

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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POLICY

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GAIN Report Number:

South Africa - Republic of

Wine Annual

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Report Highlights:

This annual wine report highlights flat production on a heat wave in the Western Cape growing regions and flooding in the Orange River that damaged wine grape crops, flat exports on a strong Rand, wine industry marketing efforts to boost domestic consumption, and how foreign investment is generating opportunities for South Africa's wine industry.

Executive Summary:

Post forecasts South Africa's 2012 wine grape crop to decrease four percent to 1.20 MMT on floods that washed away vineyards in the Northern Cape. Post estimates South Africa's 2011 wine grape harvest at 1.25 MMT, flat from the previous year, based on SAWIS's most recent crop estimate completed during the final week of February 2011. This latest estimate represents a downward revision from the December 2010 estimate, which forecasted the wine grape crop at 1.35 MMT on a heat wave in Western Cape, as well as flooding in the Orange River region that damaged crops in January of 2011.

Despite the total decrease, the wine grape crop for 2011 (which includes juice and concentrate for non-alcoholic purposes, wine for brandy, and distilling wine) is expected to amount to 969 million liters, calculated at an average recovery of 772 liters per ton of grapes, on a favorable post-harvest autumn period in 2010, with good accumulation of reserves in the grapevines and sufficient winter cold.

Post forecasts South Africa's 2012 wine exports will remain flat at 371 liters on a strong Rand. In 2010, South Africa saw wine exports fall by five percent from the previous year on a strong Rand and economic recession in the United Kingdom and other European Community members, which comprise South Africa's largest export markets.

Post forecasts domestic consumption of wine in 2011 at 310 million liters, a 2.7 percent increase over the 2010 level of 302 million liters on aggressive marketing efforts to attract a rapidly growing middle class.

Background

Despite ranking 14th place in terms of hectares destined for wine grape production, South Africa ranks as the 7th largest producer of wine in the world. There are about 3,667 grape farmers, 604 wine cellars, and 102 bulk wine buyers in South Africa. Current reports indicate that the South African wine industry contributes about 2.2 percent towards the country GDP, with an estimated macroeconomic impact of R26.2 billion. The industry creates about 275,606 jobs: 58 percent being unskilled, 29 percent being semi-skilled, and 13 percent being skilled. In addition to the more than R4 billion generated directly by wine tourism, the wine industry is also a major attraction to overseas visitors, making it one of the country's top five sources of hard currency income.

Production Districts

Wine grapes are produced mainly in the Western Cape districts: Worcester, Paarl, Stellenbosch, Malmesbury, and Robertson, along the Olifants River, Klein Karoo and along the Orange River region of Northern Cape. (See map of production areas below.)

The regions along the Orange and Olifants rivers are characterized by a hot, dry climate and are leading in white wine grape production due to limestone soils. This region, subdivided into several wine growing areas, is renowned for its high quality wines made from Syrah and Chardonnay, as well as its fortified wines.

Red wine grapes are predominately produced in the Western Cape regions of Stellenbosch, Paarl and Malmesbury. The soil in these regions is made of granite from the mountain slopes and the acidic and

alluvial soils are favorable for red grape production.

Sources

- South African Wine Information & Systems (SAWIS)
www.sawis.co.za
- Wines of South Africa (WOSA)
<http://www.wosa.co.za/>
- Vinpro
www.vinpro.co.za
- Department of Forestry and Fisheries (DAFF)
www.daff.gov.za
- Business Day
www.businessday.co.za

