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Wine Annual

The South African Wine Industry: Production, Consumption and Trade

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Report Highlights:

Post forecasts that the South Africa grape crop for wine production will decrease by two percent to 1.490 million tons in 2015, from the peak production of 1.520 million tons in 2014. Post forecasts that South Africa wine exports will increase by 4 percent to 500 million liters in 2015. South Africa wine exports to the United States have grown from 12,971,841 liters in 2011 to 24,460,215 liters in 2014. South Africa's wine imports from the United States have grown steadily from 14,359 liters in 2012 to 38,552 liters in 2014. On September, 4, 2014, the Minister of Health, proposed amendments to the regulations relating to health messages on container labels of alcohol beverages, which could impact the exports of wines to South Africa.

Executive Summary

Post forecasts that the South Africa grape crop for wine production will decrease marginally by two percent to 1.490 million tons in 2015, following the peak production of 1.520 million tons in 2014. The 2013 grape crop for wine production was 1.498 million tons as per industry data. Post forecasts that South Africa will produce about 1.150 billion liters of wine in the 2015 calendar year, two percent less than the estimated wine production of 1.172 billion liters in 2014, based on the available grape crop. The 2013 wine production was published by industry at 1.157 billion liters.

Post forecasts that South Africa will export 500 million liters of wine in 2015, based on the available wine production of 1.150 billion liters and the weakening exchange rate. Europe will continue to be the major export market for South African wine. The growth in South African bulk wine exports is forecasted to continue, at the back of the global trend of bulk wine export growth and the economic slowdown of some countries in the EU. Bulk wine exports are forecasted at 350 million liters in 2015 (70% of total exports). The 2014 bulk wine exports are estimated at 322 million liters (67% of total exports), and the 2013 bulk wine exports were 342 million liters (65% of total exports).

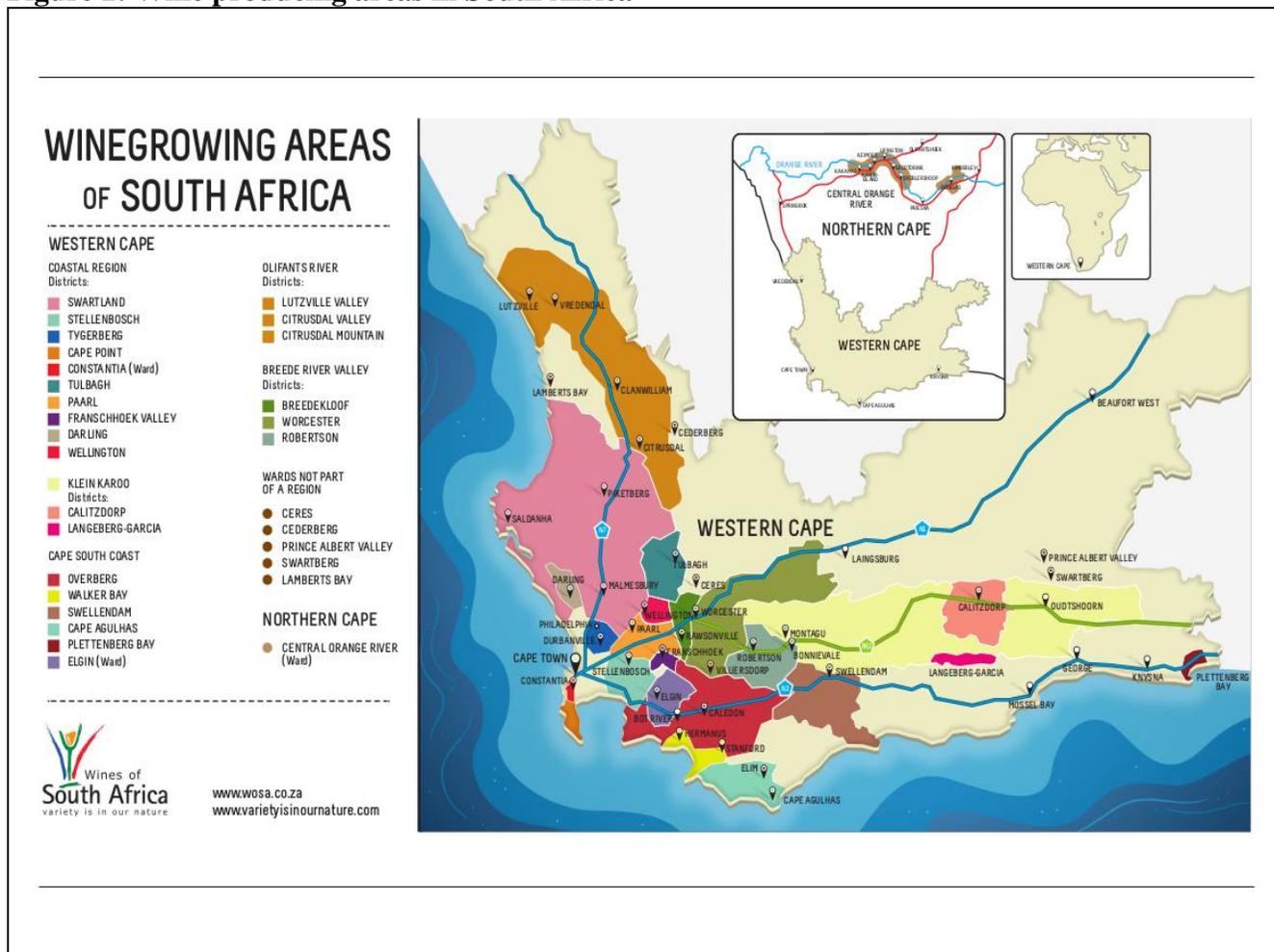
While South Africa's imports from the United States were only two percent of the total imports in 2014, they have grown steadily from 14,359 liters in 2012 to 38,552 liters in 2014.

