise in consumption and the profit gained by the winemakers attracted new domestic competitors. Even large corporations like Coca-Cola, Nestle and others entered the markets through acquisitions, and supported by further professionalism and investments the production of high quality wines and global marketing and branding for Californian wines. Californian wine became a worldwide brand.

Finally, in 1976 Californian wines won an important prize in competition against top European vintages. California’s Chardonnay which was an imitation of French

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famous varietal became as good as its original. In recent years Californian Chardonnay even won competitions against its French “original”. Wine consumption began to be even more popular when the news spread out about the benefit of wine consumption to health. By the late 90s the wineries had even problems to keep up with the growing demand for quality wines.

Clusters and Competitiveness
California Wine



Source: California Wine Institute, Internet Search, California State Legislature. Based on Research by MBA 1997 Students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda

Indiana Leadership Summit 05-13-2003 P88

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Copyright © 2003 Professor Michael E. Porter

. Source: California Wine Institute

Fig. 3. The California Wine cluster

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Grape production in 1996 classified California the fifth largest wine grape growers in the world and it was the second largest farm product in 1997. It was the largest harvest in California's history, with nearly 2.9 million tons and represents a 33% increase over 1996, from state's 407.000 vines planted acres. The highest statewide yield of 8.8 tons per acre in 1996 has beaten the 7.6 tons per acre in 1973.

Wine production in California is accounted for over 90% of overall US wine production, and in 1997, with the total output of 420 million gallons (one gallon = 3.75 liter) 1.575 million tons, placed California, behind France, Italy, and Spain, fourth in the world. In California there are some 740 wineries according to the Wine Institute from which the 10 largest state's wineries accounting for over 80% of production volume and around half of them have sold annually only 5.000 cases⁷ or 45.000 liters.

The distribution of alcoholic beverages was like "selling to fifty different countries" as commented by winery executives, because the US Constitution gives the states the right to regulate this on their own. Most states had created "three-tier" (producer-wholesaler-retailer) system for alcohol funneling. Where it was allowed, large wineries established their own wholesale companies (as Gallo operated in twelve states, for example). From the total U.S. exports, 90% are from California wine productions, where roughly 8% was shipped overseas.

Sales and marketing of a large volume wine production costs varied widely. While, the easy sell established in wineries boutiques by word-of-mouth of an entire vintage, the higher expenditure required on marketing (advertising and promotion), when it comes to the large jug and premium wineries facing more competitiveness, and Gallo's Bartlet & Jaymes Brand come into play in 1980. Bringing together, all players of the cluster (grape growers, wineries, wholesalers,

⁷ The case (industrial standard) = 12 bottles x 750 ml = 9 litre or 2.4 gallon, => 1 galon = 3.75 litres.

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retailers and restaurants), 250 members in 1995, The Wine Market Council was formed and headquartered near San Francisco.

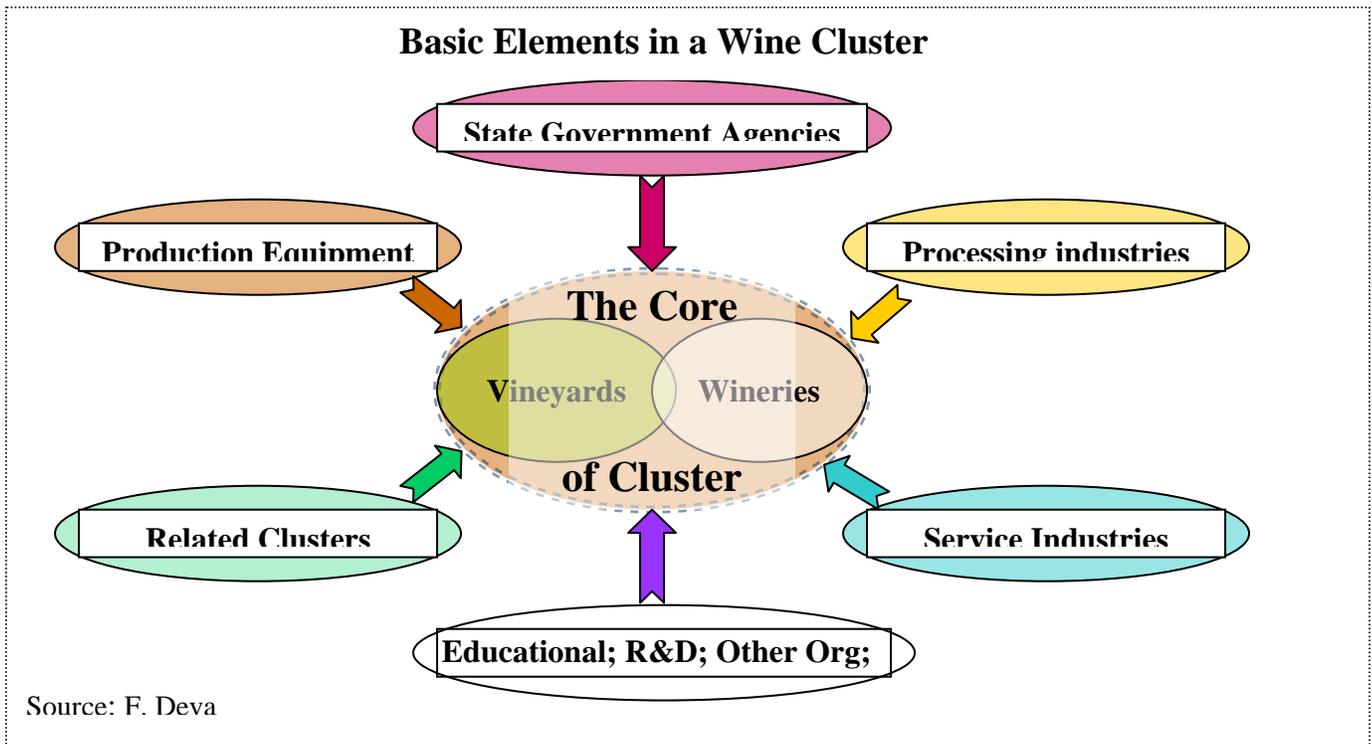
Technology development in University of California starts at The Department of Viticulture and Enology at the state-run U.C. Davis, where several viticulturists and winemakers have been graduated and in 1950 ASEV (The American Society for Enology and Viticulture) the United States principal R & D association for wine industry was founded. There were also, three other state-run Universities offering the regarded programs: U.C. Berkeley, U.C. Riverside and Fresno State, which with their R & D specialized units, reached benefits from AVF (The American Vineyard Foundation), founded in 1978 as a private R & D, reaching \$1.2 million by collecting 0.3 cents/gallon of produced wine in California.

