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Report Highlights:
According to the South Africa Wine Information Systems, South Africa's 2008/09 wine grape production is expected to decrease 8.5 percent compared to 2007/08 to 1.300 million metric tons due to frost and hail damage in the Orange River (20 percent) as well as low yields in Sultana and Worcester (eight percent), where fewer branches on Chenin blanc and flood damage are the main causes.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Pretoria [SF1]
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Executive Summary

The 2008/09 wine grape harvest should amount to 1,300,202 tons, according to industry estimates (producer cellars and viticulture consultants) released on February 16, 2009. This is 21,675 tons (1.6 per cent) smaller than the January 2009 estimate, and 8.5 per cent smaller than the 2008 record harvest. The 2008/09 wine production, including juice and concentrate for non-alcoholic purposes, wine for brandy and distilling wine, is expected to amount to 10 million HL calculated at an average recovery of 7.73 liters per ton of grapes. This is 160,000 and 1.2 million HL less than the January 2009 estimate and the 2008 harvest respectively.

The most significant decrease, compared to 2008, is expected in the Orange River (36 per cent) which is mainly attributed to the very low yields of Sultana vineyards. With the exception of Klein Karoo, smaller harvests are expected in all the other districts. The berries generally appear to be smaller and bunches looser than normal. Grape flavors are exceptional with high acids and the grapes are generally very healthy. A very good quality year is expected. A heat wave that set in at the end of the first week in February is expected to result in accelerated ripening of certain cultivars which may put pressure on cellar capacity.

Domestic sales of natural wine for 2008 indicate that the market is stagnant at 3.1 million HL. On the other hand, exports of natural wine increased 31.7 per cent in 2008 and exports of bulk wine increased 54.8 percent. Brandy sales show a 3.6 percent decrease over the same period.

As of December 31, 2009, stock levels at producer and private cellars are expected to decrease to 2.8 million HL, compared to 3.6 million HL on December 31, 2008.

Note: In recent years the U.S. $/Rand exchange rate has been as follows:

2006 = 6.75
2007 = R7.03
2008 = R8.24
2009 = R10.00

Grape wine production area

South Africa's area for wine production amounted to 102,146 hectares in 2006/07. There are 8 major growing regions in the Western Cape for wine grapes. In 2006/07, 55 percent of wine grapes produced in South Africa were white wine varieties. In 1998, white wine vines covered more than 86.8 percent of South Africa's wine production area. The leading Chenin Blanc white variety and Cabernet Sauvignon red varieties covered about 19 percent and 13 percent of the total wine grape area respectively. Other preferred grapes during the past five years have been Chenin Blanc, Sauvignon Blanc, and Chardonnay for white varietals, and Shiraz 10 percent, Merlot 7 percent, and Pinotage 6 percent for red varietals. Producers increased the grape area for Chenin Blanc, Sauvignon Blanc, and Chardonnay because of a shortage experienced in the last two years.

Progress post apartheid in the wine industry is very slow with less than 1 percent of the sector represented by black ownership. South Africa is in the midst of an economic and social transformation which includes the wine sector.

Background

In 2007/08, South Africa had 3,999 primary wine grape producers and 560 wine cellars. This continues a downward tend in the number of producers and cellars in South Africa. About 51 percent of the total wine grape farmers crush at least 100 MT of grapes or less annually. The major production areas in 2007/08 were Malmesbury, Stellenbosch, Paarl, Worcester, Robertson, Olifants River, Orange River, and the Little Karoo. The top five planted varieties were Chenin Blanc, Cabernet Sauvignon, Colombar, Chardonnay, and Sauvignon Blanc.

Production

The South Africa Wine Industry Information Systems, indicates that the industry estimate for the 2009 wine grape harvest is set at 1 300 202 tons, (producer cellars and viticultural consultants) on February 16, 2009. This is 21,675 tons (1.6 percent) smaller than the January 2009 estimate, and 8.5 per cent smaller than the 2008 record harvest. The 2009 wine production, including juice and concentrate for non-alcoholic purposes, wine for brandy and distilling wine, is expected to amount to 10 million HL, calculated at an average recovery of 7.73 liters per ton of grapes. This is respectively 160,000 and 1.2 million hectoliters less than the January 2009 estimate and the 2008 harvest.

The Worcester production area is expected to have the highest yield at 3.7 million HL, while production in the Olifants River area is at 2.2 million HL, the Robertson production area is expected to yield 2 million HL, followed by an expected production of 1.7million HL in the Orange River area.

Consumption

South Africa is beginning to feel the pain of the global economic crisis; however, it is too early to know if this will result in reduced wine consumption. Consumer spending slowed in 2008 due to high inflation, higher petrol prices, and the higher “sin taxes” (alcoholic beverages and tobacco). During the latter months of 2008 and at the beginning of 2009, the price of petrol was reduced significantly allowing much needed spending flexibility. The sin taxes were increased in South Africa’s 2009 budget by an average of R1.06 for a range of alcoholic beverages and tobacco.