On September, 4, 2014, the Minister of Health, proposed amendments to the regulations relating to health messages on container labels of alcohol beverages, which could impact the cost and exports of wines to South Africa. Post is aware that industry in South Africa and the United States have raised concern and submitted comments on the proposed amendment to the regulation.

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 produced in South Africa’s wine producing areas.

Figure 1: Wine producing areas in South Africa



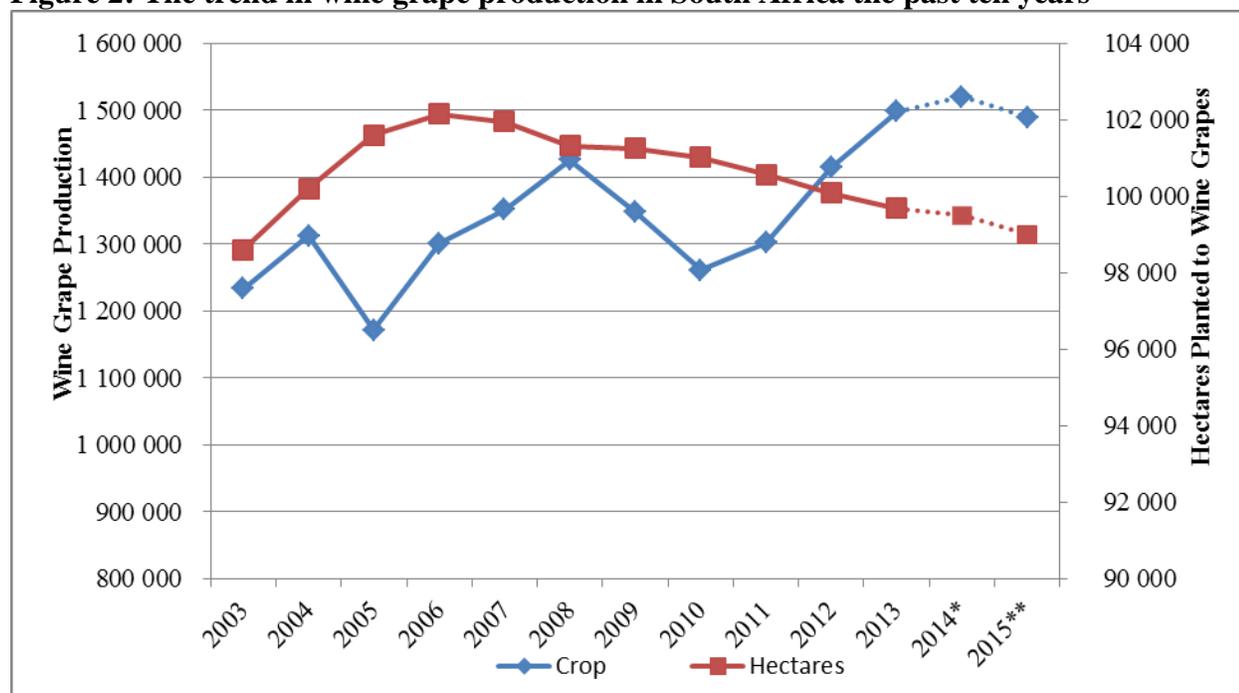
Source: Wines of South Africa (WOSA)

The South African 2015 grape crop for wine production is forecasted to decrease by two percent to 1.490 million tons from the 2014 peak production estimated at 1.520 million tons as per industry data. The final 2013 grape crop for wine production was 1,498,702 tons as per industry publication. The 2015 season started two weeks earlier than normal, and according to some wineries the wine grape berries are

expected to be smaller in size and concentrated as a result of the long, dry and windy summer. This has raised expectations that the 2015 South African wines would be of better quality. The 2014 peak grape crop at 1.520 million tons, 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 **Figure 2**).