Exchange Rate

- January 2011 1 USD = R6.97

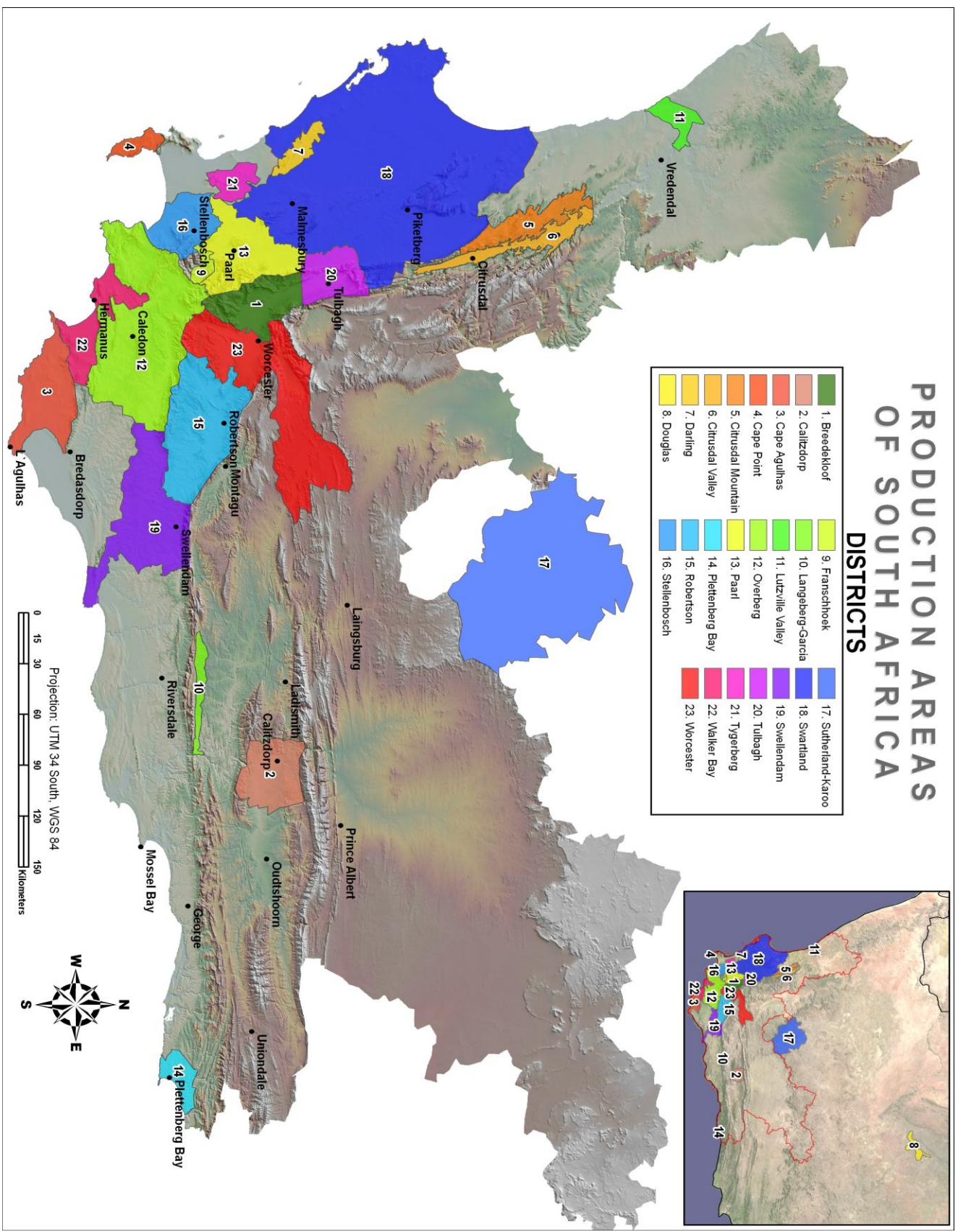
Commodities:

Wine

Production:

PRODUCTION AREAS OF SOUTH AFRICA DISTRICTS

1. Breedekloof	9. Franschoek	17. Sutherland-Karoo
2. Calitzdorp	10. Langeberg-Garcia	18. Swartland
3. Cape Agulhas	11. Lutzville Valley	19. Swellendam
4. Cape Point	12. Overberg	20. Tulbagh
5. Citrusdal Mountain	13. Paarl	21. Tygerberg
6. Citrusdal Valley	14. Plettenberg Bay	22. Walker Bay
7. Darling	15. Robertson	23. Worcester
8. Douglas	16. Stellenbosch	



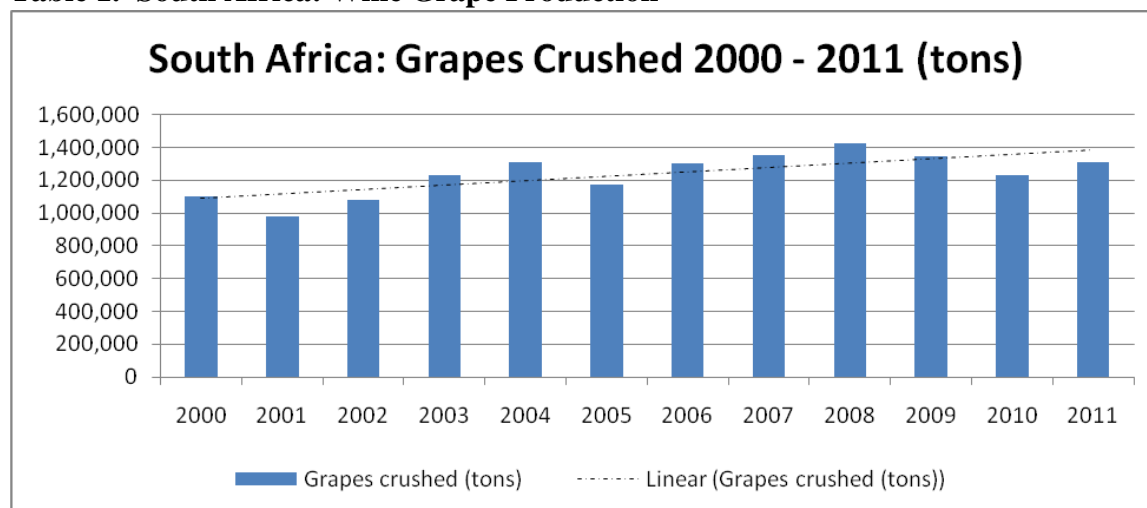
Source: SAWIS

Post forecasts South Africa’s 2012 wine grape crop to decrease four percent to 1.20 MMT on floods that washed away vineyards in the Northern Cape. Post estimates South Africa’s 2011 wine grape harvest at 1.25 MMT, flat from the previous year, based on SAWIS’s most recent crop estimate completed during the final week of February 2011. This latest estimate represents a downward revision from the December 2010 estimate, which estimated the wine grape crop at 1.35 MMT, on heat wave and sunburn in Western Cape as well as flooding in the Orange River region that damaged an estimated 36,000 metric tons in January of 2011.

