

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY
USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT
POLICY

Required Report - public distribution

Date: 2/27/2014

GAIN Report Number:

South Africa - Republic of

Wine Annual

The South African Wine Industry: Production, Consumption and Trade

Approved By:

Corey Pickelsimer

Prepared By:

Dirk Esterhuizen

Report Highlights:

South Africa's 2014- grape crop for wine production is expected to be five percent less, at 1.42 million tons, than the record crop of 1.49 million tons produced in 2013. Post estimates that South Africa will produce about 1.1 billion liters of wine in 2014, marginally less than the 1.2 billion liters of wine produced in 2013. South Africa exported a record of 518 million liters of wine in 2013, on the back of the biggest grape crop ever recorded. The rand also depreciated by almost 20 percent against the major currencies in 2013, assisting South Africa to export almost 60 percent of local wine production. With a grape crop of 1.42 million liters, a continuing depreciation of the Rand against major currencies, and the shift to bulk exports, post estimates South Africa will export about 500 million liters of wine in 2014.

Executive Summary

South Africa's 2014-grape crop for wine production is expected to be five percent less than the record crop of 2013. The grape crop for 2014 is expected to be 1.42 million tons, while in 2013 it was 1.49 million tons. Post estimates that South Africa will produce about 1.1 billion liters of wine in the 2014 calendar year, marginally less than the 1.2 billion liters of wine produced in 2013.

With a grape crop of 1.42 million liters and a weakening currency, post estimates South Africa will export about 500 million liters of wine in 2014. South Africa exported a record of 518 million liters of wine in 2013, on the back of the biggest grape crop ever recorded. The rand also depreciated by almost 20 percent against the major currencies in 2013, assisting South Africa to export almost 60 percent of local wine production. South Africa's budget and current account deficits, strikes in the manufacturing and mining sectors, and the 2014-elections, make the currency more vulnerable than most emerging market peers during a period of global risk aversion. South Africa also switched to bulk wine exports with a lower per liter price point, making South African wine relatively more competitive in international markets. Bulk export volumes increased to 342 million liters or 66 percent of total exports in 2013,

South Africa's wine exports to the United States doubled in volume over the past five years to a record of 32 million liters in 2013. Wine exports to the United States are mainly in bulk and represent 68 percent of exports. Red wine exports to the United States increased by 240 percent in 2013, and represents now 43 percent of total exports.

US\$1 = Rand 11.07 (02/20/2014)

Production

The first wine in South Africa was pressed in 1659 in the Cape from imported France cuttings, seven years after the founding of a Dutch settlement by Jan van Riebeeck. Today, viticulture is still practiced predominately in the Western Cape Province at a latitude of 34° south, in an area with a mild Mediterranean climate (see Figure 1). However, there is also production taking place in the Northern Cape Province alongside the Orange River and a small amount in the province of KwaZulu-Natal. The Western Cape enjoys a cooler climate than its latitude might suggest due to cooling breezes from the cold Benguela current that flows northwards from Antarctica into the Atlantic Ocean, which moderate the summer temperatures. With excellent growing conditions and different soil types, a wide range of grape varieties for winemaking can be produce in South Africa's wine producing areas.

WINEGROWING AREAS OF SOUTH AFRICA

WESTERN CAPE

COASTAL REGION

Districts:

- SWARTLAND
- STELLENBOSCH
- TYGERBERG
- CAPE POINT
- CONSTANTIA (Ward)
- TULBAGH
- PAARL
- FRANSCHHOEK VALLEY
- DARLING
- WELLINGTON

KLEIN KAROO

Districts:

- CALITZDORP
- LANGEBERG-GARCIA

CAPE SOUTH COAST

- OVERBERG
- WALKER BAY
- SWELLENDAM
- CAPE AGULHAS
- PLETTENBERG BAY
- ELGIN (Ward)

OLIFANTS RIVER

Districts:

- LUTZVILLE VALLEY
- CITRUSDAL VALLEY
- CITRUSDAL MOUNTAIN

BREEDE RIVER VALLEY

Districts:

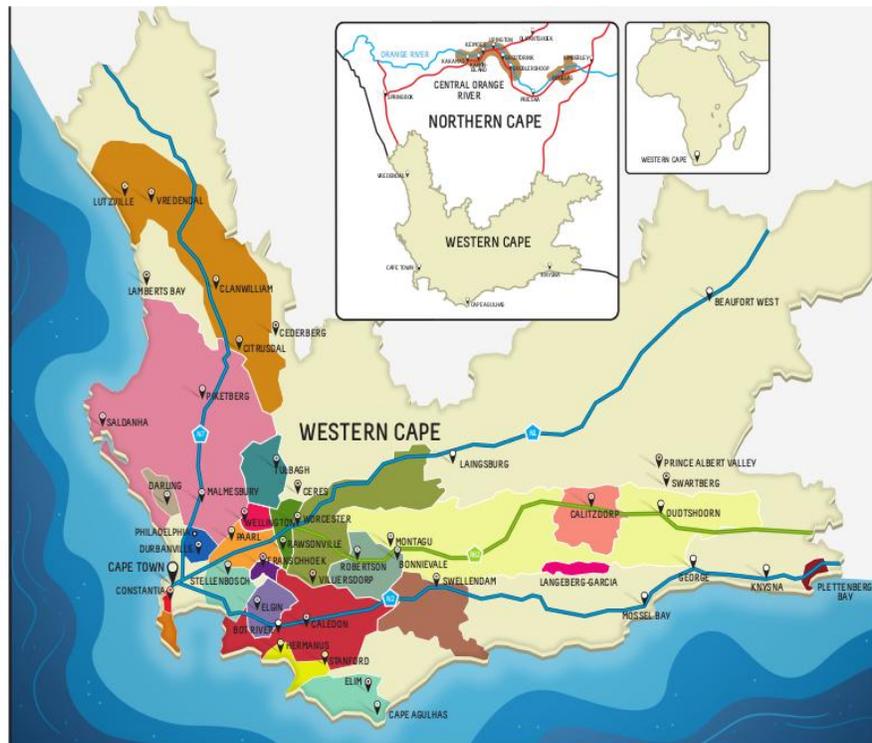
- BREEDEKLOOF
- WORCESTER
- ROBERTSON

WARDS NOT PART OF A REGION

- CERES
- CEDERBERG
- PRINCE ALBERT VALLEY
- SWARTBERG
- LAMBERTS BAY

NORTHERN CAPE

- CENTRAL ORANGE RIVER (Ward)



www.wosa.co.za
www.varietyisinournature.com

Figure 1: Wine producing areas in South Africa

Source: Wines of South Africa (WOSA)

The South African 2014-grape crop for wine production is expected to be five percent less than the record crop of 2013. The grape crop for 2014 is expected to be 1.42 million tons, while in 2013 it was 1.49 million tons. The 2013 crop exceeded all expectations of the South African wine industry as the

crop was harvested later than usual and over a shorter time, but ideal weather conditions during the flowering and berry set period resulted in the biggest crop ever produced in South Africa (see also Figure 2).

South Africa has about 100,000 hectares under wine grape cultivation, which has been fairly constant in the past ten years. White varieties constitute about 55 percent of the plantings and red varieties, 45 percent. The most widely planted white variety is Chenin blanc, representing 18 percent of total plantings, followed by Colombard (12 percent) and Sauvignon blanc (10 percent). The most widely planted red variety is Cabernet Sauvignon, 12 percent of total area, followed by Shiraz (10 percent), and Pinotage (7 percent), which was developed in South Africa through breeding.

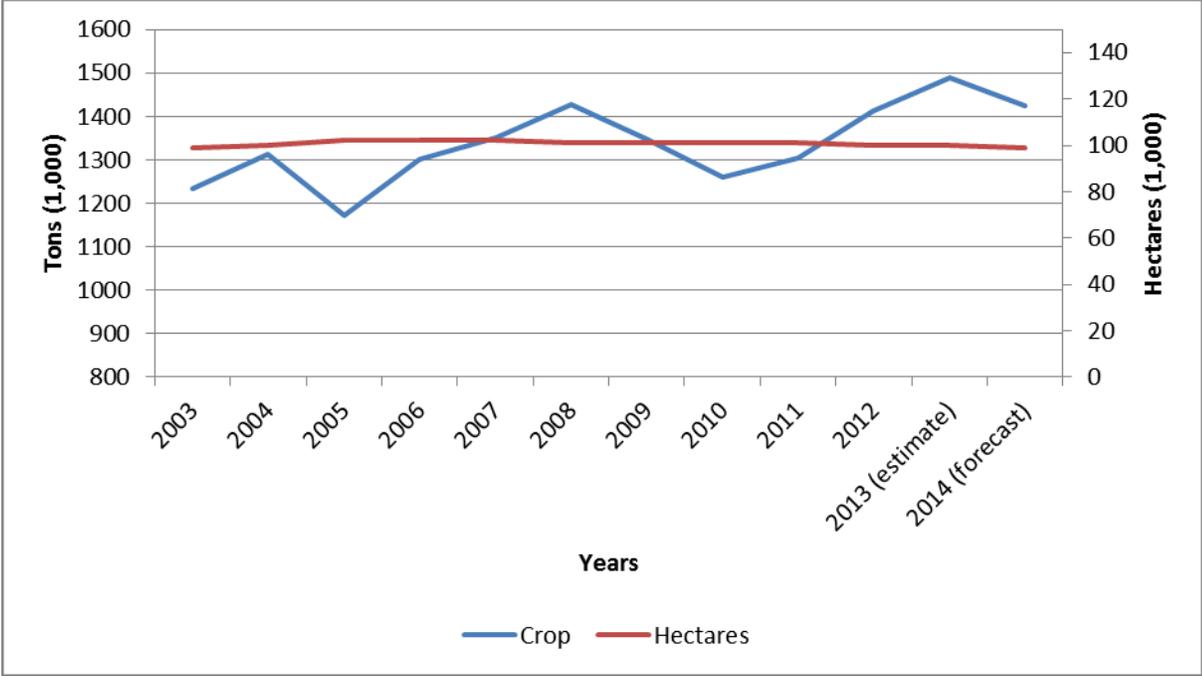


Figure 2: The trend in wine grape production in South Africa the past ten years
 Source: SAWIS

Post estimates that South Africa will produce about 1.1 billion liters of wine in the 2014-calendar year from the 1.4 million tons of grapes, marginally less than the 1.2 billion liters of wine produced in 2013. In 2012, South Africa also produced 1.1 billion liters of wine. Of the 1.1 billion liters of wine that will be produced in 2014, about 40 million liters will be used for brandy production, 40 million liters for grape juice and 140 million liters as distilled wine (see also Table 1).