South Africa has approximately 100,000 hectares under wine grape cultivation, which has been fairly constant with only slight decreases in the past ten years. White grape varieties constitute about 55 percent of the plantings and red grape varieties, 45 percent. The most widely planted white variety is Chenin blanc, representing 18 percent of total plantings, followed by Colombar (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



**Estimate*, ** *Forecast*

Source of data: SAWIS and Vinpro

Post forecasts that South Africa will produce about 1.150 billion liters of wine in the 2015 calendar year from the 1.490 million tons of grapes, two percent less than the 1.172 billion liters of wine produced in 2014. In 2013, South Africa produced 1.157 billion liters of wine. Of the 1.150 billion liters of wine that will be produced in 2015, about 940 million liters will be used for natural, sparkling and fortified wine production, 42 million liters will be used for brandy production, 40 million liters for grape juice and 128 million liters as distilled wine (see **Table 1**).

Table 1: Wine production in South Africa

Calendar years	2012	2013	2014 (Estimate)	2015 (forecast)
Total grape crop (million tons)	1,414	1,499	1,520	1,490
Liters per gross ton	776	772	771	772
Wine produced (million gross liters)				
Wine (natural, sparkling and fortified)	871	915	955	940
Wine for brandy	62	42	48	42
Grape juice	40	59	40	40
Distilling wine	122/124	141	129	128
Total wine production (million gross liters)	1,097	1,157	1,172	1,150

Source: SAWIS

Consumption

Post forecasts that South Africa will consume almost 4.1 billion liters of alcoholic beverages in 2015 (see **Table 2**). Beer is South Africa's preferred alcoholic beverage, and at an annual consumption level of 3.1 billion liters, it represents almost 76 percent of total alcoholic beverage consumption. A forecasted wine consumption of 385 million liters in 2015, 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 new wine consumers (see **Figure 3**). South Africa consumes about 30 million liters of brandy per annum.

The South African wine industry is in the process of developing a comprehensive plan called the Wine Industry Strategy Exercise (WISE) project. Some of the specific targets the WISE project seeks to accomplish include, growing the domestic consumption of wine (current domestic consumption is estimated at only 6 liters/capita); reducing the percentage of bulk wine exports from 65% to 40%; and increasing the percentage of black owned land and water rights from 1.5% to 15%. Detailed information on the WISE project is available on the following website, <http://www.wisewine.co.za/>.

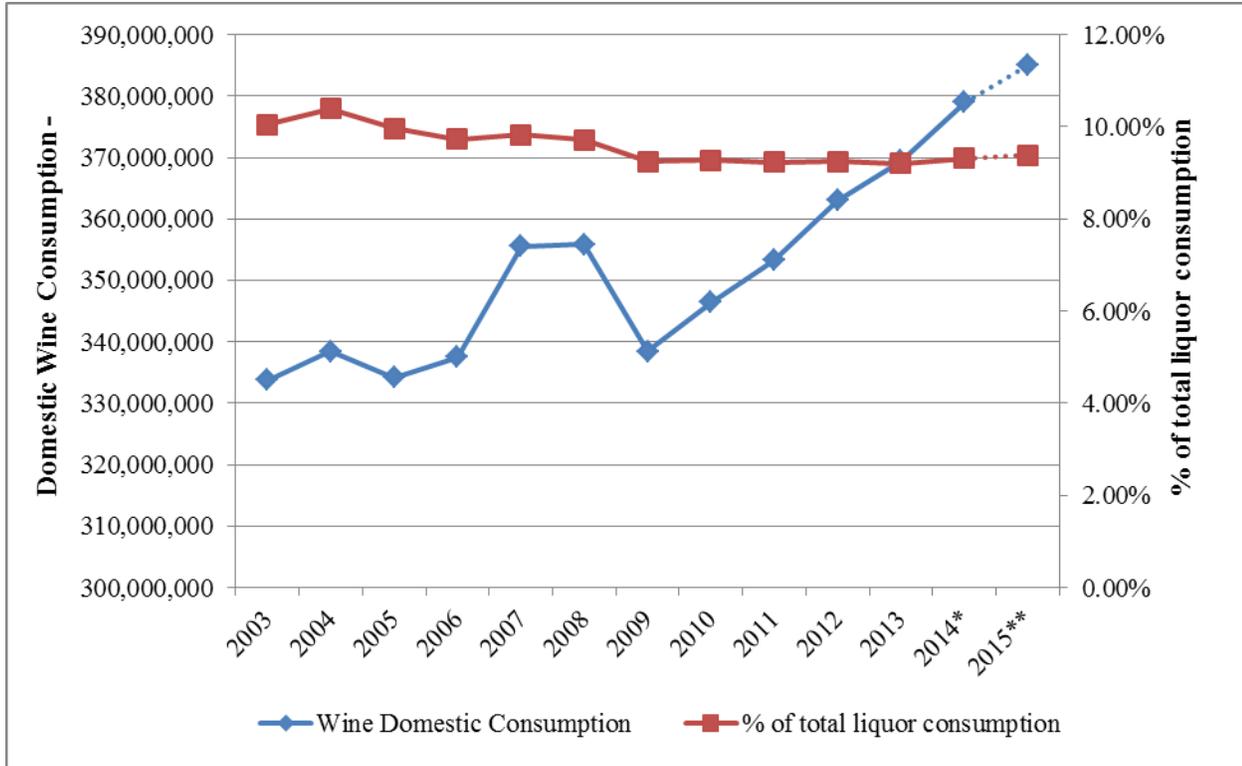
Table 2: Alcoholic beverage consumption in South Africa (million liters)

