

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## **South Africa - Republic of**

### **Wine Annual**

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**Report Highlights:**

This annual wine report highlights a projected increase in South African 2012 grape and wine crop on good growing conditions characterized by sufficient cold conditions in winter (June, July and August) and the non-prevalence of the notorious gale force winds of Western Cape.

South African exports for 2011 took a dive on global economic challenges, especially the Euro-zone, which is South Africa's biggest traditional market, while domestic sales for 2011 season have increased.

### Executive Summary:

South Africa's 2012 wine grape crop is expected to increase to 1.35 Million Metric Tons (MMT) as reported by SAWIS. This represents approximately a six-percent increase compared to the 2011 crop. The wine crop, including juice and concentrate for non-alcoholic purposes, wine for brandy and distilling wine - is expected to amount to 1.04 billion liters, calculated at an average recovery of 772 liters per ton of grapes.

The anticipated increase for the 2012 season is based on the recovery in the Orange River region coupled with good growing conditions in the Western Cape. These good growing conditions were characterized by sufficient cold conditions in winter (June, July and August), which resulted in good and even blossoming, and also the non-prevalence of the Western Cape's notorious gale force winds.

Post revises South Africa's 2011 wine grape crop upward to 1.28 MMT, as reported by SAWIS, and this represents a slight increase of 1.6 percent compared to the 2010 crop. The 2011 crop was affected by flooding in the Orange River region and the heat wave in the Western Cape; however, despite these unfavorable weather conditions, South Africa wine industry is able to buffer large fluctuations in overall crop size and quality because of the country's diversity on cultivation areas. Good growing conditions prevailed in other wine growing regions, with sufficient cold units (number of chill hours to prevent deciduous trees from breaking bud dormancy) which resulted in even blossoming hence the 1.6 percent increase.

**Table 1. South Africa: Wine Production**

	2008	2009	2010	2011	2012
Total Grape Crop/ Grapes crushed (Tons)	1.43	1.35	1.26	1.28	1.35
Wine production (Billion Gross liters)	1.09	1.03	0.98	0.99	1.04
Liters per gross Ton	764	767	778	776	772

Source: SAWIS

South Africa's wine exports decreased for the 2011 season, with packaged wine being the most affected, whereas bulk wine shipments actually increased. Global economic challenges especially in the Euro zone, which is South Africa's biggest market, have been blamed for the decrease in wine exports coupled with the volatile rand.

South Africa's domestic wine consumption has increased for the 2011 season, on aggressive marketing efforts to attract a rapidly growing middle class to wine.

### BACKGROUND

Recent industry reports show that despite SA ranking in 14th place in terms of hectares planted for wine grape production, South Africa ranks as the 7th largest producer of wine in the world. There are about 3,596 primary wine producers, 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