Despite the total decrease, the wine grape crop for 2011 (which includes juice and concentrate for non-alcoholic purposes, wine for brandy, and distilling wine) is expected to amount to 969 million liters (calculated at an average recovery of 772 liters per ton of grapes) on a favorable post-harvest autumn period in 2010, with good accumulation of reserves in the grapevines and sufficient winter cold.

Wine grape production remains consistent with the alternating trend in fruit bearing, where a small crop in 2010 will be followed by a big crop in 2011, in all provinces except the Orange River region where the alternating years are inverted. Grapes are generally healthy with good analyses for brix and ripeness, and at this stage the quality of red cultivars in particular appears to be excellent. Gale force winds that caused considerable crop losses in 2009 were absent in 2010. Fluctuating weather conditions during the flowering period did cause the fruit to set slightly uneven and looser bunches in later cultivars. The berries are smaller in 2011 than in previous years and bunches are loser on the weak set. Limited irrigation water due to low water levels – except in the Orange and Olifants River districts – impacted on the size of the crop, while a heat-wave caused sunburn and heat damage. In dry-land vineyards, the soil water status is below average and vines are showing signs of moisture stress. Still, winemakers and viticulturists are satisfied with the quality of the grapes that have been crushed as of late February 2011. The trend line for wine grape production has been increasing over the past decade as illustrated by Table 1 below.

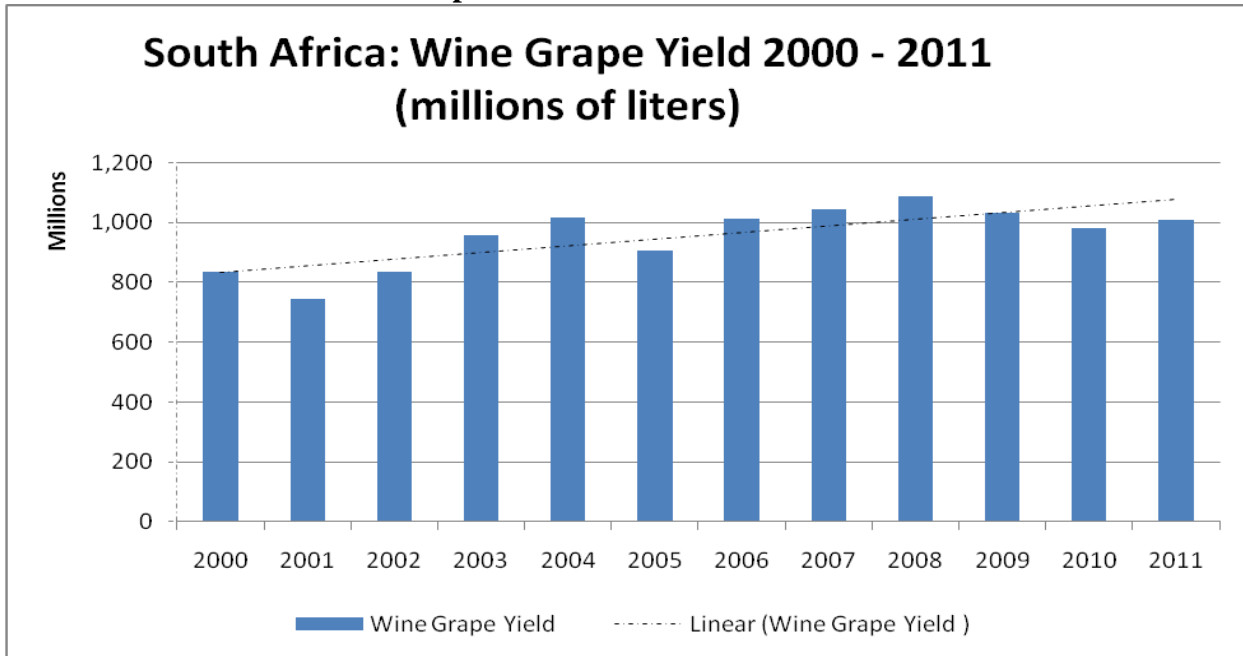
Table 1. South Africa: Wine Grape Production



Source: SAWIS

Wine grape yields have been increasing over the past ten years on improved growing practices and new varieties.