Table 1: Wine production in South Africa

Calendar years	2012	2013 (estimate)	2014 (forecast)
<i>Total grape crop (million tons)</i>	1.414	1.490	1.423
Liters per gross ton	774	772	774

<u>Wine produced (million gross liters)</u>			
Wine	871	909	880
Wine for brandy	62	42	40
Grape juice	40	53	40
Distilling wine	122	147	140
Total wine production (million gross liters)	1,095	1,150	1,100

Source: SAWIS

Consumption

Post estimates that South Africa will consume almost 4.1 billion liters of alcoholic beverages in 2013 (see Table 2). Beer is South Africa's preferred alcoholic beverage, and at an annual consumption level of 3.2 billion liters, it represents almost 80 percent of total alcoholic beverage consumption. An estimated wine consumption of 375 million liters in 2014, or seven liters per capita, represents about nine percent of total alcoholic beverage consumption in South Africa. Wine consumption has increased by more than two percent per annum in the past five years, as the continued expansion of the middle-class has brought about new wine consumers (see Figure 3). South Africa consumes about 30 million liters of brandy per annum.

Table 2: Alcoholic beverage consumption in South Africa (million liters)

	2010	2011	2012	2013 (estimate)	2014 (forecast)
Beer	2,902	2,969	3,016	3,090	3,150
Wine	346	353	361	368	375
Spirits (excl. brandy)	71	76	82	90	100
Brandy	41	39	36	32	30
Ready to drink	376	391	432	450	470
Total	3,736	3,827	3,927	4,030	4,125

Note: Ready to drink refers to both Alcoholic Fruit Beverages such as Savanna and Hunters and Spirit Coolers such as Smirnoff Spin

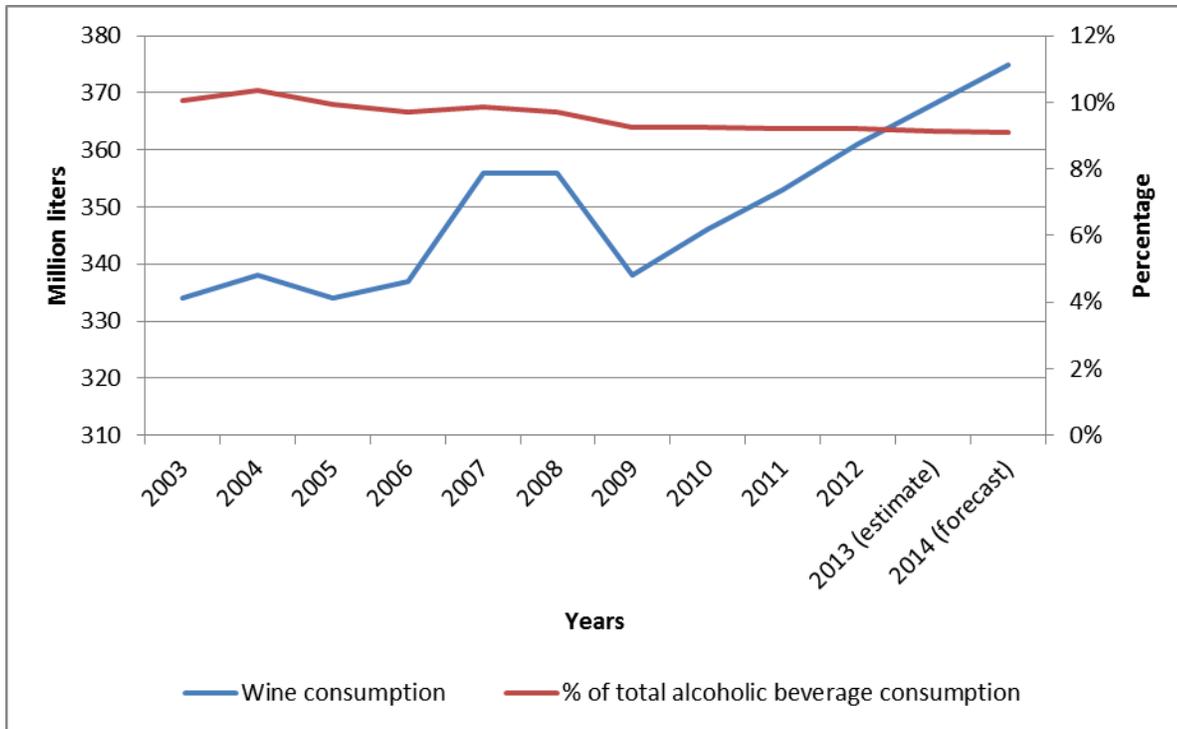


Figure 3: The trend in wine consumption in South Africa

Trade

Exports

With a grape crop of 1.42 million liters and a weakening currency, post estimates South Africa will export about 500 million liters of wine in 2014.