Financial institutions such as the Bank of Amerika, operating through bank loans, had developed specialized supporting offers for most Californian vineyards and wineries, including long-term loans, serving the real estate or wine as collateral tied to the sales time of the harvested vineyard or to the wine stock aging needed time.

Competition in terms of production, consumption and exports in the late 1990s, the world wine market has been led by France and Italy. “New world” wine producers group, including California, over the past decade had developed their successful wine cluster. Also other regions were expected to become more significant world wine producers, particularly in Eastern Europe, Latin America and China, benefiting from topography and climate conditions, like California, Australia and Chile does.

The scheme below is drawn based on the elements of previous scheme “Cluster and Competitiveness - California Wine.”

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· . Source: The author

Fig. 4. The Basic elements in a production (Wine) cluster

3.4 Cluster initiatives

Cluster-based competitiveness projects, or cluster initiatives (CI), became a very popular development policy in the last years. Usually initiated by government, industry leaders and academic researchers, cluster initiatives are not only commonplace in advanced economies but also in economies in transition. Cluster initiatives as a tool for development in the 21st century is a promising policy for Kosova which is, as stated before, such an underdeveloped economy.

These initiatives can be considered as organized efforts to achieve economic growth with a competitive environment within a region by the use of innovative ways, and under the help of the government and educational institutes. The main goal is the coordination and implementation of strategies to achieve cluster

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competitiveness up-grading⁸. One of the main models is the “Cluster Initiative Performance Model” (CIPM). This model recognizes four factors which are: the social, political and economic setting (three drivers) within the region; the objectives of the initiative; and the processes of cluster development. The performance of a cluster depends on the three drivers and other two factors. Although a cluster from one region is not transferable to any other. Because of the settings it may be that one IT-cluster is working in Sweden, but not in Italy because of different reasons, even if all the hard factors like education level, infrastructure may be comparable.

However, some elements are likely the same and a premise: Networking and trust-building among participating firms and further attraction of firms, a common framework, the focus on promotion of innovation and new technologies and, finally, balanced input of resources from government and industry. “Several international donors have applied the cluster concept in projects designed to enhance the competitiveness of a selected business sector in a particular geographic region.... The term, *cluster initiative* is used to specifically denote a cluster development project or cluster organization” (Ketels C, Lindqvist G, & Sölvell Ö, 2006. p. 9).

⁸ Sölvell Ö, Ketels C & Lindqvist G, 2003: *The Cluster Initiative Greenbook*. Stockholm: Bromma tryck AB

4. The Wine Production in Kosova

4.1. History of viticulture and production

The art of grape processing in Kosova is similar to that in other Albanian and Balkans regions. The historical data, distinctive names, proverbs and many archeological findings prove that grapes had been processed in this region during the period of Illirs (Illyricum), which was some 2000 years ago.



Source: MAFRD – DPPP

Fig. 5. The grave stone epitaph (left) and the 700 liter mud pot (right)

The grave stone epitaph, which was found in Rahovec in the 30's of the 2nd century, together with the text in Latin, and a grape plant with grapes, proves the thousand-year-old tradition in grape processing. Further, a 700-liter mud pot, used for the Wine storages, was also found. By the medieval age, the viticulture was pretty much developed, but during this time period, there was a significant drop in viticulture and wine production.

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Afterwards, between 1912 and 1923, the spread of the damager called *Filoksera Vastitriks* was noticed. The rehabilitation of the destroyed vineyards initially started in the Rahovec region, spreading out to other viticulture regions. The first modern seed-plot was put up in 1920 in Rahovec, while in 1923; the first domestic seed-plot was built grafted with American grape plants. In 1939, Kosova had 3269 ha of vineyards. The massive expansion of vineyard plantations started after the Second World War. This initiated the creation of public property companies, which for a short time became the main development processor of viticulture and wine production. The massive plantations were built at the following places: Prizren (Landovica), Rahovec, Gjakova, Peja, Theranda and Malisheva.

Further, with the construction of vineyard plantations were put up wineries in the four main viticulture centers. In 1952, the first modern cellar was built in Landovica, Prizren. Four state-owned wineries with huge capacities were established. At the end of 1981 the overall capacity of grape production was over 1 million hectoliters, which is why this sector became the most organized branch of Kosovarian agro-complex.



Source: MAFRD – DPPP.

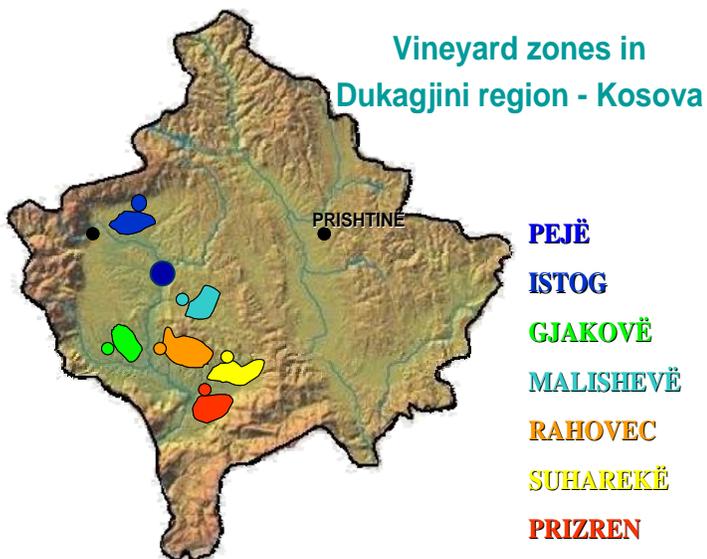
Fig. 6. The wine industrial capacities of ex SOE “Rahoveci”

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On the other hand, all of these wineries had to fulfill certain production levels. This fact is important in order to understand some of the problems of the production today. Furthermore the massive plantations had the goal to produce as much cheap wine as possible for the German market to gain foreign currency by selling the wine. Peak production was reached in 1989 with the export of 40 million liters of wine, which was shipped in bulk by trains to Germany.

