

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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South Africa - Republic of

Wine Annual

The South African Wine Industry: Production, Consumption and Trade

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Report Highlights:

The South African grape crop for wine production in 2013 is expected to be marginally less than in 2012, at 1.38 million tons, which will produce about 1.07 billion liters of wine. Continued depreciation of the Rand against major currencies, and the shift to bulk exports, are driving increased South African wine exports. Post estimates South Africa will export about 430 million liters of wine in 2013, six percent more than the 409 million liters exported in 2012 and 23 percent more than in 2011.

Executive Summary

The South African grape crop for wine production in 2013 is expected to be marginally less than in 2012. The grape crop for 2013 is expected to be 1.38 million tons, while in 2012 it was 1.39 million tons. The 2013 crop is South Africa's third largest over the past 10 years, and added to an upward trend in grape production during the same period, driven by an increase in productivity. The South African Wine Information and Systems organization (SAWIS) estimates that South Africa will produce about 1.07 billion liters of wine in calendar year 2013, which is slightly less than the 1.08 billion liters of wine produced in 2012. In 2011, South Africa produced 1.01 billion liters of wine.

Post estimates that South Africa will export about 430 million liters of wine in 2013, six percent more than the 409 million liters exported in 2012, and 23 percent more than in 2011. Continued depreciation of the Rand against major currencies and the shift to bulk exports are driving the upward trend in South African wine exports. The Rand continues to depreciate due to South Africa's financial and labor uncertainties and expectations are that this trend will continue through 2013.

Bulk export volumes increased from 69 million liters (29 percent of total exports) in 2003 to 248 million liters (61 percent of total exports) in 2012, while packaged exports decreased from 169 million liters, or 71 percent of total exports in 2003, to 161 million liters or 39 percent of total exports in 2012. Due to the increase in bulk exports, the average price per liter of wine exported dropped, making South African wine relatively competitive in international markets. The growing trend in bulk exports will likely continue in the future, as the increased cost of local bottling, due to sharp increases in fuel, labor and electricity costs, reduced South Africa's competitive advantage in bottled wine exports.

South Africa's wine exports to the United States increased by 40 percent in volume the past five years to a record 23 million liters in 2012. The increase in wine exports was mainly due to an increase in white wine exports, which now represents 81 percent of wine trade with the United States. Bulk exports to the United States increased by almost 70 percent, to 14 million liters since 2008, compared to packaged exports, which increased to nine million liters, an increase of only 11 percent since 2008. Bulk wine exports represented 60 percent of total wine exports to the United States in 2012.

US\$1 = Rand 9.11 (03/07/2013)

Production

In South Africa, viticulture is practiced predominately in the Western Cape Province at a latitude of 34° south, in an area with a mild Mediterranean climate (see Figure 1). There is also production taking

place in the Northern Cape Province alongside the Orange River and a small amount in the province of KwaZulu-Natal. The Western Cape enjoys a cooler climate than its latitude might suggest due to cooling breezes from the cold Benguela current that flows northwards from Antarctica into the Atlantic Ocean, which moderate the summer temperatures. With excellent growing conditions and different soil types, a wide range of grape varieties for winemaking can be produce in the Western Cape Province.

WINEGROWING AREAS OF SOUTH AFRICA

WESTERN CAPE

COASTAL REGION
Districts:

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

KLEIN KAROO
Districts:

- CALITZDORP
- LANGEBERG-GARCIA

CAPE SOUTH COAST

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

OLIFANTS RIVER
Districts:

- LUTZVILLE VALLEY
- CITRUSDAL VALLEY
- CITRUSDAL MOUNTAIN

BREEDE RIVER VALLEY
Districts:

- BREEDEKLOOF
- WORCESTER
- ROBERTSON

WARDS NOT PART OF A REGION

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

NORTHERN CAPE

- CENTRAL ORANGE RIVER (Ward)

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



Figure 1: Wine producing areas in South Africa
Source: Wines of South Africa (WOSA)

The South African grape crop for wine production in 2013 is expected to be marginally less than in 2012. The grape crop for 2013 is expected to be 1.38 million tons, while in 2012 it was 1.39 million tons. The 2013 crop is the third largest the past 10 years in South Africa (see Figure 2). South Africa has about 100,000 hectares under wine grape cultivation, which has been fairly constant in the past ten years. White varietals constitute about 56 percent of the plantings and red varietals, 44 percent. The most widely planted white varietal is Chenin blanc, representing 18 percent of total plantings, followed by Colombiar (12 percent) and Sauvignon blanc (10 percent). The most widely planted red varietal is Cabernet Sauvignon, 12 percent of total area, followed by Shiraz (10 percent), and Pinotage (7 percent), which was developed in South Africa through breeding.