South Africa exported a record of 518 million liters of wine in 2013, on the back of the biggest grape crop ever recorded. The rand also depreciated by almost 20 percent against the major currencies in 2013, assisting South Africa to export almost 60 percent of local wine production (see also Figure 4). South Africa's budget and current account deficits, strikes in the manufacturing and mining sectors, and the 2014-elections, make the currency more vulnerable than most emerging market peers during a period of global risk aversion. South Africa also switched to bulk wine exports with a lower per liter price point, making South African wine relatively more competitive in international markets. Bulk export volumes increased from 69 million liters (29 percent of total exports) in 2003, to 342 million liters (66 percent of total exports) in 2013, while packaged exports only increased from 169 million liters, or 71 percent of total exports in 2003, to 176 million liters, or 34 percent of total exports in 2013 (see also Figure 5). Post believes that the growing trend in bulk exports will continue in the future as the cost of local bottling, due to sharp increases in fuel, labor and electricity costs, is making South Africa's bottled wine relatively less competitive internationally.

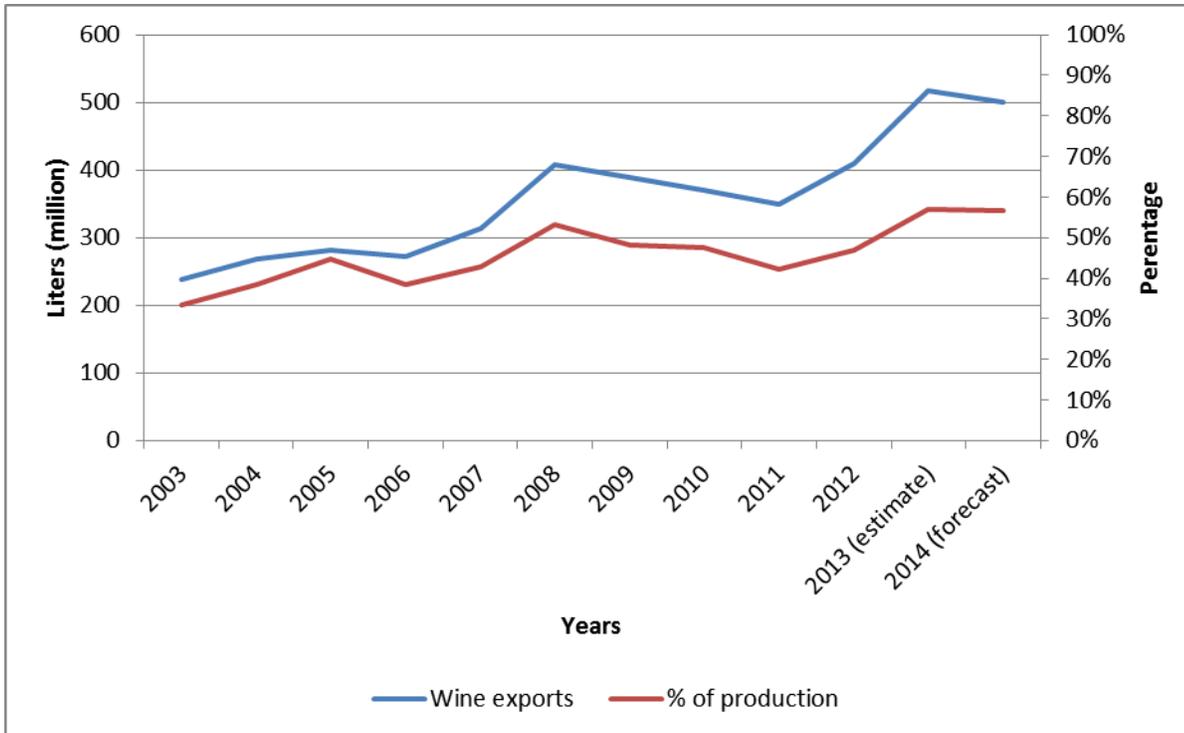


Figure 4: The trend in wine exports by South Africa the past 11 years
Source: SAWIS