Table 2. South Africa: Wine Grape Yield



Source: SAWIS

Wine Grape Production Area

Industry reports show 101,259 hectares (ha) are planted to wine grape production in South Africa. Since 2006, the area planted to wine grapes has declined at an annual average rate of 5 percent on rising input costs coupled with a recently implemented credit act that limits producers' ability to borrow against land.

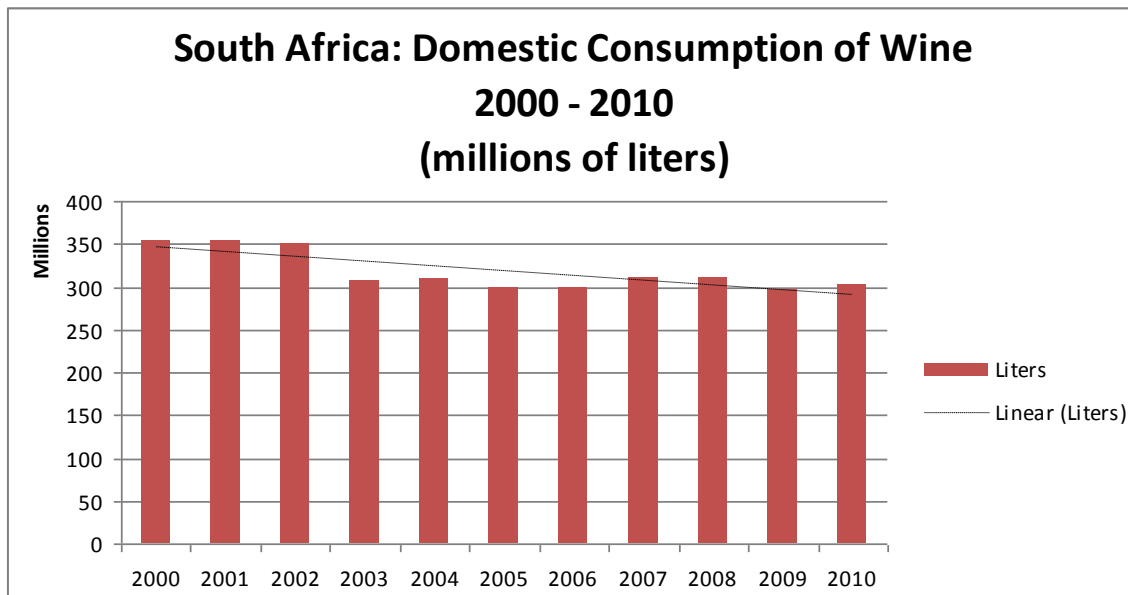
Consumption:

Post forecasts domestic consumption of wine in 2012 at 310 million liters, a 2.7 percent increase over the 2011 level of 302 million liters on aggressive industry marketing efforts to attract a rapidly growing middle class, such as South African competitions and awards. The South African bank industry, particularly ABSA Bank, has hosted numerous competitions to promote South African wines. Restaurant wine producer dinners are also a growing feature of wine appreciation in South Africa's restaurant industry.

As a nation, South Africans generally prefer beer over wine. South African Breweries (or SAB Miller) is one of the world's largest brewing concerns. Although South Africa is ranked as the seventh largest wine producer in the world, the country has one of the lowest consumption rates for any wine producing country, and wine consumption has fallen steadily over the past ten years. Annual per capita wine consumption in South Africa is 8 liters compared to 54 liters in France, 28 liters in Argentina, and 22 liters in Australia. The rapidly growing middle class in South Africa has traditionally favored beer and whiskey over wine, and tended to view wine as inaccessible because of comparatively higher costs and not knowing enough information about varieties or quality.

However, some wine analysts believe that South Africa is ready for an increase in wine consumption due to the steadily growing GDP and the growth of the middle class – many of whom are status and lifestyle oriented. Events such as the annual Soweto Wine festival are geared towards attracting more wine drinkers, particularly in the black middle class, and also present opportunities increasing awareness and knowledge of wine, thereby making it more accessible.

Table 3. South Africa: Domestic Consumption



Source: SAWIS

Domestic Sales

Domestic sales of natural wine (including wine used in grape - based liquor and alcoholic fruit beverages) were estimated at 302.3 million liters for 2010, a two percent increase compared to 2009 domestic sales, a sign of recovery from economic downturn. The 2010 World Cup held in South Africa also positively impacted domestic wine sales.

Distribution

The supermarkets and a large majority of the hospitality sector (hotels, cafes, and restaurants) have licenses authorizing them to serve alcohol. Internet commerce, or e-commerce, is also a fast-growing distribution channel in South Africa with hundreds of web pages selling wines.