The ecological and climatic conditions for grape processing in Kosova are very favorable. The relatively fertile soil, appropriate geographical position, optimal climatic conditions with over 220 sunny days in a year have enabled this region grape processing and wine production since 2000 years ago. At the viticulture places of Dukagjini region, there is a medium continental climate with significant impact of the Mediterranean climate, which penetrates through Drini River valley.

Furthermore, at the viticulture regions of Kosova, in terms of geological conditions, the vineyards were put up on hills mainly and side inclines of valleys from 350 to 600 meters above sea level. The viticulture region consists of different types of soil, which were created by external and geological factors. Most soil types of the viticulture regions were successfully used for grape processing. Based on climatic and geological conditions, in 1975, the new viticulture regions were set.



. Source: MAFRD, DPPP 2004.

Fig. 7. The Kosova Vineyard zones



Thereafter only one viticulture region was formed - Dukagjini Region, which had been divided in two sub-regions: The south sub-region (with the Rahovec, Gjakova, Suhareka, Prizren and Malisheva municipalities) and the north sub-region (with the Peja and Istog municipalities).

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With the new area of conflicts in the Balkan region during the time the Cold War ended and Yugoslavia broke up, Serbian policies towards the economy and the Albanian population of Kosova influenced the wine industry too. These policies led to the destruction of vineyards. Summarizing the main factors it is clear why the wine branch needs a restart and gives opportunities for new approaches like the cluster concept:

- The violent measures of the Serbian government in Kosovarian agricultural companies (from 1989 to 1999);
- The removal of qualified staff and experts from the companies because of their Albanian ethnicity;
- The failure to proceed with appropriate technical measures;
- The mismanagement of vineyards and wine cellars;
- The loss of wine market;
- The discrimination policies against the private sector in the grape price and other forms of discrimination against the farmers;
- The forced integration of Kosovarian companies in Serbian companies and the armed conflict in Kosovo (1997 – 1999);
- The depreciated and damaged vineyards and equipment from the war,
- The lack of rehabilitation capital, and
- The impossibility of getting an approach in the financial institutions.

Immediately after the war, in 1999, some efforts were made towards the revitalization of rehabilitation of both production sectors (grape processing and wine production). However, the lack of financial support and the problems the wine market was facing made these efforts fail.

Finally, based on data from 2004, about the situation, proves that 48 % of the vineyards planted surface has been destroyed in comparison with the year 1994. The private sector has made some positive steps towards putting up new vineyards and building several cellars for grape processing (MAFRD, DPPP 2004 presentation).

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While the comparison in percentage between the wine grape and table grape is 82% against 18%, in favor of the wine grape, the comparison of grape varieties of the red wine grape and white wine grape is 60% against 40%, in favor of the red wine grape. The grape varieties processed in Kosovo are as follows:

The red wine grape: Pinot noir, Gamey, black Gamey, Merlot, Cabernet Frank, Vranac, Kratosia, Jametna, Barbera, Alicant Buse, Sauvignon and Prokupe

The white wine grape: White Pinot, Chardonnay, Italian Riesling, Semillon, Zhuplanka, Frank, Rajna Riesling, Rakacitel and Zhilavka.

The table grape: Cardinal, Muscat Hamburg, Afus-Ali, Antigona, Groqaku, Vineyards Queen, Ribier, Red Thanch, Demir Kapi and Sasla.

4.2. Structural change in the wine sector

As stated before, Kosova wine industry in the past was export-orientated, and the former state-owned enterprises were concentrated on meeting the given quantities which they had to produce. Therefore, the wine makers in Kosova used as many grapes as possible to meet the quotas. The production was not quality driven. As a result, the market demand was not considered and market studies about domestic tastes are still missing. Kosova has about 32 different grapes planted. Many of the used grapes are naturally occurring in Kosova, which made it easy to let them grow in mass quantities. But most comparable wine regions tend to use only a few grapes and by this specialization they do high quality productions and position their wines in local respective world markets.

Estimates suggest that in the past years 1400 fulltime jobs and approximately 2000 hectares of vineyards have been lost. Most of the jobs were in the community-owned sector, which is a common procedure during privatization processes in economies of transition. The sector just had too many employees and over-capacities which had to be reduced step by step. At present, the wine sector

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employs about 1300 people. Wine production is still dominated by the former state-owned enterprises but a considerable number of small-scale producers are active, and the amount of the private sector on production is rising constantly.

Hence, in 2004, only 37% of the plant ages belonged to community-owned wineries whereas the proportion in 1990 was nearly 60%. Today the privatization process is ongoing and, there are three main wine producers in Kosova: “Ereniku” from Gjakova, “Kosovavera” from Prizren and “Suhareka” (the ex SOE-s which are under the wave of privatization). The ex SOE and now a NewCos “Rahoveci”, which was privatized by a special Spin-off in 2006, is a specialized company and possesses the biggest Winery of Kosova involved in the production of grapes, wine and spirits (Rakia and Cognac).

Although, UN initiative is trying to support the development of small producers by an UNDP project with financial support from Regione Lazio. By creating an enabling environment for private vineyards they want to strengthen their marketing activities, encourage increased co-operation and economies of scale. Only if these small private vineyards use modern knowledge and approach business opportunities can the sector be a potential job and money maker. The existing private vineyards are actually in a better state than the big ones. They have newer equipments and facilities, and much more interest in having adequate capacities and in directing the output to the needs of the markets. However, lack of access to new technologies remains for everybody an obstacle.

Even with a better functioning private sector, the Kosova wine sector lags far behind international best practices. For example, all wines sold in Kosova are single varietal wines like Merlot. Blends of different varietals to achieve a specific taste are not used yet, but in future, could be a good use of such variety in grapes which are growing in Kosova.

