

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Required Report - public distribution

Date: 3/9/2010

GAIN Report Number:

South Africa - Republic of

Wine Annual

Wine Annual

Approved By:

Scott Sindelar

Prepared By:

Linda Siphugu

Report Highlights:

According to South African Wine Industry Information and System (SAWIS), South Africa's wine grape production for marketing year 2010 is expected to amount to 1.2 million metric tons (MT). This represents a further decrease of 6 percent compared to the grape production estimates made on 27 November 2009 which was 1.3 million metric tons (MT). This decrease in production is due to unfavorable weather conditions which caused late and uneven budding of the wine grape fruit.

Total wine exports in CY 2009 decreased slightly from the previous year to 4.3 million HL. CY 2009 exports were 4.4 million HL. Regardless of this decrease South African wine exports to the UK, which is the country's biggest market, overtook those from France in volume terms for the first time in CY 2009.

Executive Summary:

This report presents the outlook for South African wine production, trade (exports and imports), marketing, consumption and stocks.

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HL = Hectoliter = 100 liters

SAWIS = South African Wine Industry Statistics

CY = Calendar Year

Wine grape harvest time in South Africa: Spring time from February to April

Commodities:

Wine

Production:**Wine grape production**

According to SAWIS's latest crop estimate, made in the second week of February 2010 the South African 2010 wine grape harvest is expected to amount to 1.2 million metric tons of wine grapes. This represents a further decrease in production compared to the 1.3 million metric tons (producer cellars and viticulturists) estimate made on 27 November 2009. This decrease is the result of bad weather conditions that affected the wine producing regions with the exception of the Orange River area.

All the wine producing regions, except the Orange River area experienced bad weather conditions characterized by late winter and strong winds. Late winter caused uneven fruit budding and in some instances the budding was delayed. Regular showers and heavy rainfall caused downy mildew which also resulted in widespread crop losses even though producers implemented intensive control programmes. Strong unexpected winds damaged some vines while cold and windy conditions during the flowering and set period of the grapes also resulted in uneven and weak set. Wine makers and

viticulturist are on the other hand are satisfied with the quality of the grapes that have been crushed thus far which are described as healthy with excellent flavors.

For marketing year 2010 grape wine production, including juice and concentrate for non alcoholic purposes, wine for brandy and distilling wine is expected to amount to 10.07 million hectoliters (HL), calculated at an average of recovery of 7.63 liters per ton of grapes.

Post forecasts a total production of 1.4 million metric tons (MT) of wine grapes for marketing year 2011. This anticipated steady increase may be due to exposure that South African wines will enjoy during the hosting of the 2010 FIFA Soccer Matches here in South Africa.

Note: In recent years the US \$/Rand exchange rate has been as follows:

2007 = R7.03

2008 = R8.24

2009 = R7.38 (September)

2010 = R7.63 (January)

Wine grape area planted

According to SAWIS, South Africa's area for wine grape production is currently amounting to 101,325 hectares (2008) under vines for wine production. There are currently about 3,839 primary grape producers, 585 wine cellars which crush grapes and about 118 bulk wine buyers. The major production areas are Stellenbosch, Paarl, Malmesbury; Robertson; Bredekloof; Olifants River; Worcester; Orange River and Little Karoo. Stellenbosch has largest number of vines at 17,137 ha while the little Karoo has the least number of vines at 2,956 ha.

The top five white varieties are Chenin blanc; Sauvignon blanc; Colombar(d); Chardonnay and Viognier and the top five red varieties are Cabernet Sauvignon; Pinotage; Shiraz; Pinot noir; Merlot.

Total surface planted to wine grape vineyards - Ha

Total surface planted to wine grape vineyards	
Year	Area (Ha)
2007	101,957
2008	101,325

Source: SAWIS

In 1998 white and red vineyards constituted 75 percent and 25 percent respectively of the total surface .A considerable increase in red grape plantings from the late nineties until 2005 caused an increase in the hectares planted to red varieties to 46 percent of the total surface in 2005. Since 2005 the trend has reversed again and for 2008 the composition was 56 percent white and 44 percent red grape vineyards.

Chardonnay, Colombar and Sauvignon blanc are the only most planted white varieties that have shown positive growth in surface over the past 11 years (1998 – 2009). Crouchen (Cape Riesling), Chenin blanc, Palomino (French grape) and Muscat d'Alexandrie (White Hanepoot) have decreased in surface.

Planted Area

Total surface area planted to wine grape vineyards has been declining over the past 2 years. Vineyard uprootings have maintained fairly stable levels over the past 5 years but plantings for the same period have decreased by more than 60 percent.

