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Market Opportunity for U.S. Distilled Spirits

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Report Highlights:

Despite recent economic challenges including a weakening rand and decreasing disposable incomes, South Africans have demonstrated a growing interest in quality distilled spirits and an appreciation for premium brands perceived as status symbols. In 2014, South Africa's imports of distilled spirits totaled nearly $346 million, with the United States ranked third among South Africa's suppliers at 8.34 percent market share. U.S. exports of distilled spirits to South Africa totaled approximately 4.8 million liters in 2014, valued at $28.8 million. This represents a growth of 34 percent from 2013 imports. The Retail sector accounts for the vast majority of distilled spirits sales in South Africa at 69 percent of the market by volume, and a faster rate of sales growth than the HRI sector. With concerted marketing efforts, U.S. distilled spirits are well-placed to benefit from the South African demand for high-value alcoholic beverages.

Market Opportunity for U.S. Distilled Spirits

South Africa Product Brief

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SECTION I. MARKET OVERVIEW

South Africa is one of the most advanced and diverse economies in Africa. With a population of almost 54 million people, the country is an attractive business destination, due to its growing market and welcoming business environment. The last decade has seen the rise of a dynamic South African consumer market, with strong growth in the middle class and upper-income segments. Urbanization has also increased, with almost two thirds of the South African population living in urban areas. South Africa also serves as the perfect entry point to do business in the Sub-Saharan Africa region.
Despite recent economic challenges including a weakening rand and decreasing disposable incomes, South Africans have demonstrated a growing interest in quality distilled spirits, linked to the popularity of bars, restaurants, and cafes and an increase in dining out among the growing middle class. The economic downturn also has not halted the national trend towards premiumisation, a growing appreciation for premium brands within niche markets including alcoholic drinks. This consumer taste trend is a good indicator that the South African thirst for high-value U.S. distilled spirits will continue, especially when coupled with effective marketing efforts to establish these products as status symbols.

Advantages	Challenges
South Africa has modern supermarket chains that	Price sensitivity and lack of brand of quality

are expanding throughout Sub Saharan Africa, and all major grocery chains market distilled spirits through annex "bottle shops."	awareness of U.S. products make it difficult to introduce new brands or establish brand loyalty for U.S. distilled spirits already in the market.
The USDA-sponsored Food & Hospitality Africa trade show in South Africa each May is a new opportunity to engage buyers from the whole Southern African region.	A weak rand and trade agreement with the EU, under which most European products enter South Africa duty free, make buyers reluctant to source from the United States.
Despite the economic downturn, there is a growing demand for spirits fueled by the fashionable "cocktail culture" among professionals in South Africa's major cities.	Policy makers are concerned about potential health risks from drinking distilled spirits and are considering measures to limit advertising and consumption of alcoholic beverages.

SECTION II. MARKET SECTOR OPPORTUNITIES AND THREATS

1) Entry Strategy

The Retail sector accounts for the vast majority of distilled spirits sales, with a 69 percent share of the market by volume and a faster rate of sales growth than the HRI sector. Retail sales of alcoholic beverages are increasingly dominated by the leading supermarket chains through their specialized "bottle shops," located next to or within grocery stores in communities throughout South Africa. Four of the country's top five retail chains—Shoprite-Checkers, Pick 'n Pay, Massmart, and Spar—have developed and are now working to promote and increase the number of these store brand liquor outlets across the country.

The major grocery chains carry out their product procurement directly or through a combination of agent/direct purchasing, with importers and distributers playing a significant role in the distilled spirits supply chain. Importer lists are available upon request; please refer to Section V of this report for contact information.

Despite the HRI sector's relatively small share of distilled spirits sales, a growing consumer interest in the restaurant-bar experience makes the sector an important target for spirits marketing. Full-service restaurants, bars and cafés are an integral part of the South African social sphere, impacting consumer tastes and emerging trends. The restaurant industry in South Africa is growing, as the trend of dining out becomes more popular. The majority of restaurants and hotels—even franchise or group members—carry out product procurement autonomously. In some cases the head office may recommend regional or national suppliers, but generally, hotels and restaurants determine their individual suppliers.