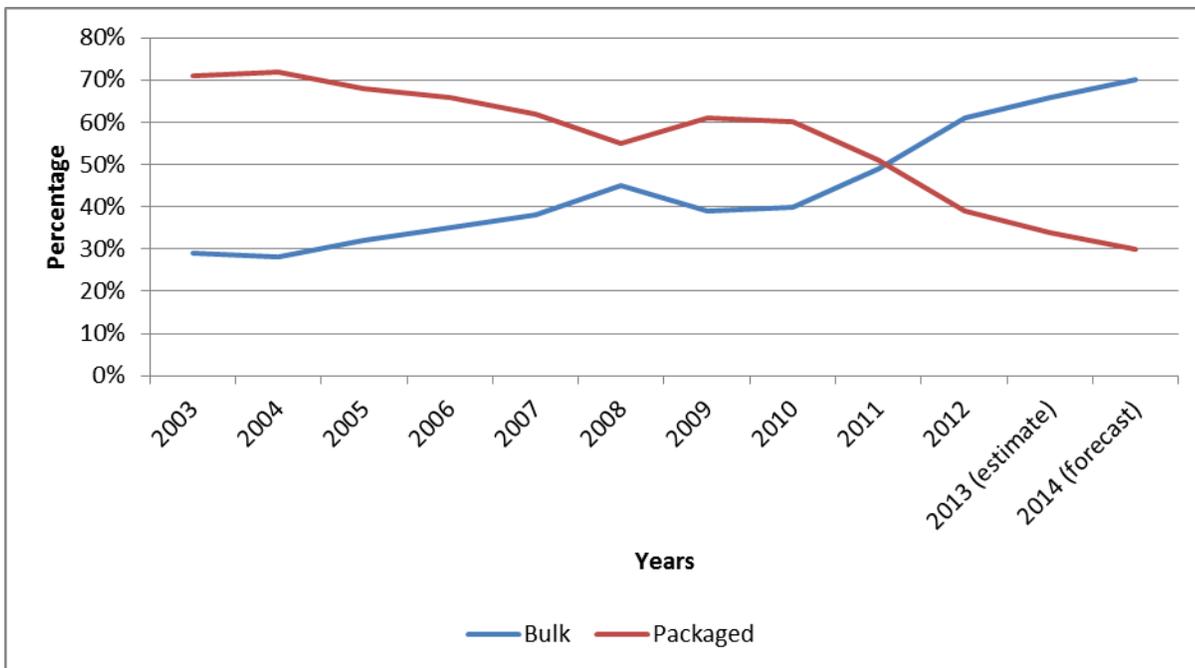


Figure 5: The trends in bulk and packaged exports as percentage of total exports
Source: SAWIS

In 2013, South Africa's top five wine export markets, by volume, were the United Kingdom (21 percent of total exports), Germany (19 percent), France (7 percent), Russia (8 percent) and the United States (6 percent) (see also Figure 6). Thirty-eight percent of total wine exported were from red varieties, down from 51 percent in 2008. White wine exports increased from 43 percent of total wine exports in 2008 to 49 percent in 2013, while Blanc de Noir and Rose wines exports increased from six percent of total wine exports in 2008 to 13 percent in 2013. It is clear from Figure 7 that there has been a shift from red wine exports to white wine exports by South Africa, mainly due to sharp increases in bulk white wine demand in Russia, the United States and Canada. Figure 8 illustrates the trends the past five years in white wine and red wine exports in bulk and bottled products.

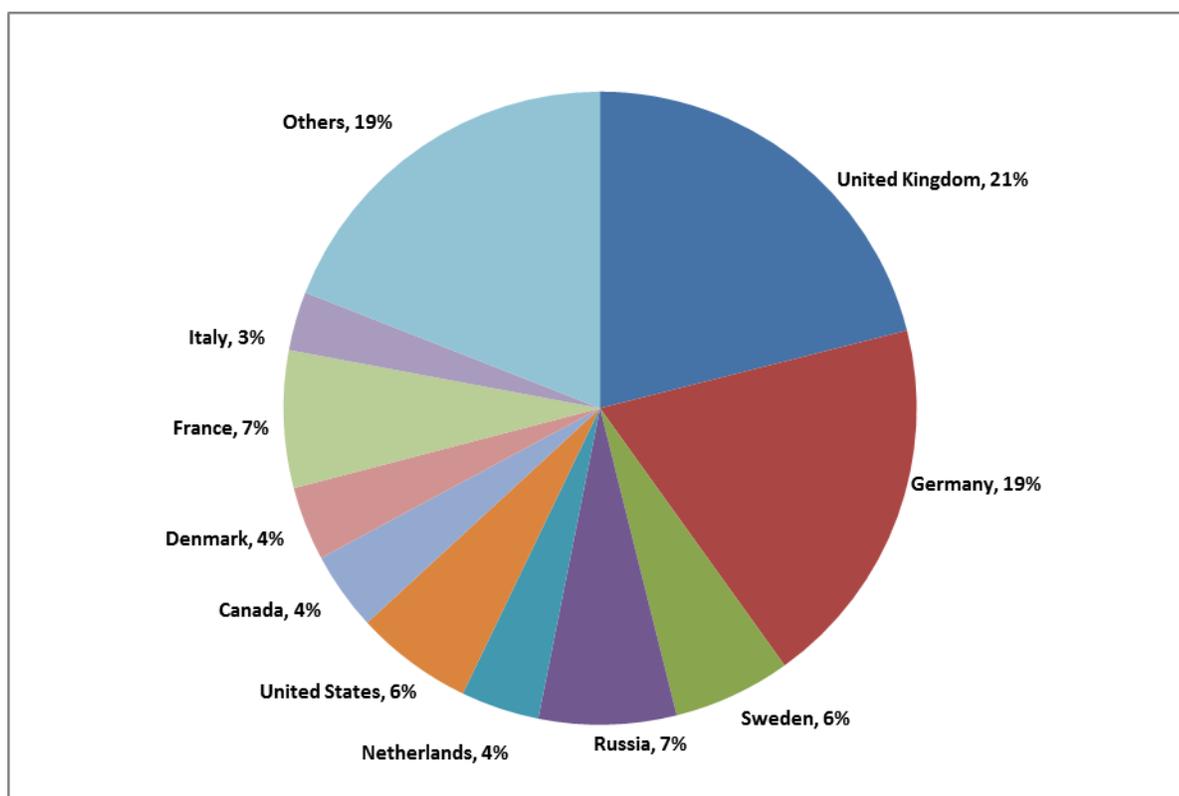


Figure 6: The major markets of South African wine in 2013

Source: SAWIS, Global Trade Atlas (GTA)