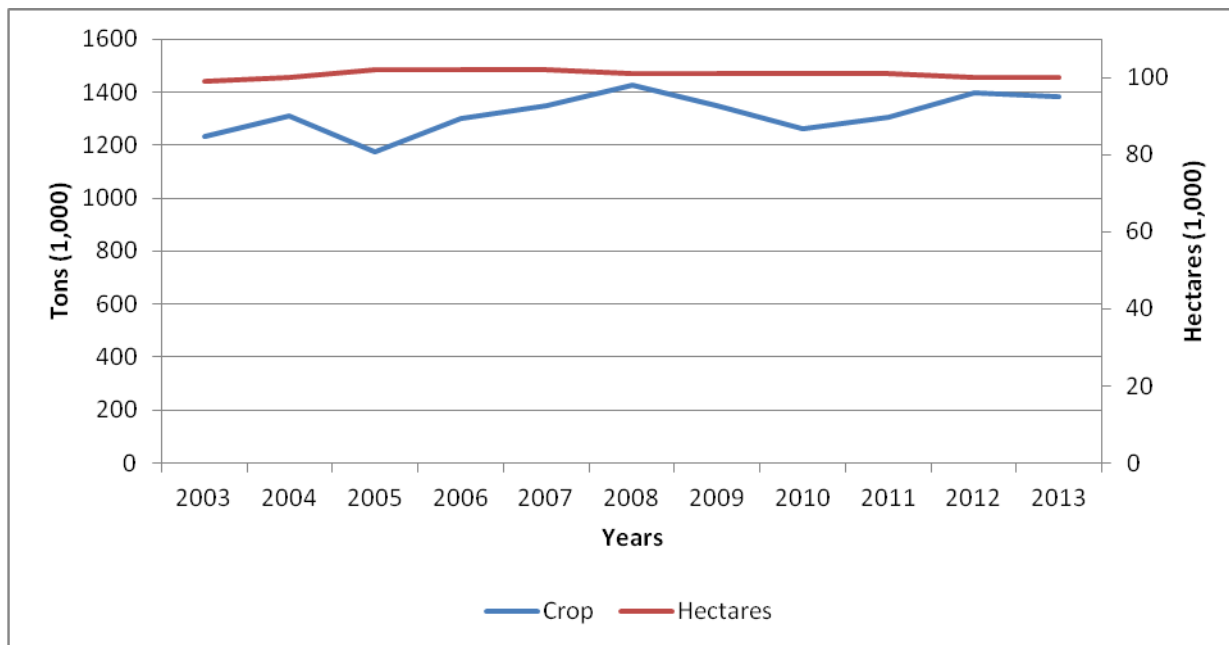


Figure 2: The trend in wine grape production in South Africa the past ten years

Source: SAWIS

The South African Wine Information and Systems organization (SAWIS) estimates that South Africa will produce about 1.07 billion liters of wine in the 2013 calendar year from the 1.38 million tons of grapes, marginally less than the 1.08 billion liters of wine produced in 2012. In 2011, South Africa produced 1.01 billion liters of wine. Of the 1.07 billion liters of wine that will be produced in 2013, 43 million liters will be used for brandy production, 53 million liters for grape juice and 137 million as distilled wine (see also Table 1).

Table 1: Wine production in South Africa

Calendar years	2011	2012	2013 (estimate)
Total grape crop (million tons)	1.303	1.395	1.381
Liters per gross ton	778	777	773
<u>Wine produced (million gross liters)</u>			
Wine	831	844	835
Wine for brandy	34	62	43
Grape juice	40	40	53
Distilling wine	107	137	137
Total wine production (million gross liters)	1,013	1,084	1,068

Source: SAWIS

Consumption

Post estimates that South Africa will consume almost four billion liters of alcoholic beverages in 2013 (see Table 2). Beer is South Africa's preferred alcoholic beverage, and represents almost 80 percent of

total alcoholic beverage consumption. An estimated wine consumption of 373 million liters in 2013, 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 four years, as the continued expansion of the middle-class has brought about new wine consumers (see Figure 3). South Africa consumes about 40 million liters of brandy per annum.