2) Market Size, Structure, Trends

Post forecasts that South Africa will consume almost 4.1 billion liters of alcoholic beverages in 2015 (see Table 1). Beer is South Africa's preferred alcoholic beverage, representing almost 76 percent of total alcoholic beverage consumption at an annual consumption level of 3.1 billion liters in 2015. Distilled spirits consumption accounts for about three percent of total alcoholic beverage consumption in South Africa, at a forecasted 120 million liters in 2015.

Table 1: Alcoholic beverage consumption in South Africa (million liters)

	2011	2012	2013	2014 (estimate)	2015 (forecast)
Beer	2,969	3,016	3,061	3,100	3,120

Wine	353	361	369	379	385
Ready to drink (ciders)	391	432	466	470	480
Distilled Spirits	115	118	117	121	120
Total	**3,828**	**3,927**	**4,013**	**4,070**	**4,105**

In 2014, South Africa's imports of distilled spirits totaled nearly $346 million, a decrease of 10.75 percent from 2013 (see Table 2). The United Kingdom dominated the market, with a 64 percent share at about $221 million in 2014, followed by France with a 10 percent share at approximately $35 million. The United States was ranked third among South Africa's suppliers of distilled spirits imports, with an 8.34 percent market share at almost $29 million.

Table 2: South African Distilled Spirits Imports by $ Value – Top 15 Exporting Countries

Partner Country	**Value in USD**			**% Share**			**% Change 2014/2013**
	2012	**2013**	**2014**	**2012**	**2013**	**2014**	
World	346,876,779	387,407,844	345,751,481	100.00	100.00	100.00	- 10.75
United Kingdom	238,888,027	243,766,239	221,005,762	68.87	62.92	63.92	- 9.34
France	18,454,738	25,831,364	35,267,916	5.32	6.67	10.20	36.53
United States	26,230,462	22,827,198	28,844,562	7.56	5.89	8.34	26.36
Italy	3,647,139	34,316,273	14,042,138	1.05	8.86	4.06	- 59.08
Ireland	25,005,129	28,592,712	12,377,279	7.21	7.38	3.58	- 56.71
Germany	6,613,399	9,172,295	8,628,280	1.91	2.37	2.50	- 5.93
Australia	5,717,358	4,797,949	7,440,783	1.65	1.24	2.15	55.08
Mexico	7,344,824	5,816,972	5,659,322	2.12	1.50	1.64	- 2.71
Brazil	3,682,622	3,536,118	2,436,544	1.06	0.91	0.70	- 31.10
Guatemala	1,276	29,245	1,351,439	0.00	0.01	0.39	4521.02
Sweden	864,619	711,492	1,058,937	0.25	0.18	0.31	48.83
Netherlands	1,000,279	895,244	1,002,450	0.29	0.23	0.29	11.98
United Arab Emirates	0	466,180	795,331	0.00	0.12	0.23	70.61
Trinidad & Tobago	456,490	617,617	643,756	0.13	0.16	0.19	4.23
Poland	813,974	544,962	585,671	0.23	0.14	0.17	7.47

Source: South African Revenue Service

Whiskey is by far the most popular category of distilled spirits imports from all sources, accounting for more than 70 percent of the market at $150 million in 2015, followed by grape brandy at about a twelve percent market share of $18 million (see Table 3). Imports have fallen across all categories in recent years, due to economic stagnation in South Africa and decreased purchasing power for high-value imports as the Rand loses value.

Table 3: Growth Rate by Category of South African Distilled Spirits Imports (from all countries)