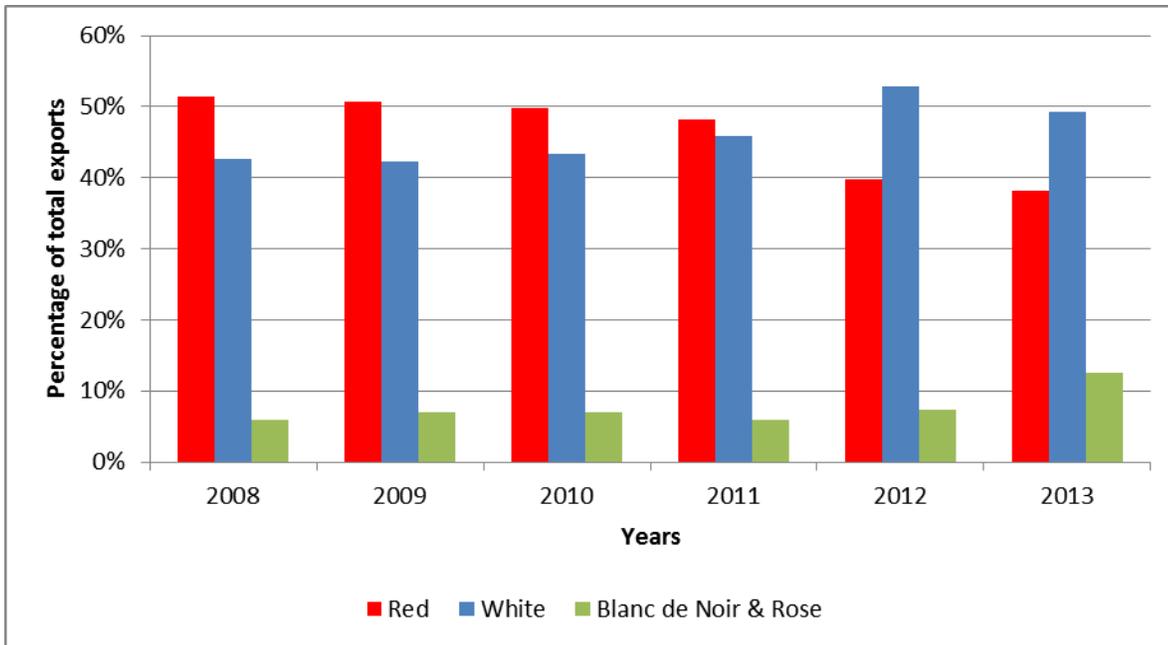


Figure 7: The trend in white wine and red wine exports as percentage of total exports
Source: SAWIS