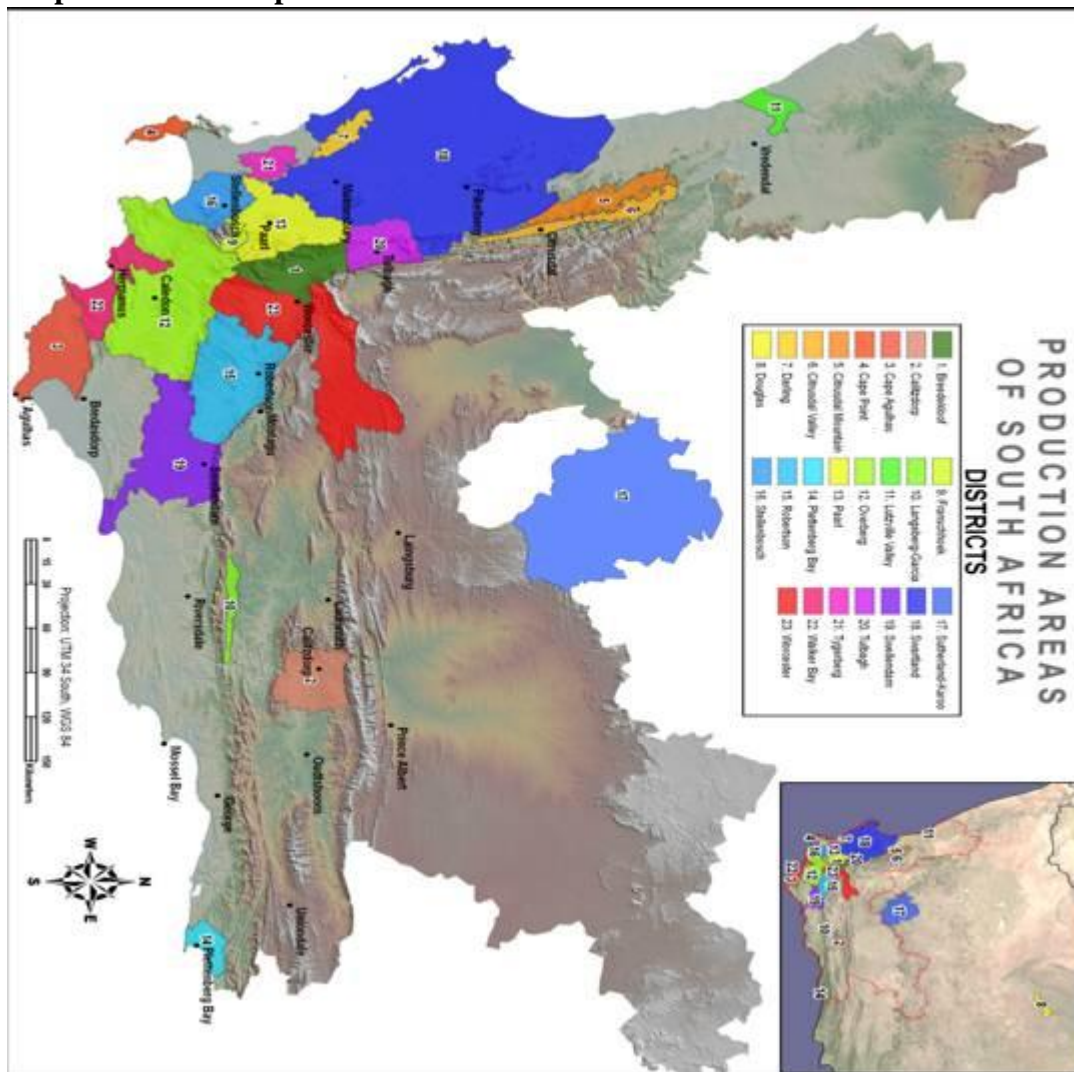
GDP, with an estimated value of R26.2 billion (USD 3,5 billion).

The industry created about 275,606 jobs in 2010 of which, 58 percent were unskilled; 29 percent semi-skilled; and 13 percent, skilled. In addition to this more than R4 billion (USD 0.53 billion) is 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 foreign currency income. Wine tourism involves visiting the producer cellars, tasting (at a cost) and buying of wine directly from the cellars.

### Production Districts

South African wine grapes are produced mainly in the Western Cape, see map 1 and are also produced in Northern Cape along the Orange River, see map 2.

Map 1. Western Cape Wine Districts



Sources: SAWIS

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 these acidic and

alluvial soils are favorable for red grape production. The top red wine varieties include Cabernet Sauvignon, Merlot, Pinotage and Shiraz.

### Map 2. SA Wine Grape Production Areas (Western Cape and Northern Cape)



Source: Google maps

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 the Chardonnay grape, as well as its fortified wines.

### SOURCES

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

- [http://www.sawis.co.za/info/download/Wynbedryfinligting\\_Jan\\_2012\\_Afr\\_Eng.pdf](http://www.sawis.co.za/info/download/Wynbedryfinligting_Jan_2012_Afr_Eng.pdf)
- <http://www.ias.org.uk/resources/factsheets/tax.pdf>

**Table 2. Exchange Rate**

	<b>R - \$</b>	<b>R - €</b>	<b>R - £</b>
June 2011	6.69	9.87	11.02
June 2010	7.59	9.81	11.49