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

	2008	2009	2010	2011	2012 (estimate)	2013 (estimate)
Beer	2,845	2,848	2,902	2,969	3,024	3,080
Wine	356	338	346	353	363	373
Spirits (excl. brandy)	70	69	71	76	78	79
Brandy	46	43	41	39	38	37
Ready to drink	346	363	376	391	402	412
Total	3,663	3,662	3,736	3,827	3,905	3,980

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

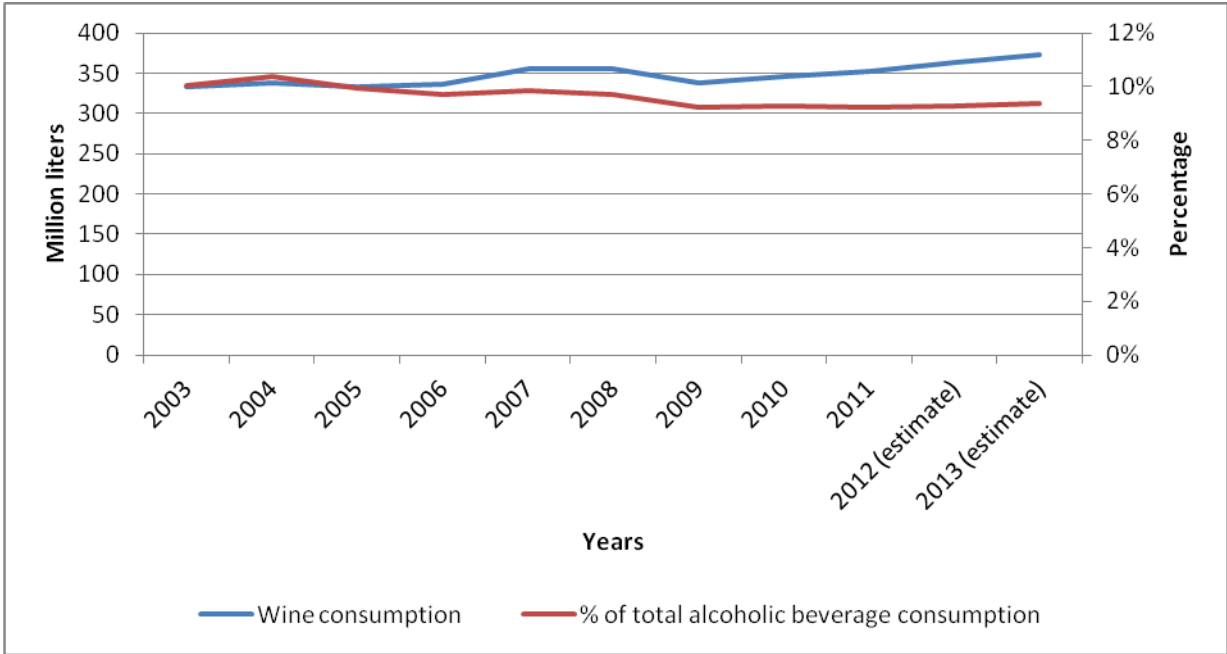


Figure 3: The trend in wine consumption in South Africa

Trade

Exports

South Africa’s wine exports declined from 407 million liters in 2008 to 350 liters in 2011, due to the global financial crisis, but rebounded in 2012 to 409 million liters (see Figure 4), after the Rand depreciated against major currencies and South Africa increased bulk exports (see Figure 5). The Rand

depreciated, respectively, by five percent, nine percent and seven percent against the United States Dollar, British Pound and Euro in 2012, which made South African wines relatively more price competitive in these markets. The Rand depreciated due to South Africa’s financial and labor uncertainties and expectations are that this will continue through 2013. In fact, the Rand already lost an additional six percent and five percent of its value against the United States Dollar and the Euro since the beginning of 2013. Hence, post estimates that South Africa will export about 430 million liters of wine in 2013, six percent more than the 409 million liters exported in 2012, and 23 percent more than in 2011.

Due to the increase in bulk exports (approximately 24,000 liter holders) the average price per liter of wine exported dropped from a high of R17.24 (\$2.3) in 2010, to its lowest level of R14.31 (\$1.59) in 2012, making South African wine relatively competitive in international markets. Bulk export volumes increased from 69 million liters (29 percent of total exports) in 2003, to 248 million liters (61 percent of total exports) in 2012, while packaged exports decreased from 169 million liters, or 71 percent of total exports in 2003, to 161 million liters, or 39 percent of total exports in 2012. Packaged exports are mainly done in 750ml bottles and represented 117 million liters (73 percent of packed exports) in 2012. The 750ml bottles are followed by the three liter container at 31 million liters, or 20 percent of total packed exports.

