



Required Report - public distribution

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South Africa, Republic of
Wine Competition
Annual
2000

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Report Highlights:

Total wine production is expected to reach 900 million litres this year, about 2% less than in 1999. About 16% of this total will be certified. The decrease is primarily due to unfavourable climatic conditions and veld fires. Domestic consumption for 2000 is expected to decrease by 4 million litres from last year because of the reduction in the total crop crushed and an increase in exports. Wine exports are expected to grow by 10% this year because of high demand in the EU.

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Executive Summary

South Africa's area planted to vines increased one percent in 2000 to 116,000 Ha. The total grape crush of about 1,115 million tons this year represents a decrease of 1% from 1999 because of adverse climatic conditions which resulted in a smaller than normal harvest. Wild fires in the red wine producing areas reduced the amount of grapes sent for crushing by 7%. Total wine production is expected to reach 900 million litres this year, about 2% less than in 1999, 16% of which will be certified.

Domestic consumption for 2000 is expected to reach 405 million litres, a decrease of 4 million litres from last year due to the reduction in the total crush and an increase in wine exports.

Wine exports are expected to grow by 10% this year to about 138 million litres partly due the continued depreciation of the rand. There is a growing demand for quality bottled wines ahead of bulk exports. In 1999, exports of Pinotage rose by 61%, while Cabernet Sauvignon jumped by 53%. Ireland is becoming S.A.'s fastest growing wine market in the EU.

The S.A.-EU negotiations for wine and spirits are still on-going. If a final agreement is reached, it will potentially unlock a 32-million litre tariff-free wine quota for local exporters.

S.A.'s current health policy increased the duties on alcoholic drinks to be in line with the inflation forecast.

A 25% ad valorem tariff had also been imposed on imported wine.

Other import regulations and requirements still remain the same.

SECTION 1.

Narrative

South Africa's wine production is handled by 3 sectors: 1) 82 Estate wineries, which make wine only from grapes produced on their own land; 2) 70 co-operatives which process the grapes of their farmer shareholders into wine; and 3) 73 independent cellars as well as wholesalers who buy wine and make wine for bottling under their brand names. The wine industry is supported indirectly by government, academic, and private research bodies including the Agricultural Research Council(ARC), Nietvoorbijl Viticulture and Oenology, the University of Stellenbosch, the Elsenburg Agricultural College, and a 12-man advisory team from KWV group.

S.A. is the world's tenth largest producer of wine for export in terms of revenue. Wine export earnings increased from about \$4.5 million in 1967, and about \$250 million in 1999. About 70% of the country's wine exports are handled by KWV group, but wholesalers, co-operative cellars are increasingly entering the overseas markets.

In 1999, the KWV group received the President's Award for Export Achievement, an award it also received in 1998. In addition, it received a merit certificate for social responsibility, as well as a merit award for product design and innovation. The KWV group has a well organized distribution network that supplies the domestic markets.

The wine industry has a Wine and Spirit Board, established in accordance with the Liquor Products Act of 1989. Its main function is to run and administer the wine of origin and Estate Brandy Schemes. It also advises and makes recommendations to the Minister of Agriculture on matters relating to the execution of the Liquor Products Act and its subordinate legislation. The Board has numerous committees which execute different functions.

Statistical Information

Production

Area planted : vines.

AREA PLANTED TO VINES						
		1998		1999		2000
VINE TYPES	Tot.vines('000)	Area(HA)	Tot.vines('000)	Area(HA)	Tot.vines('000)	Area(HA)
Wine Grapes	305587	100979	312251	104179	317792	105165
Table Grapes	20053	9667	21679	10575	22037	11000
Rootstocks	753	260	699	248	719	250
Currants	1132	371	1045	341	1121	360
Total	327525	111277	335674	115343	341669	116775

The area planted to vines on commercial farms in 2000 rose about 1% from the previous season. The percentage planted to wine grapes is 90%, 9% go for table grapes and the remaining 1% for both rootstocks and currants. Worcester is the largest producer of wine grapes with about 17,300 hectares, followed by Paarl(17,200 hectares) Stellenbosch(15,900 hectares) and Orange river(15,200 hectares). Other major wine producing areas are Malmesbury, Robertson, Olifants River, and Little Karoo.