Grape wine production area – plantings and uprooting						
	2007 2006/07			2008 2007/08		
	Red grapes	White grapes	Total	Red grapes	White Grapes	Total
New plantings	606	2,471	3,077	515	1,500	2,015
Uprooting	1,684	2,345	4,029	1,415	2,252	3,667

Source: SAWIS

Minimal capital replacement and maintenance have resulted in a dramatic weakening of the age distribution of certain white wine grape varieties in particular, which are not at ideal levels. About 41 percent of all white wine grape vineyards are older than 15 years, while almost 60 percent of red wine grape vineyards are between 4 and 10 years old.

According to industry production survey, the average production cost for wine grapes has increased by 13 percent since CY 2008 to R26, 579/ ha. The producer's gross income amounted to R32, 857/ ha at an average yield of 15.55 tons per ha, however R44, 079/ha is needed for viable production.

Consumption:

Domestic sales of natural wine for 12 month period November 2008 to October 2009 show that the market contracted by 5.7 percent to 2.9 million HL, compared to corresponding periods the previous year. Brandy sales show an 8.8 percent decrease over the same period. Although alcohol is supposed to be recession proof the economic downturn resulted in a dip in sales for CY 2009.

In terms of per capita consumption South Africa has a long way to go because although it is the ninth biggest producer of wines in the world, it has one of the lowest consumption rates of any wine-growing country. Per capita consumption of wine in South Africa is 0.08 HL; in comparison with 0.54 HL in France, 0.22 HL in Australia, 0.28 HL in Argentina and 0.09 HL in the USA.

The lagging per capita consumption can be explained by the fact that the black South African population still considers wine to be an inaccessible drink. South Africa's population is 80 percent black and their "non-consumption" of wine has therefore kept the aggregate national consumption low. Wine drinking is still seen as an elitist and white fashion among the black population who traditionally drink beer and brandy. Adding to the inaccessibility of wine for the Black population is the fact that their participation in the industry has remained limited. The South African Black Vintners Alliance estimates that as a result of apartheid, there are only 25 black winemakers in South Africa

Alcoholic beverages are taxed in South Africa through the infamous ‘sin tax’. The government announces the ‘sin tax’ in the budget speech that is delivered by the Minister of Finance on yearly basis and this tax goes up every year. For 2010 the tax has gone up by 12 cents more on a bottle of wine reaching an average of R1.18.

Trade:

Exports

Wine is South Africa’s biggest agricultural export, earning R2.2 billion in foreign exchange in CY 2008. Total wine exports for South Africa’s natural wine amounted to 4.3 million HL for CY 2009 and this represents a 1 percent decline compared to exports for CY 2008 which was 4.4 million metric tons. UK and the Netherlands are South Africa’s biggest wine export partner and although the total exports have decreased South African wine exports to the UK, which is the country’s biggest market, overtook those from France in volume terms for the first time for CY 2009.

Other major markets that have shown strong growth in South African wine volumes are: Sweden and Canada. Besides the traditional export partners Japan; Nigeria Angola and China all have shown double digit growth in volume for CY 2009. The market share of exports for CY 2009 has been as follows: United Kingdom (32.6 percent); Germany (18.3 percent) Sweden (9.3 percent); The Netherlands (7.1); Denmark (4.3 percent); USA (3.6 percent); Canada (2.9 percent); France (2.2 percent); Belgium (2.2 percent); and others (17.2 percent).

South African wine exports – HL

Partner Country	2007	2008	2009
	HL		
United Kingdom	1,036,031	1,181,167	1,313,041
Germany	552,526	675,793	716,665
Sweden	398,599	316,639	382,150
The Netherlands	798,420	337,650	333,031
Denmark	149,957	161,798	164,683
USA	176,059	172,240	164,448
Sub Total	3,111,592	2,845,287	3,074,018
Others not listed	1,914,151	1,511,326	1,229,419
Total	5,025,743	4,356,613	4,303,437

Source: GTA

South African wine experts believe that the trends in both Asia and Africa are conducive for successful expansion of market for South African wine. The factors contributing to this being: the increasing

consumer base of legal drinking age, advancing middle classes, rising urban population and emerging westernization.

According to SAWIS the strong exchange rate; the economic turmoil in South Africa's main export markets, the non profitability of South African wines in key markets like the UK and the availability of the product are key determining factors in future wine exports and these factors make it a tricky business to forecast the market sales.

Post forecasts an increase of exports to 4.5 million HL due to anticipated exposure of South African wine after the hosting of the 2010 World Soccer tournament here in South Africa.

Bulk and Packaged Exports

South Africa's wine is exported both packaged and in bulk form, with largest quantities of packaged wine destined for the United Kingdom while largest quantity of bulk wine is destined for Germany for CY 2009.