Post believes that the growing trend in bulk exports will continue in the future as the increased cost of local bottling, due to sharp increases in fuel, labor and electricity costs, makes South Africa bottled wine prices uncompetitive internationally.

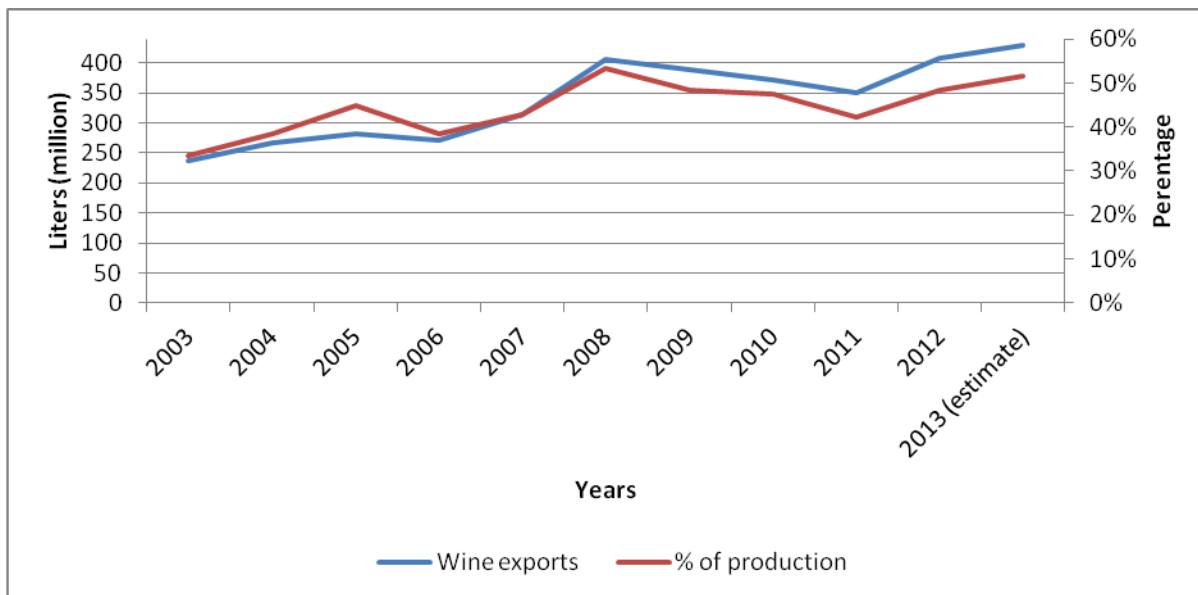


Figure 4: The trend in wine exports by South Africa the past 10 years

Source: SAWIS, Analytix

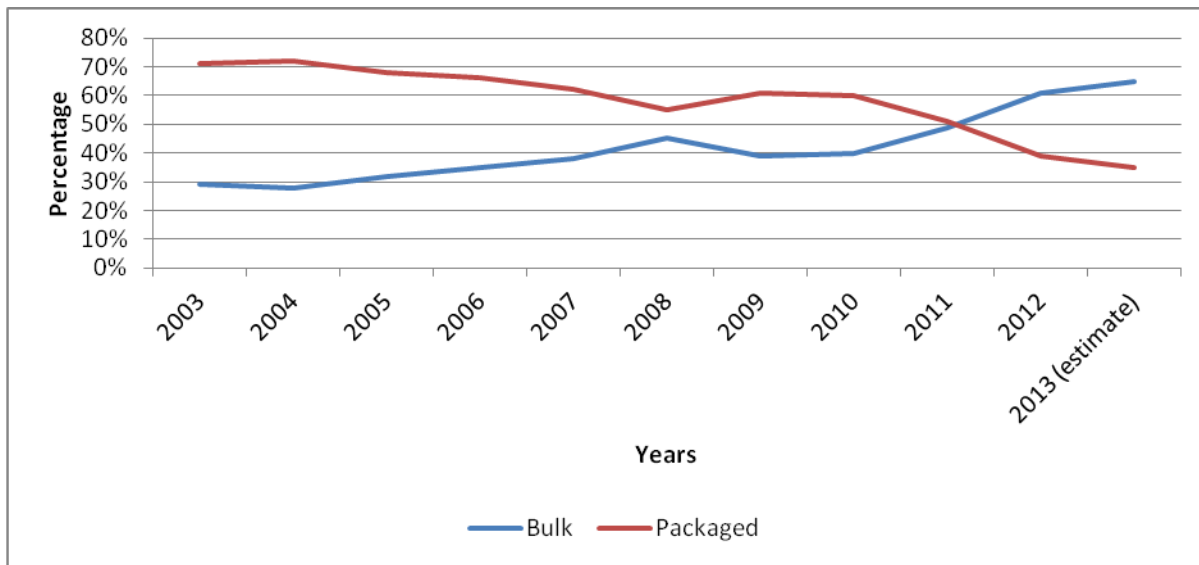


Figure 5: The trends in bulk and packaged exports as percentage of total exports

Source: SAWIS, Analytix

In 2012, South Africa’s top five wine export markets, by volume, were the United Kingdom (22 percent of total exports), Germany (19 percent), Sweden (8 percent), Russia (8 percent) and the United States (6 percent). The markets of the United Kingdom (12 percent increase), Russia (279 percent increase) and the United States (81 percent increase), showed sharp increases on a year-on-year basis in wine imports from