Crushed grapes

Country:	SOUTH AFRICA				
Commodity:	CRUSHED GRAPES				
		1998	1999	2000	
White Varieties		878711	973714	970766	Tons
Red Varieties		122140	148720	138681	Tons
Table Grapes		40153	49113	46227	Tons
Total		1043002	1173546	1157674	Tons

The 2000 wine harvest is estimated to decrease by about 1% from 1999. Major grape production areas, e.g Western and Southern Cape experienced warm weather which resulted in a smaller than normal harvest. In addition, these areas experienced thunderstorms in December which led to heavy localized downpours and hail damage to crops. However, producers applied quality-improvement practices such as harvest control and water controlled management on a large scale in irrigated vineyards which greatly reduced the damage. This effort kept the vegetative growth in balance and resulted in a good quality harvest.

Dryland vineyards on the other hand showed signs of drought symptoms. The Northern Cape was characterized by cooler than normal weather in December as a result of rain on a regular basis. But good weather in January helped stabilize the downy mildew problems.

Red wine production for crushing is estimated at about 138,000 tons this season, 7% lower than the previous season. This reduction is due to the damage from wild fires on some major red grape producing vineyards in the Western Cape. The wild fires are also expected to have a negative impact on total red wine exports.

Wine Production

Country: SOUTH AFRICA						
Commodity: WINE		PRODUCTION				
		1998	1999	2000		
Good wine		544.388	595.908	585.001	Mil. Litres	
Wine(for Brandy)		107.515	47.972	45	Mil. Litres	
Wine(for Spirits)		118.348	152.961	162	Mil. Litres	
Non-alcoholic		45.324	117.254	108	Mil. Litres	
Total		815.575	914.095	900.001	Mil. Litres	
Commodity: CERTIFIED WINE						
		1998	1999	2000	Mil. Litres	
White variety		48.444	55.975	54	Mil. Litres	
Red variety		27.073	29.313	27	Mil. Litres	
Non-varietal		52.623	61.028	63	Mil. Litres	
Total		128.139	146.315	144	Mil. Litres	

At an average yield of 779 litre of wine per ton of grapes crushed, the 2000 harvest amounts to 900 million litres, 1.6% less than in 1999. Good wine is estimated at 580 million litres, 2% lower than in 1999. Wine for brandy and spirits are estimated at reach about 45 and 162 million litres , a decrease of about 6% and an increase of 5% from last year respectively. Non-alcoholic wine will reach 108 million litres, 9 million litres less than 1999.

About 16% of total wine production will be certified this year.

Consumption

Country: SOUTH AFRICA					
Commodity: Wine					
Domestic Consumption					
		1998	1999	2000	
Unfortified Wine		343.32	351.005	342	Mil. Litre
Fortified Wine		33.114	31.558	36	Mil. Litre
Sparkling Wine		8.207	8.815	9	Mil. Litre
Brandy@43% alc/vol		19.776	17.482	18	Mil. Litre
Total		404.417	408.86	405	Mil. Litre

Domestic consumption is expected to decrease in 2000 because of a reduction in total crushed grapes and an increase in total wine exports. Consumption is estimated at 405 million litres, or 45% of total wine production, a decrease of about 4 million litres from last year.

Trade

REGULATIONS

Regulations which forbade producers to name the varieties they put into 'boxed wine' in South Africa are no

longer applicable. Initially, wine packed in boxes was relegated to the ‘cheap’ side of the quality continuum, irrespective of whether it was good or inferior. Despite this handicap, boxed wine accounts for almost 20% of all wine sold in South Africa. With recent changes in legislation, sales of boxed wine are expected to increase.

The South African wine industry first adopted bag-in-box technology in 1975, with the launch of a 5 litre wine box by Simonsig winery in Stellenbosch. However, it was not until 1979 that the packaging was adequately developed and marketed here by Distillers Gilbeys and Stellenbosch Farmers’ Winery.