	2011	2012	2013	2014 (estimate)	2015 (forecast)
Beer	2,969	3,016	3,061	3,100	3,120
Wine	353	361	369	379	385
Spirits (excl. brandy)	76	82	84	90	90
Brandy	39	36	33	31	30
Ready to drink*	391	432	466	470	480
Total	3,827	3,927	4,013	4,070	4,105

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

Source: SAWIS

Figure 3: The trend in wine consumption in South Africa



**Estimate, ** Forecast*

Source of data: SAWIS

Trade

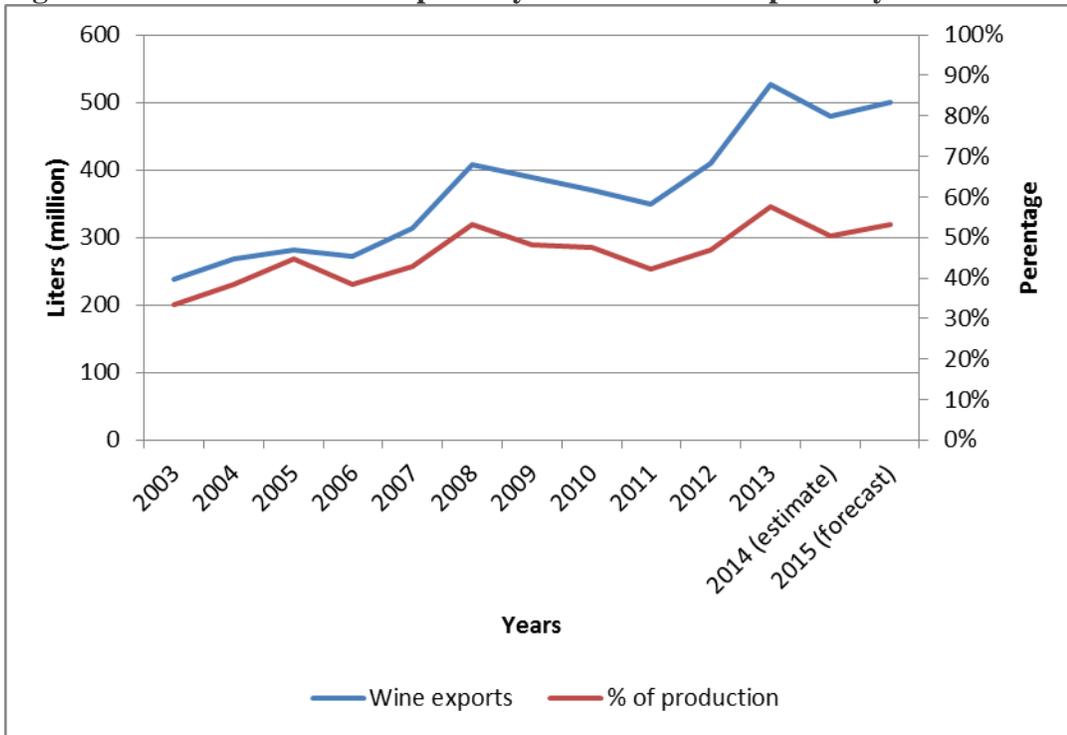
Exports

Posts forecasts that South Africa will export 500 million liters of wine (natural, sparkling and fortified wine) in 2015, based on the total wine production of 1,150 million liters (including wine, wine for brandy, distilled wine, grape juice) and the prevailing weak rand exchange rate (R11.60/US\$). Post estimates the South African wine exports at 480 million liters in 2014, down from the peak exports of 526 million liters in 2013, based on Global Trade Atlas (GTA) data.