South Africa. South Africa exported 17 million liters or five percent of total wine exports to the rest of Africa in 2012, which is roughly the same level as in 2010 and 2011.

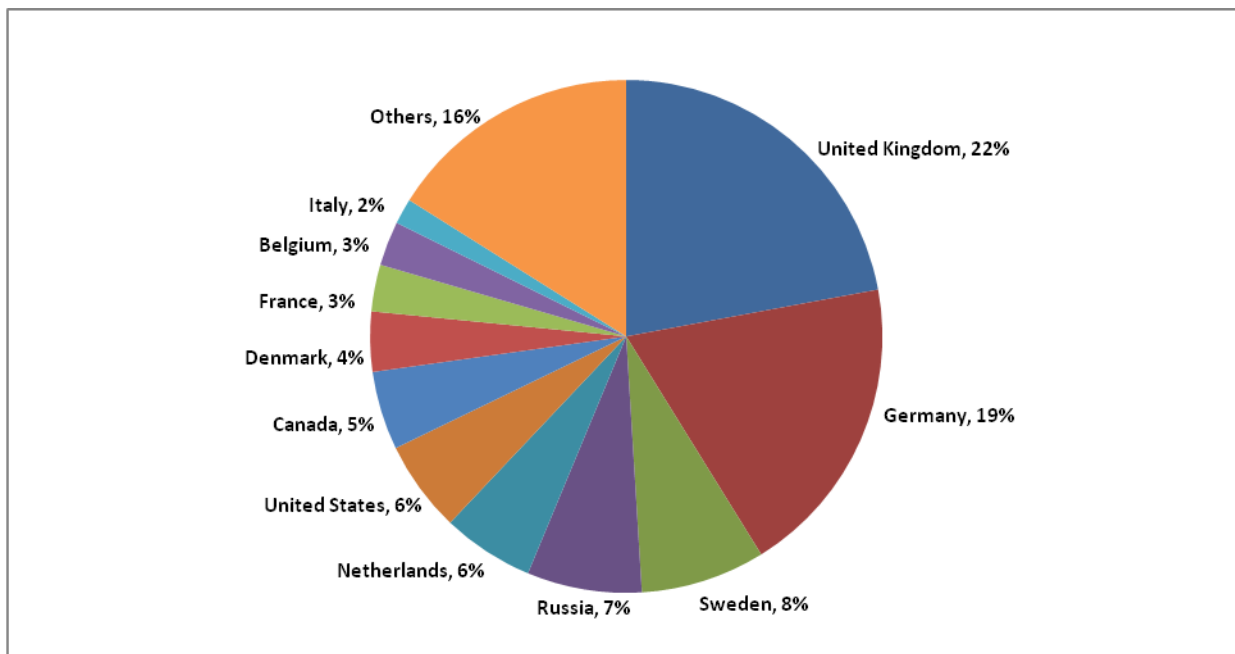


Figure 6: The major markets of South African wine in 2012

Source: SAWIS, Global Trade Atlas (GTA)

Wine exports represent about 50 percent of total production in South Africa. In 2012, 40 percent of wine exported were from red varieties, down from 51 percent in 2008. White wine exports increased from 43 percent in 2008 to 53 percent in 2012, while the rest of the exports were Blanc de Noir and Rose wines. It is clear from Figure 7 that there has been a shift from red wine exports to white wine exports by South Africa, mainly due to sharp increases in bulk white wine demand in Russia, the United States and Canada. Figure 8 illustrates the trends the past five years in white wine and red wine exports in bulk and bottled products.