**Commodities:**  
**Wine**

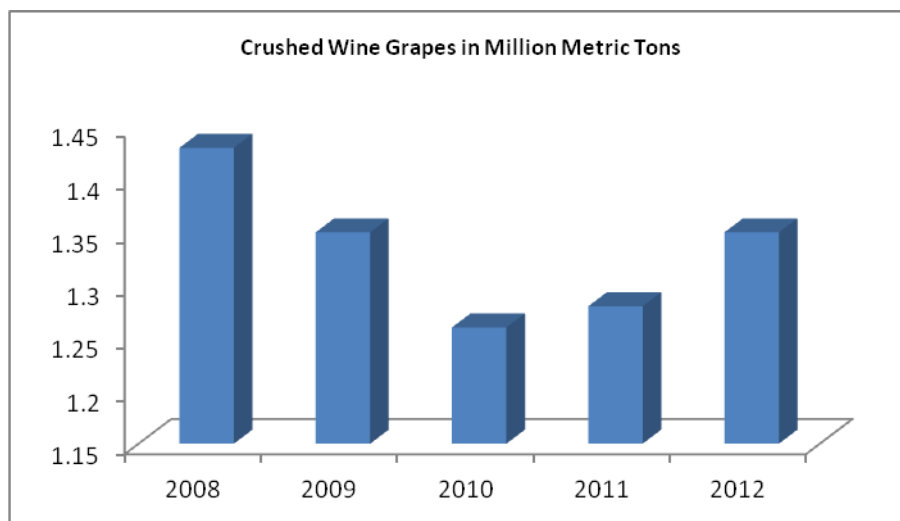
**Production:**

Post forecasts South Africa’s 2012 wine grape crop will reach 1.35 Million Metric Tons (MMT), a five percent increase from the previous year based on SAWIS’s most recent crop estimate (January 2012). This latest estimate represents an upward revision from the November 2011 estimate. Good weather conditions and recovery in the Orange River region from previous year’s flooding have contributed to this anticipated higher yield.

The wine crop, including juices and concentrate for non alcoholic purposes, wine for brandy and distilling wine, is expected to amount to 1.04 billion liters, calculated at an average recovery of 772 liters per ton of grapes.

Post revises upward South Africa’s 2011 wine grape crop harvest to 1.28 MMT, based on SAWIS. This represents about 1.6 percent increase compared to 2010 season, despite climatic challenges in the Cape and large-scale flood damage along the Orange River region. The 2011 crop – including juice and concentrate for non-alcoholic purposes, wine for brandy and distilling wine – is expected to amount to 0.99 billion liters, calculated at an average recovery of 776 liters per ton of grapes.

**Figure 1. South Africa: Wine Grapes Crushed in Million Metric Tons**

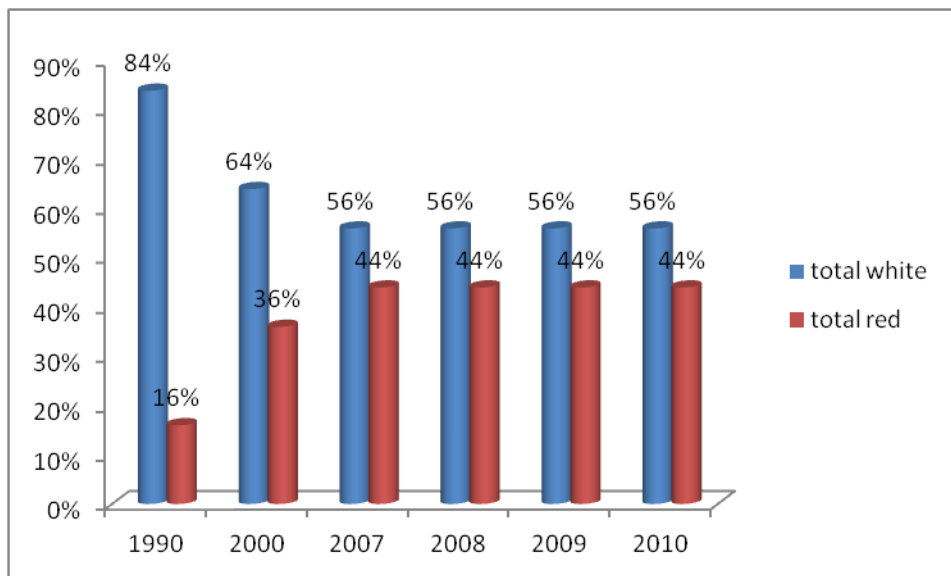


Source: SAWIS

**South African (SA) Wine Varietals**

South Africa has a wide range of both white and red wine varietals. The Chenin Blanc is the most popular white varietal, while the Cabernet Sauvignon is the most popular red varietal. The white varietals have been dominating; however since 2007, have remained static with the red varietals currently at 44 percent in South Africa. White varietal prices increased compared to red wine varietals, which experienced downward pricing pressure due to high stocks in world markets.

**Figure 2: South African Wine Varietals – Static since 2007**



**Source:** Wosa

### **Grape Wine Production Area**

Current industry statistics (2011) show that there are about 101,016 hectares (ha) destined for wine grape production in South Africa compared to 101,259 hectares (ha) in 2010, a 0.2 percent decline. Since 2006, the total planted area is steadily decreasing due to low replacement rate of vineyards.