Almost structural change should not be only summarized by the privatization process of the large vineyards. It is a process of developing small and innovative wineries and using the capacities of the former state-owned wineries for massive

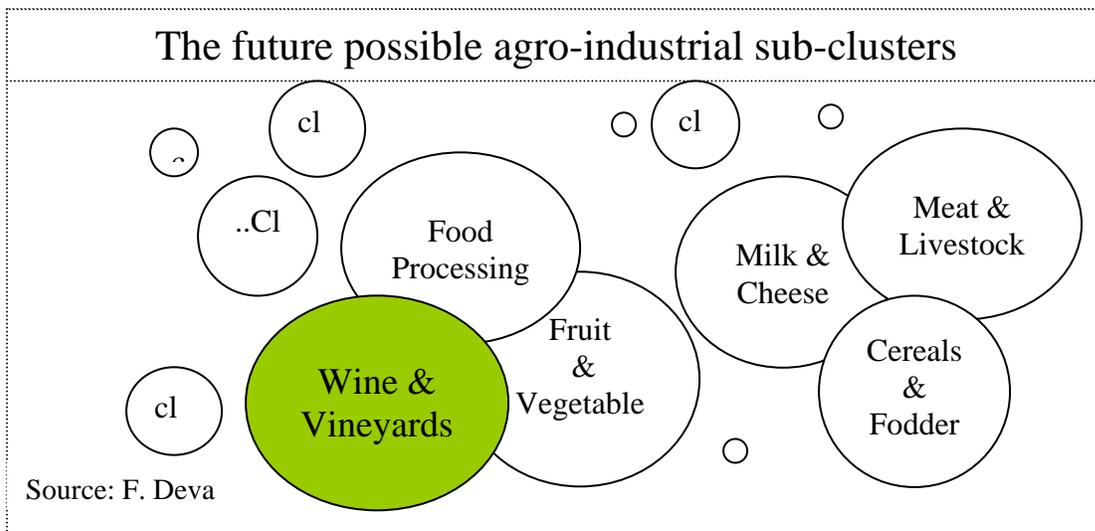
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production. How to proceed and which the possible ways are will be discussed in the coming section, that will be given in the next part.

4.3. Elements in Kosova wine cluster

As mentioned in chapter 3.1, the Commission communication diversifies clusters that “...enhance productivity, attract investment, promote research, strengthen the industrial base, and develop specific products or services and become a focus for developing skills” (COM 502 final, 2006. p. 7.).

As a matter of fact, clusters are arising throughout the world – Cannot this phenomenon also be developed in Kosova?



Source: The author

Fig. 8. The Kosova future possible clusters

There are opportunities of founding more sub-clusters in one wider domestic or regional cluster and/or any combination between them. In the case of Kosova this could be represented by an agricultural cluster, in which the wine sector plays a predominant role as a sub-cluster.

Referring to the ‘basic elements in a wine cluster’ (as shown at the end of chapter 3.3. on the California case), perhaps it is more preferable to name the key

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functions and elements, which are currently present in Kosova and are essential but missing now. Let's go further by consecution: The present disposed elements in Kosova for a possible future wine cluster has to be evaluated by comparing with the California case.

The Kosova future "wine cluster" core is the same as California's consisting from: the vineyards (grape growers) and wineries (wine processing facilities). Approximately, 4.100 grape growers producing 33.043 tons of wine grapes in 7 vineyards zones in Kosova (2004) compared to Californian 4.000, 2.9 million tons in 45 counties (1997). While in Kosova are 12 (from which 4 SOEs with biggest capacities) formal wineries and some 120 informal (family) producers that produce 84.756 hl (hectoliters = 100 l) in 2004 – in California are 740 wineries (from which 10 are state's largest wineries with 80% of production volume), where only E&J Gallo (as the largest winery in the world) shipped some 60 milion cases (equal to 5.400.000 hl) in 1997.

First of all, there are two ministries with their departments that have to be directly involved in a future Wine cluster: the Ministry of Agriculture, Forest and Rural Development; and the Ministry of Trade and Industry. The first one is responsible to develop internal conditions for general agricultural cultivation. On a high level production and plant regulations are the basis for any production in this sector. Furthermore, with "The wine and vineyards Law", approved in 2005, over projects and agencies this ministry can support further future wine cluster development. Special working groups or task forces should be financed and introduced by them. As a matter of fact, the Ministry of Agriculture, Forest and Rural Development has installed the Department for Production and Plant Protection (DPPP).

As in California that was the Viticulture and Enology Department at the University of California at Davis, who has later changed the name in "Department of Fruit Studies." But there are also other three state-run universities offering the

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programs regarding to vineyards and wine, U.C. Berkely, U.C. Riverside and Fresno State, which with their R & D specialized units.

Further, several agencies are dedicated to support the agricultural development. Namely, Food & Veterinary Agency (in collaboration with Public Helth Institute), Kosova Agricultural Institute in Peja; Wine & vineyard Institute – nowadays established by cooperation between MAFRD, GTZ Rahoveci municipality. The formation of these agencies should be just the beginning. The question is weather they are able to provide quality work. It is important that they use common international approaches and equipment. The institutes should be linked to European counterparts to have regular exchange about trends and best practices. Staff education is a main factor here. If they are state driven or ministry driven staff education is very important point. On the one hand, working for the state-owned agencies has easy the access to international further education. On the other hand, Kosovar state institutes are not able to pay their staff adequately. EU or UN-driven institutes and agencies could solve this problem as they usually have more financial funds to do that. Additionally, knowledge transfer would be even easier then.

The Ministry of Trade and Industry as the second involved ministry has to deliver An assisting trade environment. For Kosova, it especially means to erase trade obstacles, to allow trade to the other Balkan states bidirectional with the same conditions. Exports are very low at the moment as we have seen the trade balance above and potential goods designated for the export sector need subventions. Custom rates for technical production equipments (no consumer goods) for example should be avoided as well as investments need to be promoted. An investor friendly environment will definitely support the cluster development. Actually the Ministry of Trade and Industry has programs for the Private Sector, Industry and Trade and Tourism Development. However, this program has to be filled “with life” and show evident results. Who knows? Maybe from here can be initiated and developed the future ‘tourism cluster’ as it is in California case,

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where “eight million visitors came to California wine country each year, spending roughly \$300 million in restaurants, hotels and trading”⁹

Further, Agencies Investment Promotion, Standardization and Kosova Business Registration are in work now. Business Registration leads to legalization of production and tracking data of producers. At the end, the business environment is more up-to-date and professional. In all, the government side started to provide necessary institutions. Again, the right people are needed in these institutions. Corruption and familiarization are kind of characteristic for the Balkans. Hopefully, these factors will not dominate the institutions and a high working standard can be achieved soon which will support the wine sector in Kosova.