The initial legislation that banned the naming of grape varieties and vintages on the box actually was initiated to protect the quality of S.A. wine due to uncertainty at the time that alternatives to bottling would sufficiently maintain the quality of its contents for any length of time.

Effective in 1999, the Wine and Spirit Board allowed producers to certify varietal and vintage, which meant that wine could now be packaged in containers other than glass. South Africa’s boxed wine must include a sell-by date on the label, 6 months and 9 months from filling for two litre and five litre packs respectively.

TRADE AGREEMENTS

The SA-EU and the SADC trade agreements are expected to expose the SA food industry to more imports, and at the same time will open new opportunities for local exporters. The SA-EU agreement became effective on January 01/2000 while the SADC agreement will be operational in the third quarter of 2000. The SA-EU agreement has a more complex, but less liberal regime with regard to agricultural products. The agreement provides that the EU will eliminate import tariffs on about 61% of agrifood imports from SA over a 10 year period. SA will liberalize about 83% of agrifood imports from the EU over the longer period of 12 years. Sparkling wine is currently subject to a duty-free transitional quota. This quota will remain in place until the tariff on the product has been eliminated. A reciprocal quota applies to bottled and sparkling wine. This means that in return for a quota on a certain product, SA will grant the EU a quota of an equivalent size for the same product.

Exports

Country: SOUTH AFRICA					
Commodity: WINE					

	EXPORT				
		1998	1999	2000	
Unfortified Wine		116.766	127.688	137.001	Mil. Litres
Fortified Wine		1.117	0.696	0.765	Mil. Litres
Sparkling Wine		0.525	0.809	0.889	Mil. Litres
Total		118.408	129.193	138.654	Mil. Litres

South African wine exports are expected to grow by 10% this year to about 138 million litres, as a result of new market opportunities and growing demand for local vintages. The wine industry is becoming increasingly market-focused and producing wines that are acceptable to the world market at prices that are offering value. Sales of white wine, which is South Africa's high volume product, have been buoyant. The market for white wine in the world is growing quite substantially, with new products receiving more attention. However, red wine is showing only moderate growth because production is more limited and therefore is not able to keep up with demand.

Country: SOUTH AFRICA				
Commodity: Wine			METRIC: Million Litres	

COUNTRY	EXPORTS: BOTTLED AND BULK		RED/ROSE	
	1998	1999	1998	1999
US	0.886	1.231	0.938	1.322
United Kingdom	27.361	33.901	19.493	19.855
Netherlands	5.873	8.071	9.124	11.23
Australasia	4.236	0.225	0.184	0.231
Scandinavia	3.614	3.998	4.464	5.83
Germany	5.242	4.504	4.601	5.119
Far East	3.743	4.125	2.288	1.786
Canada	3.157	3.681	1.254	1.379
Belgium	2.961	3.334	3.168	4.144
Switzerland	0.541	3.124	2.944	2.163
France	1.642	2.107	1.407	1.71
Others	2.517	1.677	5.218	2.94
TOTAL	61.773	69.978	55.083	57.709

SA's wine exports grew 8% in the first nine months of 1999 amid intense competition from new world wine producers, i.e. Australia, Chile, Argentina and California, and a shortage of red wine. There is a growing demand for quality bottled wines ahead of bulk exports. White and red wine sold to the US grew 41% and 46% respectively.

The U.K. is SA's largest wine export market. Ireland is the fastest growing wine market in the EU. S.A's sales of bottled wines to Ireland for the 12 months ending in April 1999 were 33% higher than the previous year. Exports of Pinotage rose 61%, while Cabernet Sauvignon grew by 53%.