The industry has not been able to replace vineyards at the recommended annual rate of five percent, which is about 5,000 ha/year, of existing vineyards due to financial constraints. Rising input costs coupled with South Africa's new Credit Act, which tightens access to credit, are examples of these financial constraints. Replacement costs have increased by ten percent since 2008 to R7, 541/hectare. Net farm incomes per hectare have therefore fallen.

The industry is also becoming smaller and, currently (2011) there are 3,596 primary wine producers, compared to 4,515 primary wine producers in 1999. The bigger producers are buying out the smaller ones to increase the economies of scales. Most of these producers deliver grapes to 54 producer cellars, compared to 69 producer cellars in 1999 as reported by the industry.

### **Consumption:**

Post forecasts an increase in domestic consumption of wine for MY 2012 to 320 Million Liters, on aggressive industry marketing efforts to attract a rapidly growing black middle class. Roughly 80 percent of South African population is black and after 1994, a sizable black middle class has developed in South Africa through Black Economic Empowerment and better access to higher quality education and employment opportunities.

One study estimates the new black middle class now has more purchasing power than the country's white population. Studies done in 2007 showed that the black middle class constitutes about 43 percent of the South Africa population, and are responsible for a 37- percent contribution to retail shopping and have the highest retail shopping frequency. SA wine consumers are generally regarded as more price sensitive and less likely to venture into the higher priced wines.

The South African banking sector, particularly ABSA Bank and Standard Bank, has hosted numerous competitions and wine-tasting events to promote South African wines, and wine-pairing dinners are a growing feature of wine marketing in South Africa's restaurant industry.

Post revises 2011 domestic sales to 312 Million Liters based on industry reports. This represents three percent increase compared to 2010 figures of 302 Million Liters. Although South Africans generally prefer beer over wine, the industry has embarked on awareness campaigns such as the annual Soweto Wine Festival to attract more wine drinkers, particularly in the black middle class. Growth of the middle class, who are status and lifestyle oriented, is presenting a good opportunity for increased sales of wine.

More on wine prices please refer to:

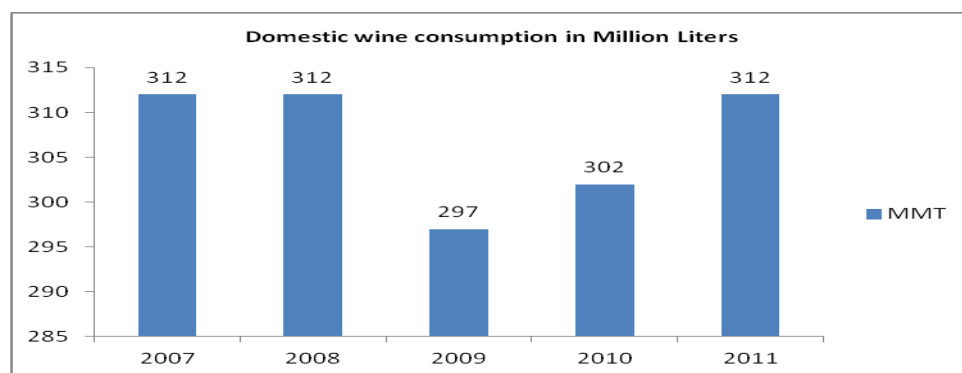
<http://www.wine-searcher.com/regions-south+africa>

**Table 3. South Africa: Domestic Sales of Natural Wine in Million Liters**

	2010 (Dec 2009 – Nov 2010)	2011 (Dec 2010 – Nov 2011)
Wholesalers	158	168
Private cellars	42	44
Producer cellars	102	99
Grand Total	302	312

Source: SAWIS

**Figure3. South African Domestic Wine Consumption in Million Liters**



Source: SAWIS

### Distribution

Domestically, wine can be marketed directly to consumers by the producer through cellar-door sales or the producer can sell directly to wine retail stores. Supermarket chains 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 wineries selling wines directly to local consumers through their websites.

**Trade:**

**Exports**

Post forecasts South Africa’s 2012 wine exports at 334 Million Liters, a 1.2 percent increase on the industry’s long term plan to increase wine sales to African countries like Angola by 20 percent. The 2011 export season (table 4.) shows that growth in exports came from emerging markets, with current economic challenges in Europe, coupled with falling per capita wine consumption in Southern European countries resulting in lower export volumes overall.

Industry reports indicate that although the top five destinations for SA wines are still the more traditional markets like the UK, Germany, Sweden, the Netherlands and Denmark, export growth globally is not coming from these markets, but rather from secondary markets and even from regional markets such as Kenya, Angola and Nigeria.