Research & Development and Education in general, is very important too, for a possible cluster development in Kosova. Although the University of Prishtina has an Agricultural Faculty with a Food Technology Department, this is one the weakest points for the moment. Educated staff with new methods and technologies is missing due to lack of access to it mainly due to poor finances. However, young and motivated professionals are coming from the Faculty and the younger generation is more interested in modern approaches and open-minded than older experts. R & D (research and development) can be done mainly by an existing department called ‘Institute of Fruit culture, Viticulture and Wine’ in Agriculture Faculty of Prishtina University. Again looking at the California case, the Wine Institute founded in 1934, was a trade association of 48 California wineries, helping to re-invigorate the state’s wine industry.

Furthermore, there are many other supporting international organizations being very active in Kosova like UNDP; EAR; USAID-KCBS; GTZ; SOROS; SWISS-Corporation. This is the main advantage for a cluster because international knowledge and resources from these organizations are available locally, especially if well prepared projects are defined. There are already some state-of-art investigations of UNDP which includes the wine sector and an analysis of USAID.

⁹ Porter E. M. & Bond C. G. “The California Wine Cluster”. Harward Business School: 9-799-124. Rew: February 16, 2006.

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For example USAID help, in agribusiness, to the “AKA” establishment, and their ongoing project “Kosova Cluster Business Support”, in supporting three identified clusters: fruit and vegetable, livestock and milk production, and construction materials.

The German GTZ has future plans which consist in the quality, marketing and the registration of copy and property rights, and Swiss-Corporation already did a lot for Kosovar agriculture by teaching local farmers in new methods and by providing technical equipment. Additionally, the internal Kosovarian associations, as alliance association “AKA” (Alliance of Kosova Agribusiness) and the “ABU” unit (Agricultural Business Unit) are supporting with their activity focused on promoting the development of private agri-business and protect their interests in order to develop the local economy, increase incomes, increase employment and satisfy consumer demand. Further, the Kosova Exporters Association (KEA) carried out several times exporting goods across border. Coming back to California, here could be founded similarities with the Wine Market Council as California-based trade association.

New technical equipment in this vineyard sector is desperately needed for example. Used fertilizers, pesticides, herbicides and harvesting equipment are not very up-to-date, if any. This impacts the quality of the wine and the environment. Even if irrigation system is enough spread in this region, with some damaged part which needs rehabilitation; the irrigation technology and other modern equipment have to be purchased. The technology used is maybe the most important issue for the moment for the producers and a possible cluster.

Another element of a cluster is the related processing industry. Processing industry and suppliers are needed to build up a network with the final output: A bottle of high quality wine. However, low value adds services like bottle production is modern economics are done by specialised firms. There are hardly producers who can afford to do the whole process. Therefore, even in Kosova such suppliers are needed for a good supply chain. Unfortunately, for the moment,

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except some small capacities of Plastic and wooden Barrels, the production of big-capacity Barrels and wine bottles is missing. Here, capacities of bottle producers should be available if requested. For example there is the big traditional beer producers located in the Dukagjini Region. The supplier of bottles could eventually produce wine bottles and maybe barrels too. This would support the idea of a cluster.

So far, all facilities like the named bottles but also caps and corks are imported. In future, in a functioning cluster, this could be delivered by other cluster participants. Labeling is mostly done in Kosova. However, quality could be better if necessary. Enough printing facilities and design knowledge is existent but not requested so far. Hence, in California oak barrels are brought from Kentucky and Missouri, and also natural corks as the world export was controlled by Portugal 80%, which is distributed by several California-based dealers and suppliers the other final steps in wine production (as bottling and packaging, capsules, screw tops and labeling).

Finally, the financing of the technologies, knowledge etc. is very important to start the whole process. Without reliable and competitive financial resources all this will remain just a scenario. The Kosova financial sector was reconfigured in the last four years on completely new foundations. The Banking and Payments Authority of Kosovo (BPK), established in November 1999 is an independent body which successfully regulates the banking and insurance sectors. There are six registered banks ten Savings and Credit Associations, twelve micro-finance institutions, four other non-banking financial institutions and eight insurance companies. This sector is quite good developed. Together with possible foreign investments big enterprises could go on with production on a new level of quantity and quality whereas small producers could gain good and competitive conditions from micro-finance institutions. Coming back to California, a good financial sector supported the local firms with long-term credits with low interests. This was very favourable for the firms, because they needed the money for bigger investments.

5. The Creation of Kosova Wine Cluster

The discussion about creating “A future Wine Cluster in Kosova” has to be designed by referring to the Porter’s very much known diamond and its four determinates (see chapter 3.2.).

How to strengthen the wine cluster

Demand conditions for a Wine cluster have to be distinguished in local and foreign demand. Local demand is in comparison to other European markets per capita quite low. Hence, the new leader in consumption is Luxembourg with 55 litter per capita consumption, while France with 75 l/capita consumption was leading up to 1999. To compare with, Kosova has per capita wine consumption estimated in 6.5 l/year. Wine exports are higher than imports because of the big buyer Racke GmbH in Germany who buys the wine in bulks (over 150.000 hl or 47% of total produced quantity up to 1992) and sells it in Germany as “Amstelfelder” for a price about 3 Euro. This wine is labeled as a low to medium quality wine.

The wine of the small producers is sold in the local market as a cheap wine too. Considering average wages in Kosova these cheap wines is that what the market wants. Quite often these low quality wines are used with Cola as a mix drink. However, wine is the likely to develop as a fashion drink for the new developed middle and upper class societies. Therefore, local premium wines could have potential buyers in the future. This would be a quite small market for the beginning but a market with quite little knowledge about wines, which would allow experimentations. For this reason I propose the opening of specialized restaurants where mainly to be served are adequate meats and cheeses which are

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added to the wine, without any tax in order to learn and awareness of the population for using the wine .

Especially some small producers could serve premium markets in Kosova. After some tests and maybe first successes in the local markets, exports in other Balkan regions would be possible. These producers should try to come in contact with premium restaurants, mostly in Prishtina, which have many international guests too. However, demand for premium Kosovar wines could be raised by publishing reports in several magazines, TV shows or new specialized publications etc. Also the development of the 'Tourisms' as an activity in this very rich region with cultural and a natural beauties could contribute especially the development of the wine cluster in general.

Nevertheless, the main demand which has to be served in the next years will remain the low quality wine or cheap wine demand. First, exports could be widened to other European countries. Getting in touch with other European big sellers in fairs or exhibits can be supported by international organizations as well as by the Ministry of Agriculture. Supporting local producers to participate in important international agriculture and wine fairs will let them have access to other markets. Especially other Balkan markets like Albania, Macedonia etc., would be interesting for the Kosovar producers. The ability to export will determine whether this sector can expand or contract. This demand could be served by the large former SOE which are in privatization process. By exporting higher amounts the huge capacities which they have could be better utilized.