Post forecasts that the growing trend in bulk wine exports from South Africa will continue to 350 million liters (70% of total exports) in 2015. The 2014 bulk wine exports are estimated at 322 million liters (67% of total exports) based on the available wine production, and the 2013 bulk wine exports were 342 million liters (65% of total exports) based on industry data. A long term comparison shows that the growth in bulk wine exports is much more significant, as bulk wine exports were only 69 million liters (29 percent of total exports) in 2003. The growth in bulk wine exports is a global trend driven largely by cost reduction measures, demand for lower priced wines, and competition. This trend is expected to continue. The European Union, which is the biggest markets for South African wine, is the leading importer for bulk wine, in addition, some EU countries are undergoing an economic slowdown. As a result, unless South Africa diversifies its export markets from Europe significantly, its bulk wine exports are projected to continue increasing in the coming years at the back of the above factors and an increase in production.

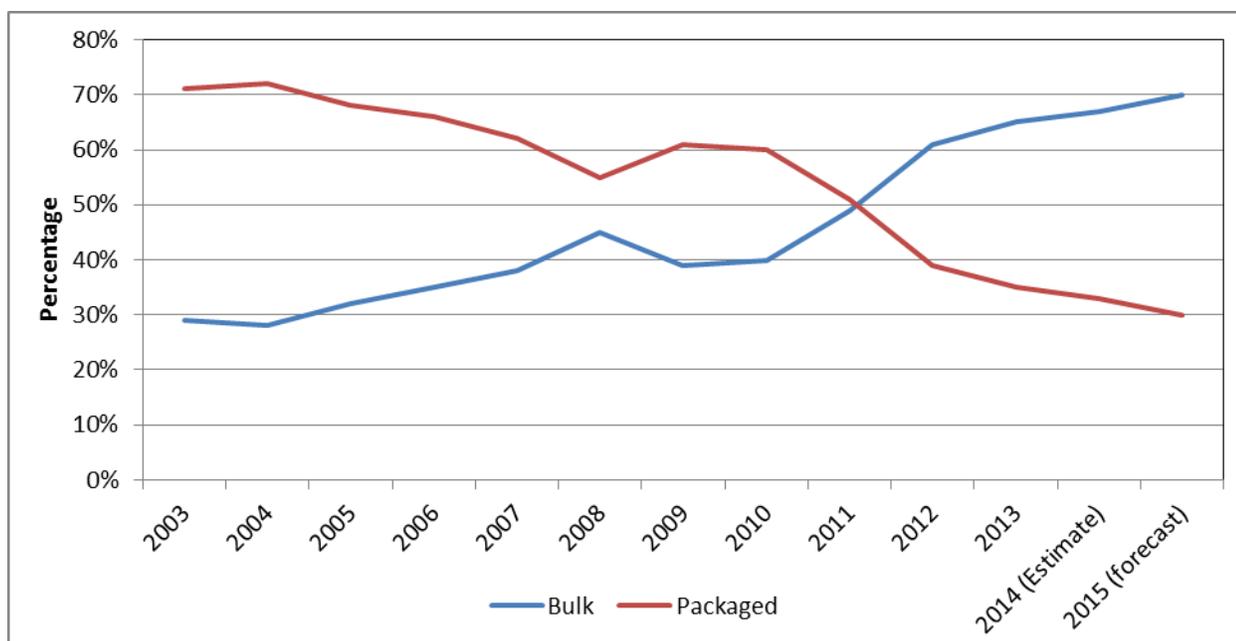
While the WISE project seeks to reduce South Africa's percentage of bulk wine exports from 65% to 40% by 2025, this is not expected to significantly affect the growth in bulk exports in 2015 (**Figure 5**).