Post revises 2011 South African wine exports downward to 332 Million Liters as reported in the GTA. This represents a nine percent decline from the previous year (2010), 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.

**Table 4: South African Wine Exports: Decline on Weak UK Market**

Partner country	Quantity in Million Liters		
	2009	2010	2011
United Kingdom	121	103	76
Germany	62	67	72
Sweden	36	36	36
Netherlands	30	26	24
Denmark	15	17	17
Canada	11	13	12
United States	16	13	12
Angola	8	4	4
Kenya	2	3	4
Nigeria	2	3	3
<b>Grand Total</b>	378	364	332

Source: GTA

**Bulk Wine Exports**

Germany has been South Africa’s largest destination for bulk wine exports since 2006, reaching 63 Million Liters in 2011. Of the bulk wine shipped to Germany, red wine is shipped in higher volumes than white. South African wine is shipped to Germany in large wine bladders, where it is bottled, and then sold to several countries throughout in the EU. The bulk wine packed for sale in Germany

represents good value and is sold at competitive prices. Increasingly, UK companies are also bottling bulk wines for distribution in Europe, as it is more cost effective.

The South African physical wine infrastructure seems to be at a slight competitive disadvantage. High and uncompetitive bottling costs of the industry are of concern. Estimates done by Distell (2006) showed that bottling and packaging costs are more than \$1 per case cheaper in Europe than in SA, hence importers prefer importing bulk wine to bottle. These higher bottling costs seem to be due to higher local glass, paper and printing costs which are a result of lack of economies of scale.

**Table 5. South Africa Bulk Natural Wine**

Partner countries	Quantity in Million Liters		
	2009	2010	2011
Germany	55	55	63
UK	30	38	42
Sweden	7	6	11
Denmark	8	6	11
France	5	7	8
USA	5	4	4
Grand total	151	145	173

Source: SAWIS

### **Packaged Wine Exports**

Although the UK is still the major destination for South African packaged wine, quantities exported to UK have been decreasing since 2010 on weak market conditions, unfavorable exchange rates and taxes on alcohol.

There are two kinds of taxes on alcohol in the UK:

(1).Excise Duties, which vary with the different categories of alcoholic drinks; and (2).Value Added Taxes (VAT), currently set at 17.5 percent. Excise duties are normally reviewed annually by the Chancellor of the Exchequer in his Budget, and alcohol is highly taxed in the UK compared with other European countries. More information on wine taxes in UK can be found at:

<http://www.thedrinksbusiness.com/2011/12/uk-wine-sales-plummet-as-tax-hikes-hit-trade/>

**Table 6. South Africa: Packaged Wine Exports by Country**

Partner countries	Quantity in Million Liters		
	2009	2010	2011
UK	95	67	39
Sweden	33	32	26
Netherlands	21	20	18
Germany	15	17	17

USA	8	10	9
Kenya	2	3	4
Grand total	239	222	178

Source: SAWIS

### Imports

South Africa imports wine from the following top five countries: Italy, France, United States, Portugal, and Chile. Previously, imports were dominated by bulk wines from countries like Argentina and Spain, which were destined for blending with local wines that are typically made available as cheap table wines. South Africa imports limited quantities of wine from the United States, primarily due to South Africa's relatively high duty of 25 percent on U.S. wine compared with European wine which enters South Africa duty free.

**Table 7. South Africa: Wine Imports**

Partner countries	Quantity in Million Liters		
	2009 (Jan -Nov)	2010 (Jan – Nov)	2011 (Jan – Nov)
Italy	316	240	510
France	370	397	494
United States	19	166	269
Portugal	235	130	237
Chile	5	54	179
Grand total	2	1	2

Source: GTA

### Stocks:

#### Producer Cellar Stocks

Current industry reports (October 2011) indicate that there are about 97.3 percent of red wine in stock that is contracted and bottled, while there is only 2.7 percent that is not contracted. White varietals contracted and bottled stock is at 93.8 percent, while stock that is not contracted was at 6.2 percent. Globally, red wine is the most consumed type, hence small percentage that is in stock and not contracted.

### Policy:

#### 1. Usage of word 'Port' in South African Wines

The word Port on SA wine products was phased out on January 01, 2012, as per agreement between EU and SA. The word can only be used by the manufacturers in a specific region in Europe.