At the same time, more money could be gained and would maybe allow financing projects of producing higher sparkling and quality wine. Especially to reproduced the wines with Illyrians names, based on mythology as Menada (for the red wine) and Silena (for the white wine), respectively returned and to be continued the production of the grape juice and the hard alcoholic drinks like „Raki“ and Cognac or by mixing the grapes and developing a completely new taste.

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With the export and participation in fairs knowledge transfer is easier too. In sum, the large producers should concentrate on quantity of cheap wine first and maybe testing the production of high quality wines. Small producers should get in touch with restaurants etc. and producing higher quality wines for the local Kosovar markets. However, most of them will have to maintain the production of cheaper wines designated for the local market. However, they can raise the quality permanently even for this cheap wines by the introduction of new technology and the use of modern agricultural facilities.

The public policy role is to create an environment, in which firms have to be innovative and dynamic, where Government's role must shift from decision maker actor to facilitator or broker, between companies, companies and universities. Also, the Government has to stimulate the strong parts of regional industry, growth and social processes, and as appointer on local/regional system of firms and agglomeration of SME-s. Intervention must decrease substantially, and orientated influences have to be in creating advanced factor and upgrading demand conditions. Based on the decentralisation of the education as stated in "Spatial Plan of Kosova 2005-2015+" and the request Gjakova Commune and some of the academics from the agriculture sector, is the transfer, as soon as possible, from the agriculture faculty, or parts of the departments for wine, wine yards, fruit and vegetables to be transferred to the Dugagjini region. The realisation of this proposal will fulfil the "Triple Helix" and could help and further develop "The Future Wine Cluster in Kosova". An example for the broker could be the intercession of fair participation opportunities in other countries as mentioned.

Furthermore, the government itself or through his agencies could provide an subsidised organisation which help the participants in a cluster, for example a couple of small producers, to purchase or to lend modern equipment. All the small producers just do not have the financial resources to purchase modern equipment and wine producing facilities or even the knowledge. A centrally organized purchase or lending point of equipment and knowledge would enable these

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producers the access to opportunities which were normally too expensive. These agencies could be as well institutes or R & D centres at the same time. For example, the Agriculture faculty of the University of Prishtina has constructed a department, the “Institute of Fruit culture, Viticulture and Wine” (Whereas, the tools for the laboratory are pending at the custom station because financial resources are missing for the payment of the custom fee - Unbelievable but true). Whereof, with the supporting assistance of international organizations, from the European institutes of food technology or agriculture, could be the provider of knowledge and even equipments. So, at the beginning just this department needs to be trained and supplied with technology. Then, the knowledge-transfer will function because this department will offer his services to the producers and train them. The government’s initiatives are crucial to start these projects as they are the linkage to foreign agencies and contacts. Without foreign help knowledge transfer is not possible. But this transfer is very important to be competitive in the future. The described possible department would support many producers, which would be rivals at the same time. So they would assure the access to the same resources. This rivalry who is dealing best with his resources and the help of this department would do best in the market. This department could also help in creating more competition as more potential producers would have access to resources. Even if it is hard in a free market, it could even control a fair competition and the settlement of the producers in one area and this would support the idea of a future clustering. At the same time is also the education of the secondary school to the matter of the agriculture and its brunches, the staff-training for the new forms of organisation as well as labour training with the new technology.

Further supporting industry would automatically settle next to these producers and to the R & D institute/department. As mentioned, in the Dukagjini region the most important beer producer is located too. The beer producer needs similar facilities like bottles, labels etc. A design corporation or printing house could offer

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his services to more than one bottle industry. Another very important producer of liquid goods is Devolli Company, also located in this area and actually one of the biggest Kosovar companies. All these different producers could benefit from some supporting industries. Bins, batches and other containers are needed and a specialised producer would have many customers in this region. They all would need similar infrastructure. Infrastructure is quite good. The civil and Cargo Airport of Prishtina is situated less than 70 km to each centre of this region. Also the Gjakova Airport in this region is expected to be used for civil and Cargo Transports. The rail connection to the wine yards regions (it is only needed to be returned the locomotives and any small repairs) as well as road transports and additional future train connections or better routes for freight vehicles would support a whole agricultural industry not only the wine sector. These are only the main points of actions which are needed, but starting the projects will automatically lead to new necessities which are more in detail-based.

6. Conclusions

This thesis was about showing the sense of a possible wine cluster in Kosova. Considering the fact that Kosova is an economy in transition, including the political side and the change in government (maybe Kosova will be soon the youngest state in Europe), structural changes in education, planning and all other sectors, many work has to be done and new approaches and world wide best practices need to be tried in Kosova. Of course, adaptation to local circumstances and conditions need to be included in the planning of initiatives for a wine cluster or cluster in general.

To achieve results, there are many other factors important which has not directly to do with agriculture. A strong physical and information infrastructure is an

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important requirement to establish and sustain a functioning regional economy. Political stability is another point. The development of a region or economy goes hand in hand with political stability and adequate infrastructure. Are this given Kosova`s decision makers should concentrate on coordinating plans and attracting foreign investments and knowledge to achieve a business environment. Government is the first supporter in this because it has the most powerful influence in politics.

Creating clusters means teamwork, coordination und permanent exchange of ideas and knowledge. Poor coordination among local jurisdictions would be damage to the efforts to improve the business environment. Strategic thinking organizations and consultants should accompany such projects by convincing the people of the good of free markets and competition, by convincing authorities to support the private sector, by convincing the producers of new methods, by motivation the people and introducing change management.

As local producers in interviews stated, there is a need of qualified staff and access to finance resources. As one of them had been said “The general education (deductive) has provided enough staff, but not specially qualified staff (inductive) with labs and other enological experts.”¹⁰ Educating people in this business and micro-financiering should start immediately but there is support from outside maybe international organizations necessary. The government could support the education abroad financially. However, there some projects like the GTZ research and development project in process which is just the beginning. This german organization is also arranging European fair visits. Other foreign organizations are also involved, like the Swiss one which brings enologists.