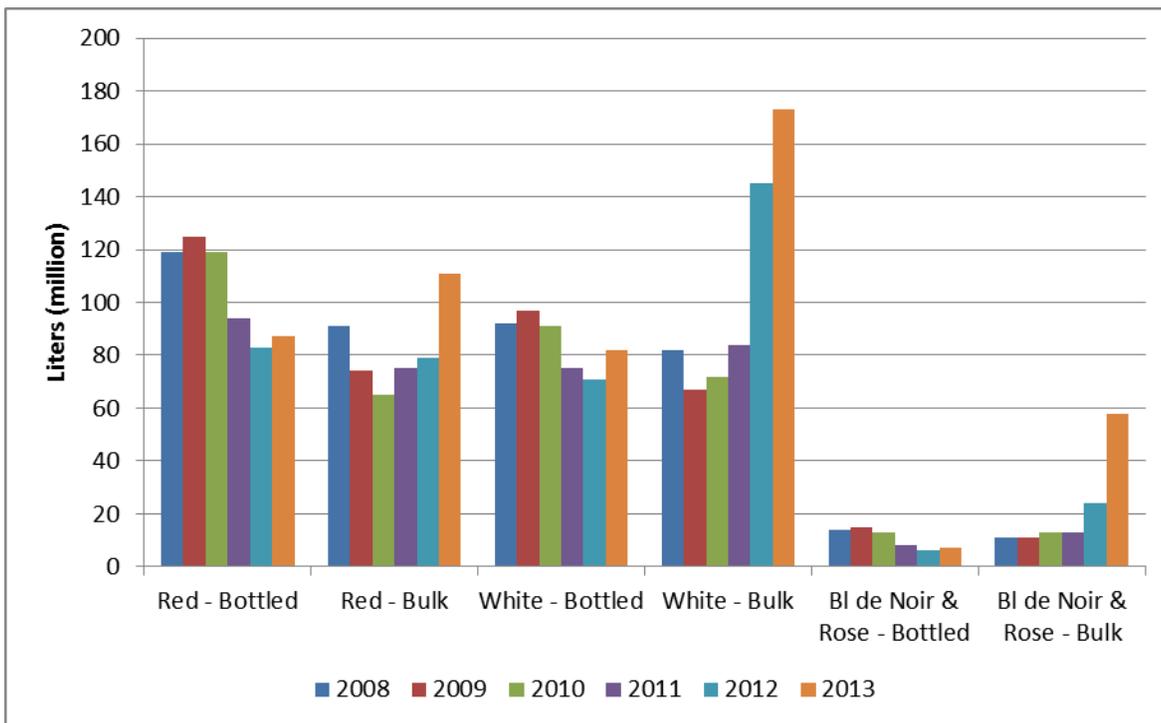


Figure 8: The trends in white wine and red wine exports as bulk or bottled products
Source: SAWIS

South Africa’s wine exports to the United States

South Africa’s wine exports to the United States doubled in volume over the past five years to a record of 32 million liters in 2013 (see Figure 9). Wine exports to the United States are mainly in bulk and represent 68 percent of exports. Red wine exports to the United States increased by 240 percent in 2013, and represents now 43 percent of total exports. In 2012, red wine exports to the United States only represented 17 percent of total exports.

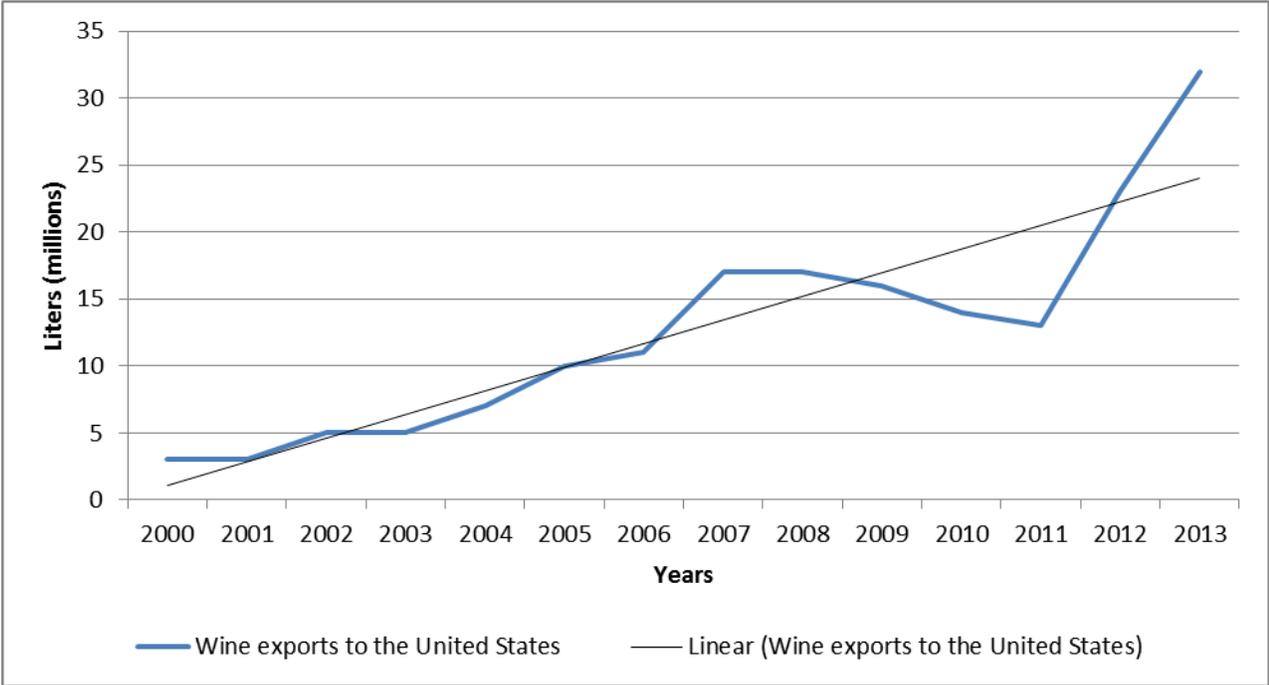


Figure 9: South Africa’s wine exports to the United States
Source: GTA

Imports

South Africa imported about 2.2 million liters of wine, or 0.1 percent of production in 2013, down 15 percent from the 2.6 million liters imported in 2012. Major import countries included France (30 percent of total imports), Italy (20 percent) and Portugal (10 percent). South Africa imported limited quantities of wine from the United States, primarily due to South Africa’s relatively high import duty of 25 percent on United States wines compared with European wines, where the import tariff is zero percent, due to South Africa’s Free Trade Agreement with the European Union (see also Table 3).

Table 3: Import duties of wine to South Africa

Item	Description	Unit	General	EU	EFTA	SADC
2204.10	Sparkling wine	liter	25%	Free	25%	Free
2204.21.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free
2204.21.40	Unfortified wine	liter	25%	Free	25%	Free
2204.21.50	Fortified wine	liter	25%	Free	25%	Free
2204.29.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free
2204.29.40	Unfortified wine	liter	25%	Free	25%	Free
2204.29.50	Fortified wine	liter	25%	Free	25%	Free
2204.30	Other grape must	liter	25%	Free	25%	Free

Source: Cargoinfo

Stocks

Wine stock levels in 2013 decreased by 14 percent to 372 million liters from 433 million liters in 2012, due to record export. At the end of 2011, South Africa's wine stock was at 414 million liters.