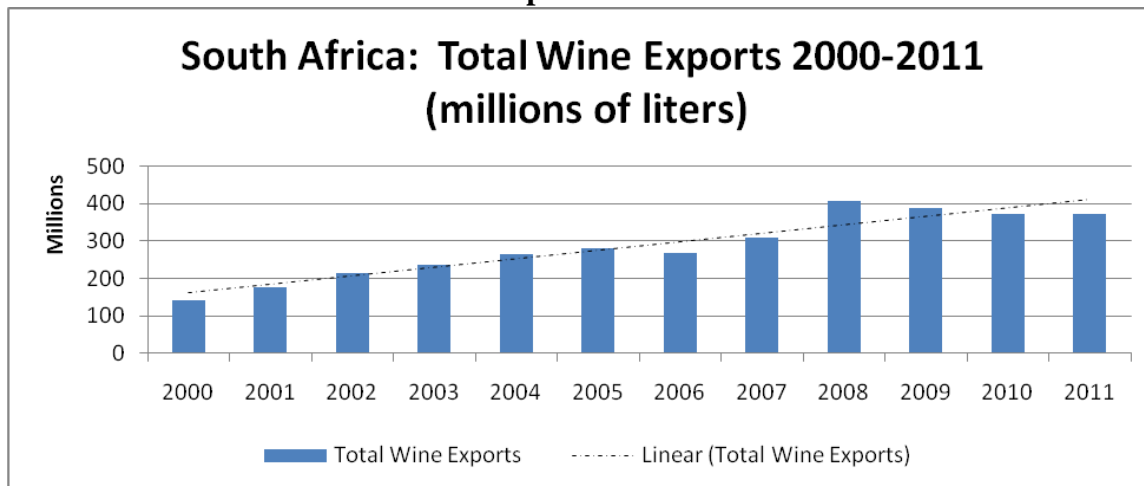
Trade: EXPORTS

Post forecasts South Africa’s 2011 wine exports will remain flat at 371 million liters on a strong Rand. In 2010, South African wine exports decreased five percent to 371 million liters from the previous year on a strong Rand and economic recession in the United Kingdom and other European Community members, which comprise South Africa’s largest export markets. According to SAWIS, strong exchange rates, the thin profit margins of South African wines in markets such as the United Kingdom (UK) and product availability are key factors in determining wine exports.

Wine is South Africa’s largest agricultural export in value terms, earning R5.5 billion in foreign exchange in 2010. Wine industry experts believe South African wine will have increased opportunities for market expansion in Africa based on recent trends: the rising number of legal drinking aged adults, the growing middle class, and the rising urban population.

South Africa has found new buyers in emerging markets such as Angola, Kenya, Nigeria, Eastern Europe, and South-East Asia as incomes in these countries have risen from oil revenues, construction, or tourism. During the 2010 World Cup hosted in South Africa, industry officials observed an increase in wine exports to participating countries. South African wine exports to the United States reached a record level valued at \$45 million in 2010.

Table 4. South Africa: Total Wine Exports

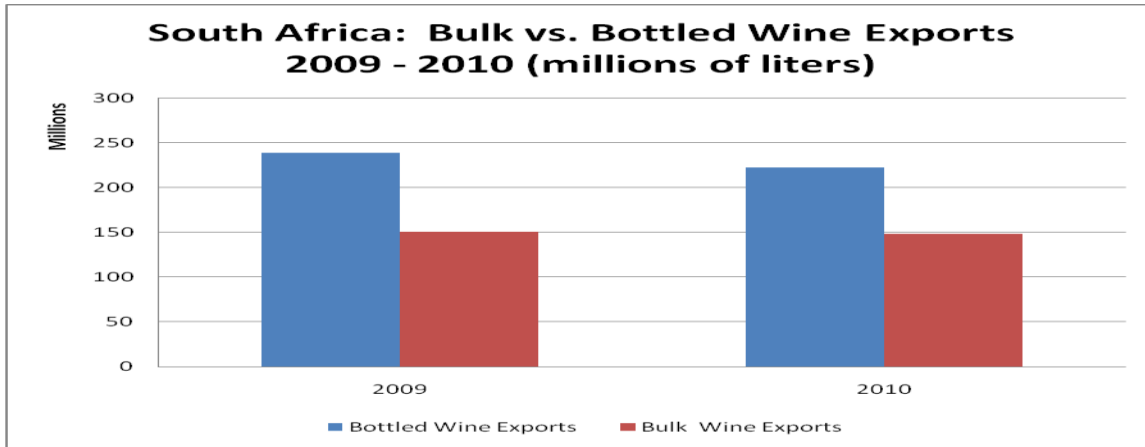


Source: SAWIS

Bulk vs. Bottled Wine Exports

South Africa’s wine is exported in bottled and bulk form in large quantities.