¹⁰ Age Batusha – see Annex for the interview

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The University of Prishtina just brought up some good points and ideas as you can see in the appendix. Therefore, there is just a need for a consultancy which is coordinating and supervising the whole process and discovers needs which are still necessary and stimulate the interaction between the locals and all the help from abroad. Finally, the role of the consultancy should be data collection, creating a data basis about the cluster, supporting potential investors with data, representing the industry in fairs, playing the role of a representative which is informed about all participants externally and playing the role of a knowledge transfer institution internally.

In other words, as I mentioned once in chapter 3.4, Networking and trust-building among participating firms and further attraction of firms, a common framework, the focus on promotion of innovation and new technologies and finally balanced input of resources from government and industry. (The formulation is created, based on “Elements in a Cluster Initiatives Policy” slide, of Jan Evert lecture presentation *Elements in a Regional Innovation Policy*).

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8. Annexes:

ANNEX 1.

The description of the most produced wines in Kosova

Source: The NGO “ Krena”, in Gjakova.

Merlot – Dry red Wine, a qualitative and exclusive red wine, with protected geographic origin produced in the stage of its full technological maturity, with a careful selection, and introduction of the new processing technologies, and also its preservation in the wooden barrels, the wine gains its compactness, taste and specific scent of variety.

Pinot Noir – Dry Red Wine, a qualitative and exclusive red wine, with protected geographic origin produced from the Red Burgundy variety cultivated in the viticulture of Kosova. The wine deriving from the variety has a harmonized reciprocity of the ingredients that give compactness and emphasized taste with a special bouquet.

Cabernet Sauvignon – Dry Red Wine, a High-Quality wine with protected geographic origin and it is distinguished for its specific Rubin-red color harmonized taste and emphasized bouquet. These features make it the most demanded red wine.

Chardonnay – Dry White Wine, a white qualitative exclusive wine, with protected geographic origin and it is produced of Chardon grapes with a part of Sauvignon grapes. During the controlled fermentation the temperature does not exceed 18°C that gives this wine a special taste, full compactness and particular scent of the variety. It has a gold-yellow color.

Italian Riesling – Dry White Wine, a qualitative dry wine, with protected geographical descent. It has green-yellow color with a discrete aroma, distinctive for the variety; it is drinkable, harmonized and refreshing.

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Rigne Riesling – Dry White Wine, a white qualitative exclusive dry wine, with protected geographic origin. The wine is cultivated in the wooden barrels and possesses excellent harmony of the ingredients and specific bouquet of the variety with discrete emphasized aroma.

Semignon – Dry White Wine, a white qualitative exclusive dry wine, with protected geographic origin. It is produced of Semignon grapes with part of Sovignon grapes. During the controlled fermentation, the temperature does not exceed 18°C that gives this wine special taste, full compactness and particular scent of the variety. It has a gold-yellow color.

Red Wine of Kosova – Dry red Wine, a qualitative dry wine, with protected geographical origin of Rahovec and other Regions. Red Wine of Kosova is produced from selected varieties of different types of grapes. With mixing the varieties of grapes and fermentation is created a wine that with its taste, color and divine bouquet is very much wanted in Kosova.

Kosova Riesling – Dry White Wine, a qualitative and exclusive dry wine, with protected geographical origin. It is produced and bottled in the cellars of Rahovec as well as other places. It is produced from the variety of grape “Italian Riesling” with 85%. This is a harmonized drink with characteristic hidden flaw or admired by many people. Mentioned characteristics of Kosova Riesling were noticed many times and Kosova Riesling is awarded in different international Wine Trade Fairs.

ANNEX 2.**The interviews****Source: The author**

After mid-term presentation of thesis work, in April 14, I have changes on the thesis subject matter, so I went again to Kosova, and some of the new collected interviews, which are more interesting, will be presented here:

On date: April 21, 2007.

Interview with: Mr. Agë Batusha, ecc – The owner of the “Dea” Limited Liability Company – LLC, in Gjakova.

The cooperation between the ministry and commercial wine producers has started and apart from the law adopted in 2005 and mutual talks, up to the final privatization, there are not marked any significant support as “stimulations”, “Fractions” and “Primes”. The Ministry of Agriculture and Rural Development licenses the wine producers. There are some projects, which go through the ministry, for association of wine producers, as all the manufacturing, production, marketing and trading is done individually by wine producers and that is very difficult at this stage. This liberalization for the country and economy in transition is an extra difficulty for the producers. The cooperation with the Agricultural Institute in Peja, which functions as branch of ministry, for the wine analyses and control, is ongoing.

I have not had any cooperation with commerce chamber, as cooperation institution in benefit of Kosovo’s vinery development, due to lack of qualified staff and financial sources. The Kosovo’s Business Associations do not provide any help now, except organizing several domestic fairs.

The general education (deductive) has provided enough staff, but not specially qualified staff (Inductive) with labs and other enological experts.

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The German “GTZ-Organization”, which operates in Kosovo, has currently three projects (3 + 3 more years) for research and development (R & D) and trainings for “wine taster experts”. This organization has also organized visits to European wine fairs and pledged for bringing an enologist for production of quality wine.

The European Agency has undertaken initiative for bringing an enologist to the two private companies: “Dea” – Gjakova & “Eko” – Rahovec, while another Swiss organization “Swiss Contact”, brought in Kosovo two years ago two enologist for tasting the wine.

The machineries and equipment are all imported. The private producers are using new technology, while the public owned companies have to revive their old technology.

The wine bottling, caps, corks and labels have the same cost of the wine itself, and all together make 50% of the selling price, adding 30% more of this price for VAT, sales and other taxes, the rest 20% remains for workers payments, electricity, water and other expenses.

With the final status of the country and with more competitive and convenient credits with lower interests, the current difficult situation would be changed in terms of crediting. There is a lack of petty cash in the market, therefore, the interest rates are very high (1.1 % a month x 12 months = 13.2 % a year) and there are very short deadlines for returning the credits.

The lack of proper marketing due to lack of money is harming Kosovo wine. Without proper organized and specialized marketing, the 100 % ecological wine without other additives will prolong the status quo.

On date: April 23, 2007.

Interview with: Mr. Docent Bashkim Korenica, PhD.Sc. –

“Institute of Fruity-culture, Viticulture and Wine”, and Lecturer in two main subjects, at Faculty of Agriculture / Prishtina University.

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In the Kosovo's export before 1999, wine was in the second place just after the minerals. The wine production was considered as western civilization. The wine is a pedestal drink with other important health and nutrition values (Prevention and treatment of diseases), apart from economical benefit.