Packaged wine exports

According to SAWIS, a total of 2.4 million HL of packaged wine was exported from South Africa for CY 2009. Out of that total , 985,180 HL was white wine and 1.3 million HL was red wine while about 161,160 HL was Blanc De Noir /Rose'. Both red and wine varieties are showing a positive growth in volume compared with CY 2008 volumes with red varieties dominating in total. The top 5 countries that packaged natural wine is destined for are: United Kingdom; Sweden; The Netherlands Germany and the USA, with the UK importing the largest quantity of the packaged white wine in CY 2009.

According to the latest export data from SAWIS, South African's packaged wine sales to the UK for 2009 were up 11 percent and further growth is also expected for marketing 2010. These retail sales figures show that South Africa continues to rank as the fastest-growing wine category in Britain, increasing its volume share of the market to 12.3 percent in CY 2009, up from 10.4 percent in CY 2008.

FirstCape, South Africa's biggest-volume brand in the UK had lifted year-on-year sales in CY 2009 by 73 percent in value and 80 percent in volume. Other leading South African brands that have performed exceptionally well included Kumala, Arniston Bay, Two Oceans and KWV. The South African wine industry is very pleased with these developments as it is believed that growth in exports of packaged wine sales simultaneously builds private brands and Brand South Africa in general. The drop in the

proportion of bulk sales to overall exports marks an important stage in the evolution of the South African wine industry.

Bulk wine exports

According to SAWIS, a total of 1.5 million metric tons of bulk wine has been exported from South Africa for CY 2009. Out of that total 657,378 HL was white wine and 726,314 HL was red wine while about 112,938 HL was Blanc De Noir /Rose'.

The top 5 countries that bulk wine is destined for are: Germany; UK; Russia; Netherlands and the USA with Germany importing the largest quantity of bulk red wine.

The volume of bulk exports dropped by 18 percent for CY 2009, compared with year before, whereas packaged exports rose 7 percent over the same period. This shift was welcomed by the industry as it is not only good for individual brands and for jobs but for the quality standing of Brand South Africa as well.

Imports

South Africa imports far less wine than it exports, but South African wine producers do import wine for sweetening. For CY 2009 about 0.2 million HL of concentrate for sweetening purposes was imported.

Stocks:

According to SAWIS, the stock level on 31 December 2010 at producer and private cellars is expected to decrease to 2.5 million HL, compared to 3.4 million HL on December 2009.

Policy:

Genetically modified yeast for wine

South African wine is completely GM free. The recent wine industry applications for both genetically modified yeast and field trials of genetically modified vines, was rejected by government and members of the Cape Winemakers Guild (CWG). The government's rejection was based mainly on economic considerations since Market rejection of GM foods is strong in South Africa's key export markets.

SA - EU Wine and Spirits Agreement

The SA - EU Wine and Spirits Agreement formed part of an agreement on trade, development and cooperation between the European Community and its Member States that was signed on October 11, 1999 and entered into force provisionally on January 01, 2000. the agreement gave South Africa free access to the European market in exchange for discontinuing the use of European names of origin – such as sherry; port , grappa, and ouzo by 2012.

Negotiations are still continuing between South Africa and the EU on the wine and spirit part of the agreement because South Africa has not ratified the agreement. South Africa has major concern with the geographic indicator clauses in the wine and spirits section of the agreement and the impact such an agreement could have on the South African wine industry. Products impacted by this agreement are

geographically linked wines, spirits and other product names like 'feta' cheese. The government faces serious challenges with its constitution that protects property rights. Therefore deregistering of trademarks may result in the affected industries suing the government for compensation. Until the agreement is ratified the South African liquor will not have access to 15 million Euros that the EU promised to pay the wine industry as compensation for discontinuing the use of European names of origin.

Marketing:

South Africa's main wine buyers are grocers and chain stores like Woolworths, Spar, Pick 'n Pay and Shoprite. Wine is sold locally in glass; plastic; bag in box; foil bags and tetra packs. The most popular bottling size for South African wines is the 0.75 liter bottles. In restaurants, one can also get a 0.25 liter bottle, especially for sparkling wine. The bottles are usually corked and sell from about \$4.00. Although natural corks are still used especially for higher priced wine, there is a gradual increase in the use of plastic corks.

South Africa has taken some steps to maintain its status as one of the world's most eco-progressive winemaking nations and one such step is the introduction of lighter bottles to help reduce the industry's carbon footprint. The 0,750 liter wine bottles closed with screwcaps and weighing only 350 grams as compared to 500 grams for traditional bottles - will be available to local wine producers starting this year (2010).