Figure 4: The trend in wine exports by South Africa the past 12 years



Source: SAWIS

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

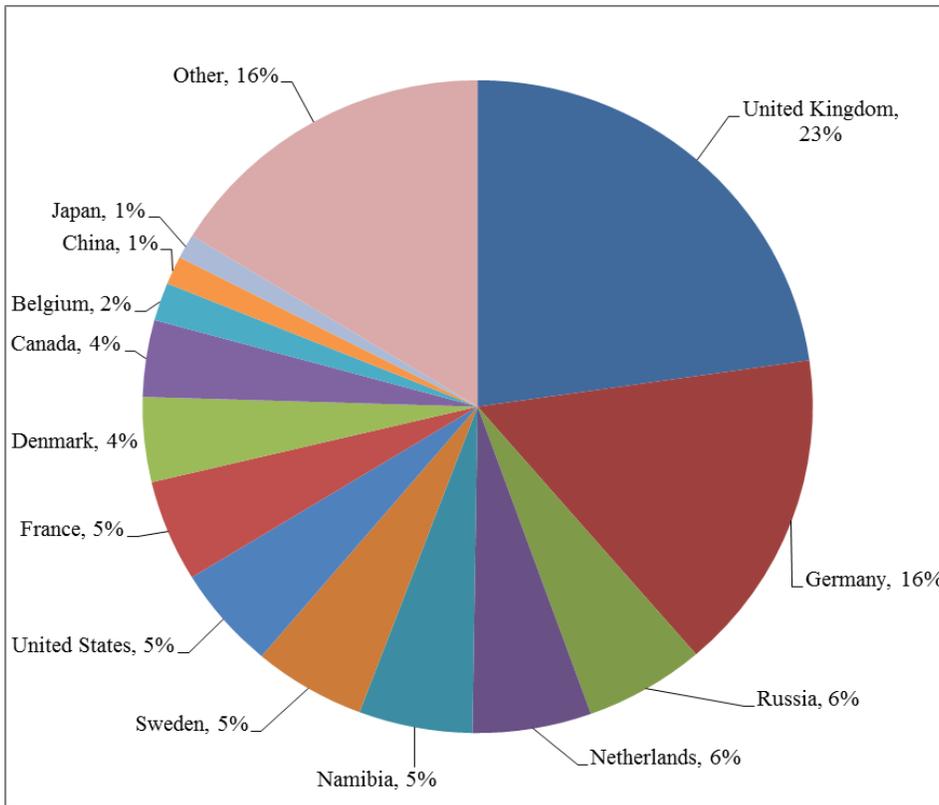


Source: SAWIS

In 2014, South Africa's top wine export markets by volume, were the United Kingdom (23 percent of total exports), Germany (16 percent), Russia (6 percent), Netherlands (6 percent), Namibia (5 percent) and the United States (5 percent). **Figure 6** shows that Europe is still the largest destination market for South Africa's wine exports.

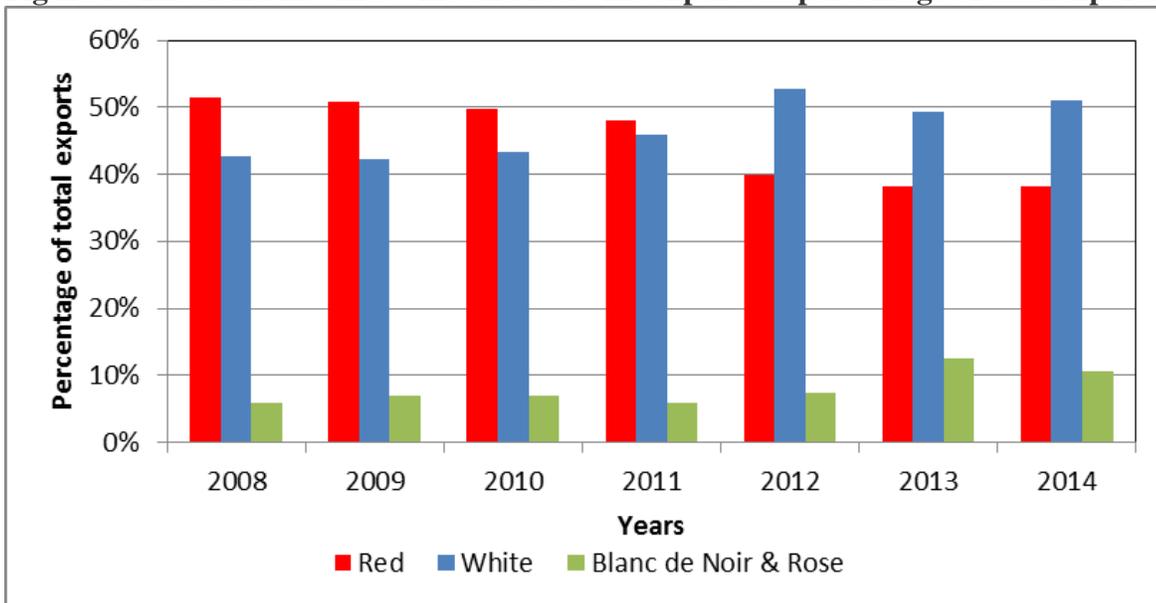
Thirty-eight percent of total wine exported where from red varietals, down from 51 percent in 2009. White wine exports increased from 42 percent of total wine exports in 2009 to 51 percent in 2014. Blanc de Noir and Rose wines exports increased from seven percent of total wine exports in 2009 to 11 percent in 2014. 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 seven years in white wine and red wine exports in bulk and bottled products.