At first, there should be a continuation in upgrading the regionalization, vineyard property register and database. Kosovo has a wine region, Dukagjini Region, with two sub-regions – Northern and Southern, which are spread in the 7 viticulture districts with good natural conditions, capital & human capacities.

Therefore, in this region it has been proposed the prioritization of the following issues:

- Support in decentralization of university education and the dislocation to this region, Gjakova town respectively.
- Further education of staff through the methods of organizations, labs and technology in order to create a cluster and fill up then “triple-helix” on the vineyards and wines close to each other, regionalization.

The other aim is:

- Creation of Viticulture and Wine associations with different participants, as there is a big number of individual producers (120-130 of house producers and 10-12 commercial producers)

Orientation in quality and sparkling wines:

- The revival of mythological Illyrian productions like Menada (red) and Silen (white), as well the rakia, cognac, cider and grape processed juice.
- The cultivation of Prokupa black grape and Smedereva white grape, as quality gape for wine and table.

The wine quality and district where the grape is cultivated whereas the most appropriate districts are the non -Ecuadorian and non-pole. Therefore,

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the best districts are those in between of the above-mentioned districts, about 300 – 400 m above the sea level.

The increase of vineyards surfaces from 5000 ha to 10000 ha

The use of modern technology, ferments and specific enzymes for productions of different wine types, as well as the use of filters, aggregators and equipments for stabilization of production.

The product declaration – label should be clear to avoid bringing the client in delusion. There should be organized special trainings for wine producers and restaurant staff for wine distinguishes.

The wine has no type or kind. The wine has the following categories (vitis vinivera):

- Based on color (white, light or dark red)
- Based on quality (table wine, quality wine and high-quality exclusive wine)
- Based on the amount of unfermented sugar (dry, semi-sweet and sweet)
- Based on the amount of alcohol (strong, semi –strong etc.)

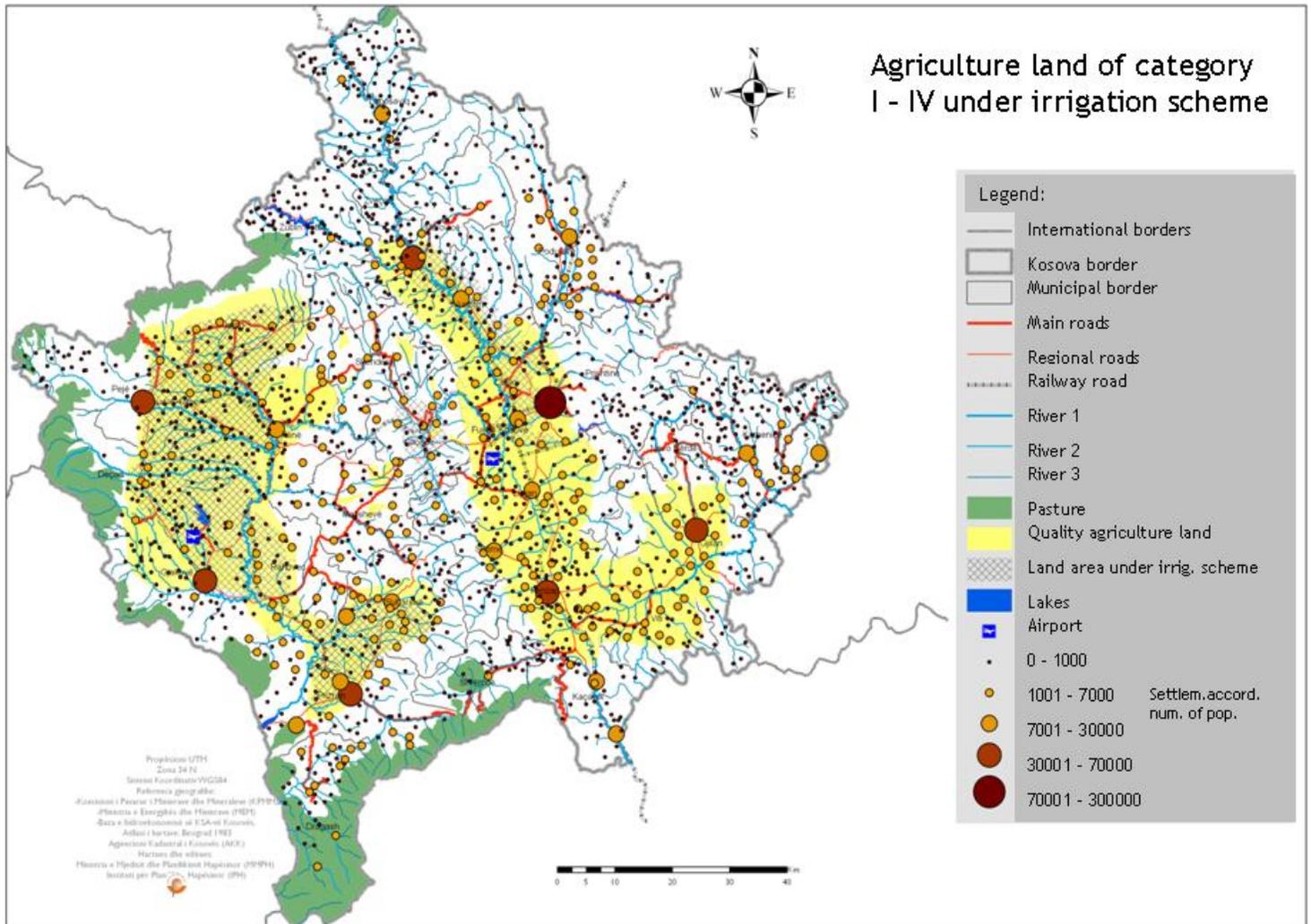
Therefore, the product declaration should have the label - the unified Kosovo protection sign, producer's label and three kinds of information:

- On the bottle nose are placed the decorations and rewards
- On the bottle front label are placed producers information, fillers, volume, and geographic origin (or without geographic origin if the wine bears the name of the region or viticulture district)
- On the rear label are placed the alternative information like those for the grape, district, region etc.

There should be done a comparison with California wine. The average price of 2.5 – 3 € would enable the penetration of Kosovo's wine in the domestic and foreign market. Albania, as potential export country, would have been enough.

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**ANNEX 3. The agriculture sector maps
- Vineyards and wine sector issue strengthen maps -
Source: MESP, Institute for Spatial Planning**



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