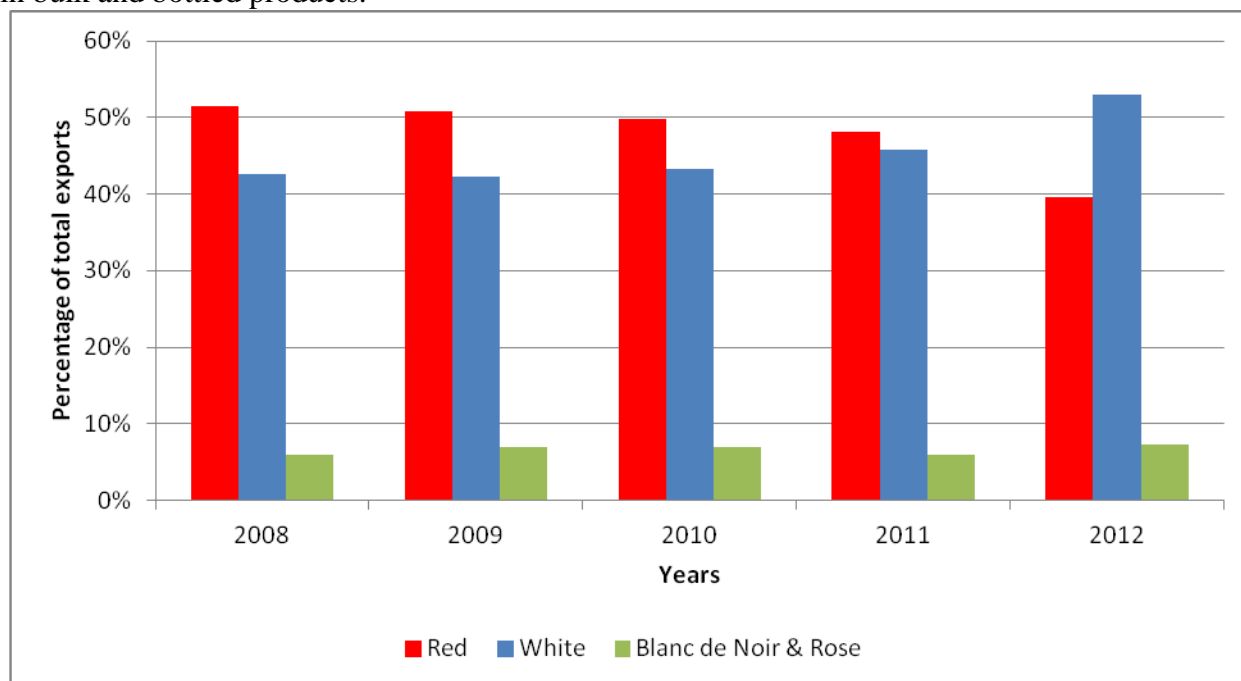


Figure 7: The trend in white wine and red wine exports as percentage of total exports
Source: SAWIS