Figure 6: The major markets of South African wine in 2014



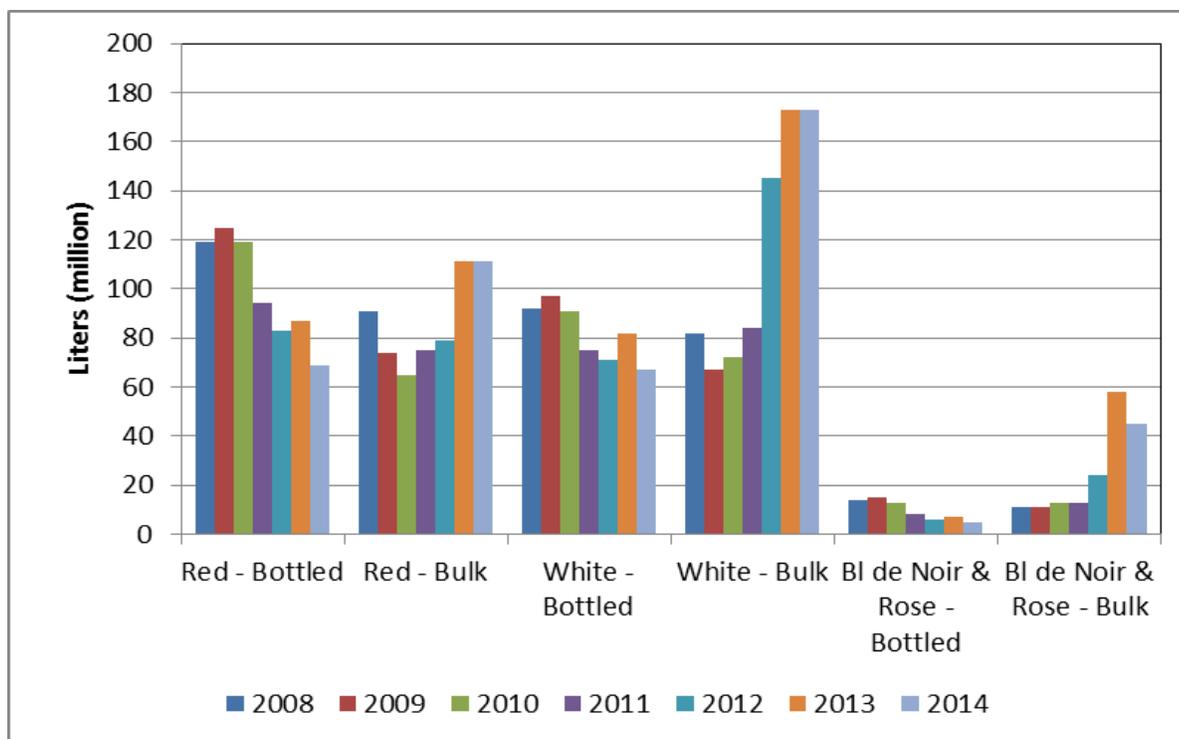
Source: Global Trade Atlas (GTA)