#### 2. Laws governing the wine industry

##### 2.1 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](http://www.westerncape.gov.za/Text/2003/liquor_products_act_no60_1989.pdf)

##### 2.2 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>

### 2.3 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>

2.4 The marketing of Agricultural Products no.47 of 1996 - The Act compels all bottlers, grape producers, grape juice producers, wine exporters, wine producers and wine traders to register with SAWIS as well as to keep such records and render returns as may be required by SAWIS.

### **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 48 percent of natural wine packaged in glass bottles, while 27 percent is boxed, and 23 percent is packaged in plastic. Foil bags are not as popular, with only 0.8 percent of total wine packaged occurring in this type of container.

The use of screw caps continues to increase. This type of seal was previously used for only lower quality wines but 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. However, 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 and 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 percentage point 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 10 mg/ 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 that 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 that refers to the importer of a wine that was bottled in a foreign country.

**Tax on Domestic wine**

South African Revenue Service (SARS) taxes domestic wine through the excise tax and this tax includes the following items:

- 22.04 Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09)

On February 22, 2012, the South African government announced that excise tax on domestically produced wine will rise. Excise tax on sparkling wine will rise by eight percent to R7.53 /litre, unfortified wine by 7.7 percent to R2.50 /litre and fortified wine by six percent to R4.59 /litre in 2012. There is also a 14 percent VAT (Value Added Tax) charged on all wines sold in South Africa.

**Table 8. Import duties: Wine of fresh grapes, including Fortified wines, Grape Must**

HS Code	Subheading	Description	Units (Liters)	Rate of Duty			
				General	EU	EFTA	SADC
22.04							
	2204.10	Sparkling wine	li	25%	Free	25%	Free
	2204.2	Other wine, grape must with fermentation prevented or arrested by the addition of alcohol in containers of 2li or less.					
	2204.21.30	Grape must with fermentation prevented or arrested by the addition of alcohol	li	25%	Free	25%	free
	2204.21.40	Unfortified wine	li	25%	Free	25%	Free
	2204.21.50	Fortified	li	25%	Free	25%	Free
	2204.29	Other					
	2204.29.30	Grape must with fermentation prevented or arrested by the addition of alcohol	li	25%	Free	25%	Free
	2204.29.40	Unfortified wine	li	25%	Free	25%	Free
	2204.29.50	Fortified	li	25%	Free	25%	Free
	2204.30	Other grape must	li	25%	Free	25%	Free

Source: Schedule1/Part 1/Section iv- Customs & Excise Tariff – South Africa (2012)

**Exemption from import duty for wine in South Africa**

A resident or a non-resident passenger may import certain consumable goods as accompanied baggage without having to pay a duty and for wine, two liters per person is excluded from import duties, for more information, please refer to: <http://www.sars.gov.za/home.asp?pid=180>

### Foreign Import Regulations and Duties

The EU allows a quota of wine to be imported from SA exempt from duty as agreed upon by Trade, Development and Cooperation Agreement (TDCA).

**Table 9. Import Duties on South African Wine: European Union**

**Product Code** 2204109400  
**Country of origin** South Africa  
**Simulation date** December 1, 2011

Code	Product Description
<a href="#">22</a>	BEVERAGES, SPIRITS AND VINEGAR
<a href="#">2204</a>	Wine of fresh grapes, including fortified wines; grape must other than that of heading 2009
<a href="#">2204 10</a>	-Sparkling wine
<a href="#">2204 10 94</a>	--With a protected geographical indication (PGI)

Origin	Add. Code	Measure Type	Tariff	Conditions	Footnote	Regulation/ Decision
ERGA OMNES		Third country duty	32 EUR/hl			<a href="#">R2204/99</a>
ERGA OMNES		<a href="#">Supplementary unit</a>	/l			<a href="#">R2658/87</a>
All third countries Excluding: Switzerland, Switzerland and Liechtenstein, United States of America		Entry into free circulation (prior surveillance)		<a href="#">Show</a>	<a href="#">CD519</a> <a href="#">CD522</a>	<a href="#">R0555/08</a>
South Africa		Tariff preference	0 %			<a href="#">D0753/99</a>

CD519 Entry into free circulation is subject to the presentation of a V I 1 document or a V I 2 extract issued in accordance with Regulation (EC) No 555/2008.

CD522 No certificate or analysis report need to be presented for products originating in and coming from third countries in labelled containers of not more than five litres fitted with a non-reusable closing device where the total quantity transported, whether or not made up of separate consignments, does not exceed 100 litres (Article 42 (1) Regulation 555/2008, OJ L170).

Source [DG Taxation and Customs Union](#) [Taric](#) : 01/03/2012

For tariff information visit:

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