Table 5. South Africa: Bulk vs. Bottled Wine Exports CY09-CY10



Source: SAWIS

Bulk Wine Exports

Table 6. South Africa: Bulk Wine Exports by Country

RSA Bulk Wine Exports by Country			
Country	CY 2008	CY 2009	CY 2010
	liters	liters	liters
Germany	51,764,395	55,351,829	54,811,939
UK	24,565,807	30,194,418	37,785,571
Netherlands	8,438,785	7,091,858	6,868,519
France	7,566,206	7,928,484	6,607,564
Sweden	1,008,710	5,047,435	6,319,211
USA	8,152,292	5,226,362	3,658,030
Angola	0	4,285,300	492,984
Grand Total	183,927,467	150,529,346	148,640,899

Source: DAFF

Germany has been South Africa's largest destination for bulk wine exports since 2006. Of the bulk wine shipped to Germany, red wine is shipped in higher volumes than white wine. South African wine is shipped to Germany in large wine bladders, where it is bottled, and then sold to several countries in the region. The bulk wine packed for sale in Germany represents good value and is sold at competitive prices. Increasingly, UK companies are bottling bulk wines in Europe as it is more cost effective. Bulk wine exports to the UK grew 19 percent to 37.7 million liters in 2010 from the previous year on strong consumer demand and recovery from the economic recession.

Bottled Wine Exports

Table 7. South Africa: Bottled Wine Exports by Country

RSA Bottled Wine Exports by Country			
Country	CY 2008	CY 2009	CY 2010
	liters	liters	liters
UK	65,855,060	95,366,995	61,155,957
Sweden	25,919,812	32,672,807	31,998,951
Netherlands	18,720,587	20,513,299	19,971,421
Germany	15,332,031	15,482,435	17,515,294
Denmark	9,822,410	11,199,142	11,433,327
USA	9,606,241	8,494,253	9,969,575
Nigeria	1,240,161	2,438,853	3,159,279
Grand Total	190,660,102	238,576,065	222,435,973

Source: DAFF

Industry officials point out that the average price of a bottle of wine on a UK supermarket shelf sells for 4.05 Pounds. The average price of a bottle of South African wine shipped in bulk and bottled in the UK retails at 3.75 Pounds. Meanwhile, the average bottle of an estate-bottled South African wine sold in a UK supermarket retails at 4.50 Pounds because the packaging costs – glass bottles, screw top caps, and other costs – are comparatively higher in South Africa. UK retailers have to import South African wine in bulk, and bottle in the UK, to remain competitive in a business with thin margins.

Wal-Mart Set to Boost Wine Producers

“Wal-Mart Set to Boost Wine Producers” was the title of Business Day February 1, 2011, article outlining the anticipated impact of Wal-Mart’s move into South Africa. Retail giant Wal-Mart is currently in negotiations to buy the South African chain Massmart thereby establishing a footprint in South Africa and the region. A Wal-Mart sourcing business, Asda, buys about 70 million liters of wine a year, nine million of which come from South Africa. At present, 60 percent of the wine is sold in bulk in 24,000 liter bags to the UK where it is then bottled by a third party. The Wal-Mart sourcing company is in the process of establishing a new bottling plant in the UK that is scheduled to begin operating in late 2011. Once the plant is operational, the company plans to import an additional one million to two million liters of bulk wine from South Africa for bottling in the new plant.

The effects of a successful Wal-Mart acquisition on bulk wine exports will lag until the 2013 season at the earliest, as the deal may take several months to conclude given ongoing discussions over labor. Retail workers’ union the South African Commercial, Catering, and Allied Workers Union have aggressively opposed Wal-Mart’s 51 percent purchase of Massmart, a deal which received 98 percent backing from shareholders, on grounds that the takeover will speed up the decline of domestic industries.

U.S. Investment in South Africa’s Wine Industry

South Africa and the United States have several professional exchanges between their wine producing regions, and recently, U.S. wine companies have found investment opportunities in South Africa. For example, Screaming Eagles, a California-based winery has bought Mulderbosch, an estate in the prime Koelenhof area of Stellenbosch, for an undisclosed sum. Screaming Eagles' wines sell for between \$750 and \$1,000 a bottle.

The owner, Charles Banks, is just one of a number of wealthy foreign investors who are making substantial investments in the Cape wine-lands. Banks is the former president of CSI Capital Management, which handles investments for millionaire professional athletes in football, basketball, and baseball. Punk rockers Green Day and Hollywood movie stars are also reportedly his clients. Andre Morgenthal, spokesman for Wines of South Africa (WOSA), said the amount of international investment in the local wine industry is a vote of confidence in South Africa.

However, while a number of foreign investors own property in the Cape Wine-lands, the wine region is not being completely taken over. The majority is investors or shareholders and so the estates are not 100 percent foreign owned. According to an article on Wosa's website, wineries owned by or with foreign interest total 111, about 16 percent of the total wineries in South Africa. The owners are mostly Dutch, French, British, German, American, and Swiss, although countries such as Israel, Russia, Singapore, Australia and the Congo are also seeking opportunities.

IMPORTS

South Africa imports wine from the following top five countries: France, Italy, Portugal, Netherlands and the United States. Previously, imports were dominated by bulk wines from countries like Argentina and Spain. These wines were destined for blending with local wines to supplement the local choice of cheap table wines.