Time Period: January – July (to allow comparison with current year imports)								
HS Code	**Category**	**Value in USD**			**% Share**			**% Change 2015/2014**
		2013	**2014**	**2015**	**2013**	**2014**	**2015**	
2208	Distilled Spirits Total	186,176,029	182,485,890	150,786,081	100	100	100	-17.37
220830	Whiskies	136,391,093	127,019,455	106,138,481	73.3	69.61	70.39	-16.44
220820	Grape Brandy	13,796,219	19,589,625	18,053,728	7.41	10.73	11.97	-7.84
220890	Cordials Liqueurs Kirschwasser Ratafia Etc.	17,616,021	15,941,614	8,008,504	9.46	8.74	5.31	-49.76
220870	Liqueurs & Cordials	7,524,092	8,399,168	7,714,939	4.04	4.6	5.12	-8.15
220860	Vodka	3,731,666	5,515,749	5,378,026	2	3.02	3.57	-2.5
220840	Rum & Tafia	5,237,025	4,593,524	3,399,430	2.81	2.52	2.25	-26
220850	Gin & Geneva	1,879,914	1,426,754	2,092,974	1.01	0.78	1.39	46.69

Source: South African Revenue Service

U.S. exports of distilled spirits to South Africa totaled approximately 4.8 million liters in 2014, valued at $28.8 million. This represents a growth of 34 percent from 2013 imports.

Table 4: South African Imports of U.S. Distilled Spirits

HS Code	**Category**	**2012**		**2013**		**2014**	
		Value USD	**Quantity Liters**	**Value USD**	**Quantity Liters**	**Value USD**	**Quantity Liters**
2208	Distilled Spirits Total	26,230,462	3,127,493	22,827,198	3,582,307	28,844,562	4,803,481
220830	Whiskies	17,059,8	1,192,8	13,664,2	1,413,8	21,151,7	3,091,6

		52	11	68	85	13	43
220890	Cordials Liqueurs Kirschwasser Ratafia Etc.	2,988,042	1,235,094	3,452,826	1,285,906	4,041,516	1,198,207
220870	Liqueurs & Cordials	5,463,131	576,833	2,863,378	342,527	2,652,426	311,072
220840	Rum & Tafia	515,745	105,385	2,277,630	381,381	961,829	155,845
220850	Gin & Geneva	0	0	17,403	22,025	34,607	46,584
220860	Vodka	202,085	16,573	175,188	24,214	2,081	112
220820	Grape Brandy	1,608	797	376,505	112,368	390	18

Source: South African Revenue Service

3) Company Profiles

Table 5: Major Retailers which Dominate the South African Distilled Spirits Market

Retail Company	Ownership	2013 Sales (USD/Year in Mil)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
Shoprite - Checkers	Local	$9,058	1,902	Sub-Saharan Africa	Agent/Direct
Pick 'n Pay	Local	$6,109	1,076	Sub-Saharan Africa	Direct
Massmart	Local/U.S.	$6,882	376	Sub-Saharan Africa	Direct
Spar	Local/Dutch	$4,552	873	Sub-Saharan Africa	Agent/Direct

SECTION III. COSTS AND PRICES

The excise tax on for Distilled Spirits is ZAR137.54 per litre of pure alcohol.

SECTION IV. MARKET ACCESS

For the applicable import tariffs, please refer to the relevant sub-categories under HS Code 2208, on pages 104 and 105 of the South African tariff schedule available online here.

Information on South African Food and Agricultural Import Regulations and Standards is available in the 1/5/2015 GAIN report "South Africa FAIRS Country Report."

On May, 20, 2015, the South African Department of Trade and Industry published a government notice inviting the public to comment on a proposed National Liquor Policy. If the policy is implemented in its current form, it is expected to have economic implications to the liquor industry and could affect U.S. liquor exports to South Africa. There have been no further developments since the end of the public comment period on August 13, 2015. For additional information, please see the 7/27/2015 GAIN report "Proposed National Liquor Policy (Liquor Act 59 of 2003)."

On September, 4, 2014, the South African Minister of Health proposed two amendments to the regulations relating to health messages on container labels of alcohol beverages. South Africa has proposed that the health messages on container labels must cover at least one eighth (1/8) of the total size of the container, and that the alternate health messages shall be exhibited with equal regularity to each other within a twelve months cycle. The proposed amendment to the regulation was notified to the WTO TBT Committee on December, 3, 2014. There have been no further developments since the end of the public comment period on March 3, 2015. For additional information, please see the 1/30/2015 GAIN report "Regulation amendment on container labels of alcoholic beverages."

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

For additional information, including a current importer list, please contact:

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