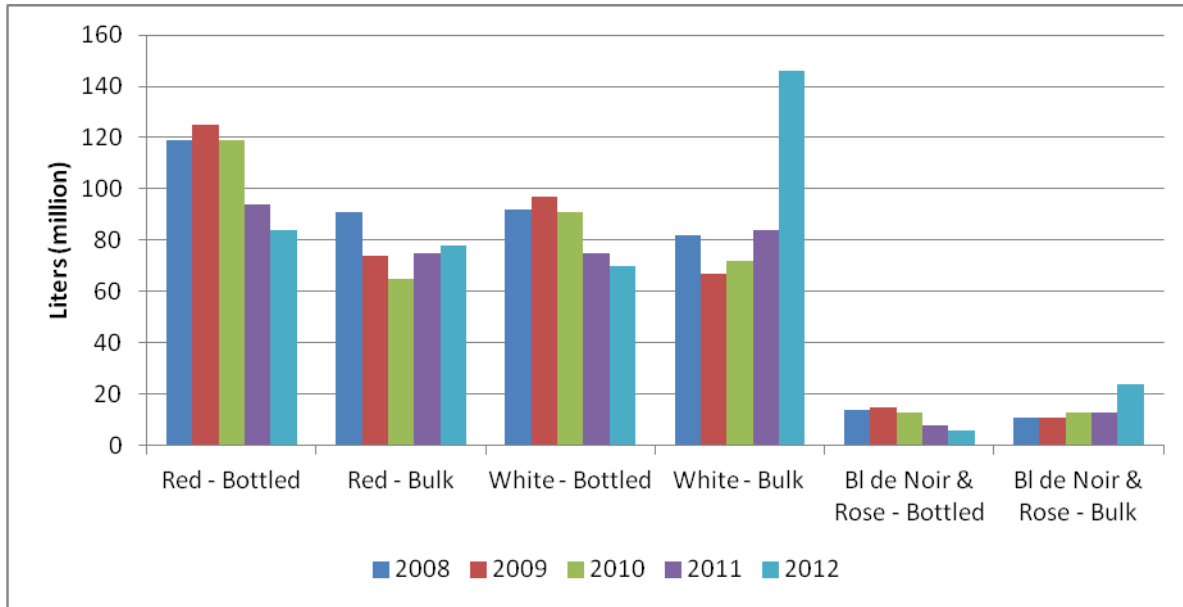


Figure 8: The trends in white wine and red wine exports as bulk or bottled products
Source: SAWIS

South Africa’s wine exports to the United States

South Africa’s wine exports to the United States increased by 40 percent in volume over the past five years to a record of 23 million liters in 2012 (see Figure 9). The increase in wine exports was mainly due to an increase in white wine exports, which represents 81 percent of wine trade with the United States. In 2008, white wine exports represented 72 percent of total wine exports to the United States. Another reason for the increase in wine exports to the United States was the raise in bulk exports by almost 70 percent to 14 million liters since 2008, compared to packaged exports of nine million liters, an increase of only 11 percent since 2008. Bulk wine exports represented 60 percent of total exports to the United States, while the rest of the exports consist mainly of the 750ml bottles.

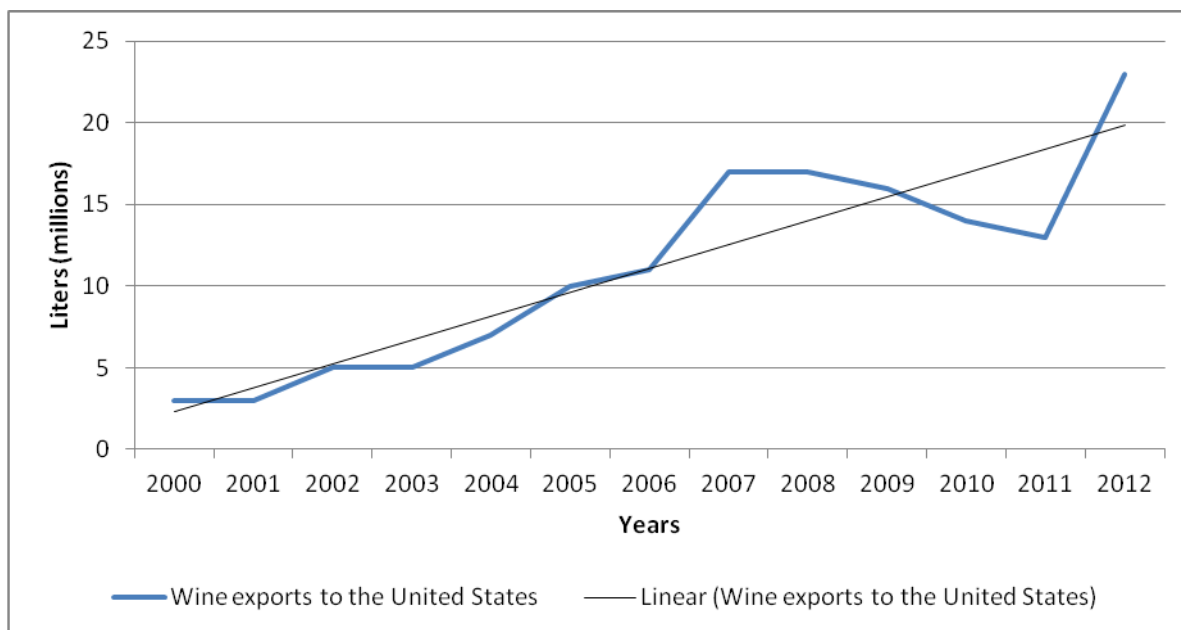


Figure 9: South Africa's wine exports to the United States

Source: GTA

Imports

South Africa imported about 2.6 million liters of wine, or 0.3 percent of production in 2012, up 19 percent from the 2.2 million liters imported in 2011. Major import countries included France (25 percent of total imports), Italy (22 percent), Portugal (10 percent), and Spain (10 percent). South Africa imported limited quantities of wine from the United States, primarily due to South Africa's relatively high import duty of 25 percent on United States wines compared with European wines, where the import tariff is about 10 percent due to South Africa's Free Trade Agreement with Europe (see also Table 3).