The Regulatory Environment

Several laws and regulations govern the wine industry in South Africa which includes:

- **Biodiversity Act, No. 10 of 2004**
 - National Veld and Forest Fire Act (No 101 of 1998)
 - Protected Areas Act (No 57 of 2003)
 - Subdivision of Agricultural Land Act (No 70 of 1970)
 - Western Cape Nature Conservation Laws Amendment Act (No 3 of 2000)
- **Competition Act, No 89 of 1998**
This legislation impacts on all businesses generally and provides for the investigation, control and evaluation of restrictive practices, abuse of dominant positions and mergers.
- **Consumer Protection Act 68 of 2008**
On April 1, 2011, the South African Department of Trade and Industry (DTI) published regulations that brought the Consumer Protection Act (68/2008) into force. The regulation came into effect six months (October 1, 2011) after the commencement of the act. The primary purpose of the act is to prevent exploitation or harm of consumers and to promote the social well-being of consumers. The Act includes a significant change to product liability, where a consumer no longer has to demonstrate that a producer was negligent before receiving compensation for injury. The new legislation puts the burden of proof on the producer or supplier, meaning that a consumer can sue almost any producer or supplier for harm or injury that is the result of a failed, defective, or unsafe product.

- **Environmental legislation includes:**

- Conservation of Agricultural Resources Act (No 43 of 1983)
- Environment Conservation Act (No 73 of 1998)
- Cape Nature and Environmental Conservation Act (No 19 of 1974)
- National Water Act (No 36 of 1998)
- National Environmental Management Act (No 107 of 1998)
- Health Act (No 63 of 1977)
- Occupational Health and Safety Act (No 85 of 1993)
- Atmospheric Pollution Prevention Act (No 45 of 1965)
- Fertilizer, Farm Feeds, Agricultural Remedies and Stock Remedies Act (No 36 of 1947)
- Conservation of Agricultural Resources Act (no 43 of 1983)

- **The Liquor Products Act No. 60 of 1989**

Regulates the import and export of liquor products

http://www.westerncape.gov.za/Text/2003/liquor_products_act_no60_1989.pdf

- **The Liquor Act no 59 of 2003**

Regulates the large scale manufacture and the distribution of liquor and requires all large scale manufacturers and distributors to be registered with the National Liquor Authority. The act can be accessed at: <http://www.thedti.gov.za/nla/acts/act2003.pdf>

- **The Foodstuff, Cosmetics and Disinfectants Act, 54 of 1974**

According to this act, mandatory warnings about the health effects of alcohol must appear on container labels of liquor products labeled since February, 24 2009. The regulation obliges the use of the following messages:

1. Alcohol reduces driving ability, don't drink and drive.
2. Drinking during pregnancy can be harmful to your unborn baby.
3. Alcohol abuse is dangerous to your health
4. Alcohol increases your risk to personal injuries
5. Alcohol is a major cause of violence and crime
6. Alcohol is addictive
7. Don't drink and walk on the road, you may be killed

The act can be accessed at:

<http://www.doh.gov.za/healthtopics.php?t=Food%20Control&c=Legislation>

- **The marketing of Agricultural Products no.47 of 1996**

Statutory levies are collected to fund the collection and dissemination of industry information and statistics, research and development, generic export promotion campaigns and certain empowerment objectives.

- **Label Requirements**

Wines sold in South Africa, whether certified or not, must comply with a number of mandatory label requirements which must refer to class designations, alcohol content, name and full address, Wine of Origin, cultivar and vintage.

- **Labor Legislation includes:**

- Labor Relations Act (no 66 of 1995)
- Basic Conditions of employment Act (No 75 of 1997)
- Employment Equity Act (No 55 of 1998)
- Skills Development Act (No 97 of 1998)

Tax on Domestic wine

South African Revenue Service (SARS) taxes domestic wine through the excise tax. Unfortified wine incurred an increase in excise duty of six percent by the Minister of Finance, Mr. Pravin Gordhan, during the annual National Budget Speech on 26 February 2014. Both the excise duties for fortified wine and sparkling wine have increased by seven percent. The excise duty per liter on unfortified wine, fortified wine and sparkling wine now equals R2.87 (\$0.26), R5.21 (\$0.47), and R8.90 (\$0.80), respectively. There is also a 14 percent VAT (Value Added Tax) charged on all wines sold in South Africa.

Table 4: Excise Duty on wine

Product	Date Adjusted		
	2/22/2012	2/27/2013	2/26/2014
Sparkling wine	R7.53/l (US\$0.68/l)	R8.28/l (US\$0.75/l)	R8.90/l (US\$0.80/l)
Natural wine	R2.50/l (US\$0.23/l)	R2.70/l (US\$0.24/l)	R2.87/l (US\$0.26/l)
Fortified wine	R4.59/l (US\$0.41/l)	R4.85/l (US\$0.44/l)	R5.21/l (US\$0.47/l)