Table 8. South Africa: Wine Imports

South Africa Import Statistics								
Commodity: 2204, Wine Of Fresh Grapes, Incl Fortified; Grape Must O/T Heading 20.09								
Calendar Year: 2008 - 2010								
Partner Country	Unit	Quantity			% Share			% Change
		2008	2009	2010	2008	2009	2010	2010/2009
World	L	1,811,969	2,039,446	1,601,830	100.00	100.00	100.00	- 21.46
France	L	579,795	393,543	425,381	32.00	19.30	26.56	8.09
South Africa	L	513,330	977,232	423,144	28.33	47.92	26.42	- 56.70
Italy	L	290,154	321,975	270,064	16.01	15.79	16.86	- 16.12
United States	L	28,504	19,402	166,187	1.57	0.95	10.37	756.55
Portugal	L	227,648	245,950	142,171	12.56	12.06	8.88	- 42.20
Chile	L	57,127	17,956	101,729	3.15	0.88	6.35	466.55
Spain	L	31,492	11,223	28,416	1.74	0.55	1.77	153.19

Source: GTA

Stocks:

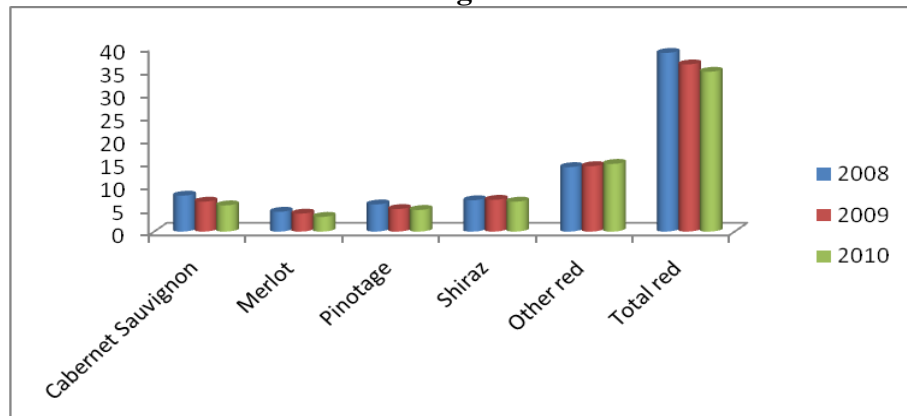
Table 9. South Africa: Wine stock situation at producer cellars (Million liters)

	31 December 2008	31 December 2009	31 December 2010
Red	138.6	131.4	116.7
White	218.6	230.3	221.3
Total	357.2	361.7	338

Source: SAWIS

The stock level for 2011 at producer and private cellars is expected to decrease seven percent to from 338 million liters down to 314 million liters on increased domestic sales.

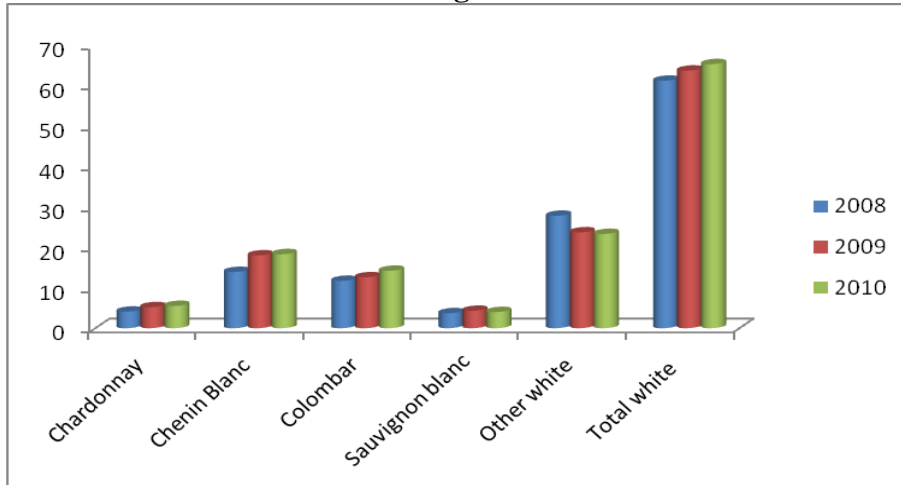
Table 10. South Africa: Percentage of stock for the red wine varieties



*Other red = blends

Source: SAWIS

Table 11. South Africa: Percentage of stock for the white wine varieties



*Other white = blends
Source: SAWIS

Policy:

Genetically Modified (GM) Grapes

South Africa does not use GM grapes or GM organisms in the production of certified wine.

WORLD WINE TRADE GROUP (WWTG) AGREEMENTS

South Africa is signatory to the WWTG Mutual Acceptance Agreement on Oenological Practices and the WWTG Agreement on the Requirements for Wine Labeling. The agreement will, in short, assure access to WWTG markets without the costs and frustrations of barriers to trade based on differences in oenological practices.