Table 3: Import duties of wine to South Africa

Item	Description	Unit	General	EU	EFTA	SADC
2204.10	Sparkling wine	liter	25% + R6.16c/li	90.44c/li with a max of 9.5% + R6.16c/li	25% + R6.16c/li	R6.16c/li
2204.21.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	52.44c/li with a maximum of 9.5%	25%	free
2204.21.40	Unfortified wine	liter	25% + R1.98c/li	36.86c/li with a maximum of 9.5% + R3.72c/li	25% + R3.72c/li	R3.72c/li
2204.21.50	Fortified wine	liter	25%	86c/li with a maximum of 15,75%	25%	free

2204.29.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	52.44c/li with a maximum of 9.5%	25%	free
2204.29.40	Unfortified wine	liter	25% + R1.98c/li	27.74c/li with a maximum of 9.5% + R1.98c/li	R1.98c/li	free
2204.29.50	Fortified wine	liter	25% + 3.72c/li	43.32c/li with a maximum of 9.5% + 3.72c/li	25% + R3.72c/li	R3.72c/li
2204.30	Other grape must	liter	25%	9.5%	25%	free

Source: Cargoinfo

Stocks

Stock levels in 2012 increased by 13 percent to 400 million liters from 353 million liters in 2011. Red wine stocks increased by 25 percent to 156 million liters and white wine stocks increased by seven percent to 234 million liters. Blanc de Noir and Rose stocks decreased by almost two percent to 9.4 million tons in 2012. A total of 39 percent of the stocks are red wine, and 59 percent are white wine. Almost 96 percent of the stocks in 2012 have already been contracted and/or bottled.

The Regulatory Environment

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

- **The Liquor Products Act No. 60 of 1989**
Regulates the import and export of liquor products
http://www.westerncape.gov.za/Text/2003/liquor_products_act_no60_1989.pdf
- **The Liquor Act no 59 of 2003**
Regulates the large scale manufacture and the distribution of liquor and requires all large scale manufacturers and distributors to be registered with the National Liquor Authority. The act can be accessed at: <http://www.thedti.gov.za/nla/acts/act2003.pdf>
- **The Foodstuff, Cosmetics and Disinfectants Act, 54 of 1974**
According to this act, mandatory warnings about the health effects of alcohol must appear on container labels of liquor products labeled since February, 24 2009. The regulation obliges the use of the following messages:
 1. Alcohol reduces driving ability, don't drink and drive.
 2. Drinking during pregnancy can be harmful to your unborn baby.
 3. Alcohol abuse is dangerous to your health
 4. Alcohol increases your risk to personal injuries
 5. Alcohol is a major cause of violence and crime
 6. Alcohol is addictive
 7. Don't drink and walk on the road, you may be killed

The act can be accessed at:

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

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

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.

- **Label Requirements**

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

Tax on Domestic wine

South African Revenue Service (SARS) taxes domestic wine through the excise tax. Unfortified wine incurred an increase in excise duty of eight percent by the Minister of Finance, Mr. Pravin Gordhan, during the annual National Budget Speech on 27 February 2013. The excise duties of fortified wine and sparkling wine increased by 5.7 percent and 10 percent, respectively. The excise duty per liter on unfortified wine, fortified wine and sparkling wine now equals R2.70 (\$0.30), R4.85 (\$0.54), and R8.28 (\$0.92), respectively. There is also a 14 percent VAT (Value Added Tax) charged on all wines sold in South Africa. An excise duty of 10 percent on brandy was also announced.

The South African government already earned R4.7 billion (\$522 million) from the wine industry before the announcement of the new excise duties, compared to a total producer income of R3.7 billion (\$411 million). Hence, the South African wine industry made an urgent call for more Government support, in order to address the imbalance between economic realities and socio-economic pressure.