COUNTRY: SOUTH AFRICA			
TAXES			

EXCISE DUTY			
COMMODITIES:		WINE AND CIDER(R/LITRE)	
			AMENDED DATE
		02/17/99	02/23/00
Sparkling Wine		1.783	1.8811
Natural wine and Wine-based drinks		0.6436	0.679
Fortified Wine		1.4559	1.536
Cider		1.0804	1.1398
COMMODITIES:		SPIRITS(R/LAA)	
Brandy		27.937	29.3752
Wine Spirits		28.755	30.3365
Cane Spirits		28.755	30.3365
Grain Spirits		28.755	30.3365
Liqueur		28.755	30.3365
REBATES OF EXCISE DUTY			
GIN		0.139	0.139
Whisky		0.46	0.46
VALUE ADDED TAX: 14% FOR THE YEAR 2000			

Stocks

Estimates are that South Africa's wine production for 1999 resulted in a surplus of about 100 million litres, which may have reflected from a change from a closely regulated environment to one that was more open and market driven.

Policy

South Africa's current Health Policy allows for periodic increases in duties on alcoholic drinks to be in line with inflation forecasts. In 1999, the additional duties were as follows: A can of beer (2c), a bottle of wine (2,6c) and port and sherry (6c) a bottle. The increase in the excise duty is expected to expand the revenue by R565 million.

South Africa's liquor industry will have to address competition issues under the Competition Act which attempts to correct the monopolistic tendencies of the industry allowed by the Liquor Act.

Marketing

Trylogy Winecorp, the newly restructured producer of premium South African wines, linked up with a large privately owned wine producer to distribute wines in the domestic market. Trylogy had signed a commission-based agreement with Vinimark. The re-shaping involved the merger of three of Cape's leading wine producers- the Spier Group, the Longridge Group and Savanha.

The SA-EU's wine and spirits agreement is still being negotiated. A formal agreement would unlock a 32 million-litre, tariff-free wine quota for local exporters. The implementation of this agreement was delayed by the EU governments due to disagreements on the production and labelling of local grappa, ouzo, port, sherry and some other spirits by the two governments. The current negotiation seeks to transfer this into a legally binding international treaty. The agreement also would allow SA-based firms to export under reduced or no duty to the EU.

In 1999, the wine industry hosted a local exhibition for international buyers. The purpose was to showcase the range and diversity of quality Cape Wines. Cape Wine 2000, which was staged April by the SA Wine and Spirit Exporters' Association, followed a growth in wine exports from 20-million litres in 1992 to 129,3 million litres last year. About 100 wine buyers for specialist wine stores, supermarket chains and licensed establishments from UK, the Netherlands, Germany, the Scandinavian bloc, the US, Canada and Japan visited the exhibition at Netherburg, outside Paarl. About 100 of SA's top wine producers were involved in the exhibition.

In May 1999, the South African wine fair organized in association with the South African Embassy in Ireland was held in Dublin in May. Over 40 wine producers exhibited.

A 25% ad valorem tariff have been imposed on imported wine. This tariff was imposed as a means of replacing the country's dependence on import permits, which had been used as a measure of import control. Nevertheless there has been a major growth in wine imports in the past two years, particularly in a narrow price segment of the market.

Labelling Requirements:

The same regulations as last year are still applied and no modifications have been made. Regulations can be requested from the following:

Import regulations:

Contact: Division of Plant Production, Health and Quality: Tel: 27-21-809-1687;

Fax: 27-21-887-0036.

Labeling requirements:

Indication of class designation,

Indication of country of origin:

Registration of code numbers:

Contact: Division of Plant Production, Health & Quality. Tel: 27-21-8091681 or 809-1602; Fax:27-21-887-6392 or 887-6396.

SECTION11. DEFINITION OF REPORTING TERMS

TERMS USED IN REPORTING

Good Wine and Unfortified wine:

Are natural wines without spirit for drinking purpose.

Wine for Brandy:

Is a rebate wine utilized for the distillation of pot still brandy which must be aged in small wooden casks for at least 3 years. Brandy must contain at least 30% of the matured product.

Wine for spirit:

Is wine used to fortify wine.

Non-alcoholic wine:

Is wine used for non-alcoholic purposes (like Juice).

Fortified wine:

Is a natural wine fortified with some spirit(Dessert wines, Jerepigos, and Muscadels, etc)