Liquor Act

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>

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:

- Alcohol reduces driving ability, don't drink and drive.
- Drinking during pregnancy can be harmful to your unborn baby.
- Alcohol abuse is dangerous to your health
- Alcohol increases your risk to personal injuries
- Alcohol is a major cause of violence and crime

- Alcohol is addictive
- Don't drink and walk on the road, you may be killed

The act can be accessed at: <http://www.doh.gov.za/docs/regulations/index.html>

Tax on Domestic wine

South African Revenue Service (SARS) taxes domestic wine at R6.67 per liter. However, SARS proposes to increase this rate up R6.97 in 2012. This tax on wine includes the following items:

- 22.04 Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09)
- 22.05 Vermouths and other wine of fresh grapes flavored with plants or aromatic substances, and Sparkling wine

SARS uses the following formula to calculate excise duties:

Bulk volume (Liters) x relevant rate of duty = excise duty payable

Table 12. South Africa: Customs Duties for wine in South Africa (Rands per liter)

Product	Rate	
	2011	2012
Wine 2204	R6.67/li	R6.97/li

Source: SARS

Foreign import regulations and duties

The EU allow a quota of wine to be imported from SA exempt from duty as agreed upon TDCA. For tariff information visit:

<http://exporthelp.europa.eu/thdapp/taric/TaricServlet?action=tariff&countryId=ZA&prodLine=80&simDate=20101201&taricCode=2204109400&languageId=en>

Marketing:

Wine packaging

South African wine is packaged either in glass bottle, plastic, bag-in-box, foil, or in tetra packs. Glass bottling is the most preferred type of container with about 47.5 percent of wine packaged in the glass bottle while 26.6 percent is packaged in bag-in-box, 23 percent is packaged in plastic. The foil bags are not as popular with only 0.8 percent of wine packaged in the foil bags as reported for 2010.

The use of screw caps is increasing. Until recently, this type of seal was used for only lower quality wines. Wine producers across the globe are now recognizing the benefits that screw tops provide. This type of seal ensures that wine is kept fresh; there is no chance of the wine becoming 'corked' and the bottle can be easily resealed. Still, a strong preference for cork tops persists among consumers.

Labeling

South African wines usually have an attractive front label, an information guide at the back, and award stickers and the Wine of Origin certification seal around the neck. The Wine of Origin certification seal has been there since 1974 but has since been re-launched as the world's first sustainability seal which guarantees eco- friendly production certain labor protections. The seal, which is offered by the Wine and Spirit Board, has a tracking system through which the wine can be traced at every stage of the supply chain to confirm the integrity of its production.

Wine sold in South Africa, whether certified or not, must comply with the following mandatory label requirements:

Class designations – (regarding sparkling wine and sweet natural wine)

- A natural wine with a residual sugar content of more than 30g/liter must be identified as a Sweet Natural wine if it is not indicated as a Late Harvest, Special Late Harvest or Noble Late Harvest wine.
- If the residual sugar content of a Special Late Harvest wine is less than 20g/liters it must also state whether the wine is Extra Dry, Dry, Semi- Dry or Semi- Sweet.

Alcohol content: A tolerance of one percent is permitted, meaning that 11.5 percent alcohol may in fact signify 10.5 percent or 12.5 percent.

Name and full address: The name and full address or the code number of the responsible cellar must appear on the label.

Volume: For example 750 ml or 75 cl must appear on the label

Filling date: On all non glass containers, as filled on followed by the filling date in the following format: dd/mm/yyyy.

Wines with Sulphur: The phrase 'contain sulfites/ sulphites' must be included on the label if the wine contains more than 10mg/ liter.

Health warnings: Compulsory since February 2009.

Certified Wines: these must comply with additional mandatory label requirements.

WINE OF ORIGIN or WO: Followed by the name of the area of origin. On the front label the only the names of the officially demarcated areas may be used and on the back label other references to area of origin may be used.

Cultivar: the name of the cultivar may be stated if at least 85 percent of the wine consists of that cultivar and in case of blends, cultivars must appear in descending order.

Vintage year: at least 85 percent of the wine must be from grapes from the stated vintage year.

Estate wine: the term may only be used in respect of wine produced from grapes derived from a production unit that is registered as an estate with the Wine and Spirit Board. The wine must be ‘grown, made and bottled ‘on such a unit.

Single vineyard wine: the term may only be used in respect of wine produced from grapes derived from a production unit that is registered with the production of single vineyard in mind.

Sweetness or dryness: (applies to all wines except fortified and sparkling wine)

- Extra dry – maximum residual sugar content is 2,5g/l
- Dry - maximum residual sugar content 5g/liter
- Semi Dry – residual sugar content between 5 and 12g/liter
- Semi sweet - residual sugar content between 5 and 30g/liter
- Sweet - residual sugar content of more than 20g/liter

A and B codes:

A – Code numbers is an identity code refers to the wine producer or merchant, so that consumers may be able to trace the origin of a wine even if the brand name is unfamiliar.

B - Code numbers is an identity code refers to the importer of a wine that was bottled in a foreign country.