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

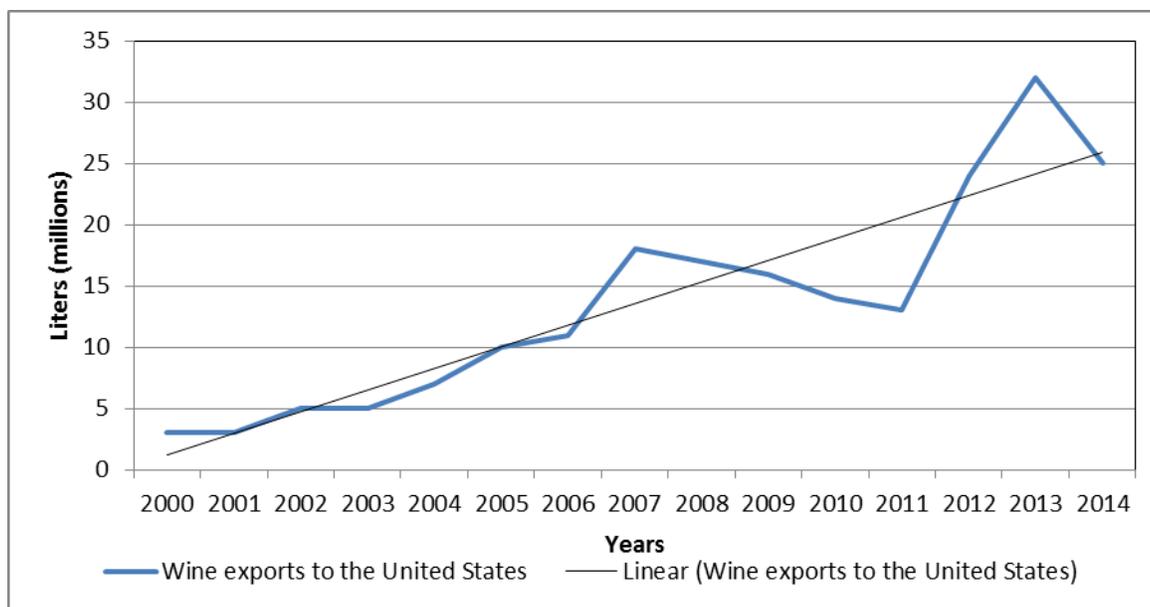


Source: SAWIS

South Africa's wine exports to the United States

According to GTA data, the 2014 South Africa's wine exports to the United States decreased by 25 percent to 25 million liters, from the record high exports to the United States of 32 million liters. South Africa industry contacts indicated that they are still looking into the reasons for the decrease in exports to the United States. However, in general, wines priced under US\$9.00/bottle underperformed in the United States and the total United States wine imports decreased by 4 percent in 2014. A long term comparison shows that South Africa wine exports to the United States have grown from 12,971,841 liters in 2011 to 24,460,215 liters in 2014 (see **Figure 9**). Wine exports to the United States are mainly in bulk and represent 68 percent of total 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 0.2 percent of production in 2014, down five percent from the 2.3 million liters imported in 2013. Major import countries in 2014 included France (36 percent of total imports), Italy (21 percent) and Portugal (14 percent). South Africa imported limited quantities of wine from the United States (2% of total imports), 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**). However, South Africa's imports from the United States have grown steadily from 14,359 liters in 2012 to 38,552 liters in 2014.

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: South African Revenue Services (SARS)

Stocks

Wine stock levels are estimated to increase by 11% to approximately 447 million liters in 2014 from 401.9 million liters in 2013, mainly due to the increase in production and decreases in exports, which were partially offset by increases in consumption. The 2015 wine stock levels are forecasted to remain flat at 450 million liters. At the end of 2012, South Africa's wine stock was at 433 million liters.

The Regulatory Environment

Proposed amendment to the Regulations relating to health messages on container labels of alcohol beverages

On September, 4, 2014, the Minister of Health, in terms of Section 15 of the Foodstuffs, Cosmetics and Disinfectants Act, 1972 (Act No. 54 of 1972), proposed amendments to the regulations relating to health messages on container labels of alcohol beverages. The post GAIN report on the proposed amendment can be downloaded on the following link,

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Regulation%20amendment%20on%20container%20labels%20of%20alcoholic%20beverages_Pretoria_South%20Africa%20-%20Republic%20of_1-30-2015.pdf .

Post is aware that industry in South Africa and the United States raised concerns and submitted comments on the proposed amendment to the regulation.

Existing Regulations

Detailed explanations and links to the agencies and regulations governing the import regulations and standards can be obtained from the following Post FAIRS GAIN Report,

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20and%20Agricultural%20Import%20Regulations%20and%20Standards%20-%20Narrative_Pretoria_South%20Africa%20-%20Republic%20of_12-31-2014.pdf.

The specific laws and regulations governing the wine industry in South Africa are listed below:

- **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 to 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 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.

- **Labelling 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. On February, 25, 2015, the Minister of Finance, Mr Nhlanhla Nene, announce excise tax of 7% on natural wine, 7% on sparkling wine and 4.8% on fortified wine. However, the weaker rand (R11.60/US\$) offsets some of these increases, resulting in minimal US\$ changes on excise taxes. **Table 4** below shows the new excise tax schedule following the increases. In addition, 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	2/25/2015
Sparkling wine	R7.53/l (US\$0.68/l)	R8.28/l (US\$0.75/l)	R8.90/l (US\$0.80/l)	R9.75/l (US\$0.84/l)
Natural wine	R2.50/l (US\$0.23/l)	R2.70/l (US\$0.24/l)	R2.87/l (US\$0.26/l)	R3.07/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)	R5.46/l (US\$0.47/l)
Exchange Rate - R/US\$				R11.60/US\$