Trade Channels

South Africa’s main wine buyers are grocers and chain stores. Woolworths chain stores buy mainly bulk wine that they bottle for their own label. Loyal wine drinkers are no longer buying vintages in large quantities to cellar it; they are now buying from the local grocery stores that give them greater variety.

Bottling

The most popular bottling size for South African wines is the 0.75 liter bottle. Wine is sold locally in bottles or in 5 liter boxes with the foil inside that has a tap. 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.

Trade

Imports

South Africa imports far less wine than it exports. South African wine producers do import wine for sweetening.

Exports

It is expected that exports of red wines will continue to outpace that of white wines and a shortage for red wine is expected by 2010. Due to a lack of data, Post is not at this time able to forecast2009/10 grape wine exports.

South Africa's export markets expanded because of access to new markets. Six years ago the traditional markets for South African wine were the U.K. and the Netherlands, representing 72 percent of total exports. Recently, Wines of South Africa (WOSA) reports that about 70 percent of total wine exports are destined for the U.K, Sweden, the Netherlands, Germany, and the U.S.

Stocks

As of December 31, 2009, stock levels at producer and private cellars are expected to decrease to 2.8 million HL, compared to 3.6 million HL on December 31, 2008.

Policy

Genetically modified yeast for wine

South African wine is not produced using GMO technology. In September 2007, the South African government rejected an application from local scientists to sell genetically modified yeast to local wine producers. This malolactic yeast is said to have some properties that reduce headache-causing amines in drinking wine. The government's rejection was based mainly on economic considerations rather than health or environmental concern.

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 E.U. 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 wine, 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 industry will not have access to the 15 million Euros the EU promised to pay the wine industry as compensation for discontinuing the use of European names of origin.

Other policy changes

In July 2007, the wine industry submitted a draft industry transformation charter for the Minister of Agriculture's approval. The charter satisfies a government requirement that all industries outline goals to achieve economic transformation consistent with the goals of Black Economic Empowerment. To download the charter, please go to; Http://www.vinpro.co.za
On September 14, 2007, the Minister of Agriculture published amendments to the Regulations of the Liquor Products Act, 60 of 1989 to include the following:

- Prohibition of off-consumption sale in foil bags: Liquor product destined for off-consumption by the public must be sold in a self-supporting container that retains original or assembled shape irrespective of whether it is filled or empty,
- Standards for bag-in-a-box: Sales in foil bags are still allowed for on-consumption on retail premises, but they should be installed in closed dispensers that comply with the prescribed oxygen permeability limits and must not exceed 5 liters,
- Standards for plastic containers: A plastic container prepackaged containing a liquor product must be equipped with sealed, tamper-proof cap, also of capacity not exceeding 5 liters and the prescribed maximum allowable oxygen permeability,
- Indication of filling date: The label of a liquor container (excluding a bottle) must read: Filled on, followed by the date (dd/mm/yyyy) to indicate the date the container was filled (Wine Law, September 17, 2007).
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Regulation for Health Warning labeling on alcohol products

South Africa's Industry Association for Responsible Alcohol Use obligated to encourage the liquor industry to show health warnings on labels for products destined for the local market, which will be effected as from February 24, 2009. The regulations require container labels for alcoholic beverages to contain at least one 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'; and, 'don't drink and walk on the road, you may be killed'.

The message must be incorporated anywhere on the information label of a container for the final consumer, on a white space that is about one eighth of the total area of the label. The message must be written in black, be visible, legible, and indelible. The Health Warning Act can be found at: Http://www.sawis.co.za.

Marketing

South African exporters are concerned about the increasing demand for bulk wine compared to bottled wine. This new trend is creating job losses in the bottling industry because of the lower demand for bottles. It also reduces the opportunity for wine exporters to expand their brand and product ownership internationally. In 2006, bottled wine decreased by 7 percent while bulk wine exports increased by 4 percent from 2005.

The shift in demand from bottled wine to bulk wine by the international markets is a result of big supermarkets preference to sell wine under their own label. These supermarkets' main objectives are to reduce their input costs (transport and packaging), and to operate at economies of scale through consolidating all imported wine. In South Africa, Consol, a glass manufacturer, has a monopoly in the market, which increases the bottling costs.

However, WOSA indicates that some of the U.K.'s big companies acquire South Africa's large export brands and retain them. A typical example is Kumala wine brand, which went through acquisitions with Vincor, and then Constellation, the latter that is now promoting this brand. Another South African brand, 'FairCape', is also the fastest growing brand and ranks in U.K.'s top 20 wines.

Wine Certification

South Africa's wines of origin must comply with the requirements of the Wine of Origin Scheme. The wines are made under strict control, from harvesting grapes to the final product, to maintain origin, variety, and vintage. The Wine and Spirit Board assess the wine for conformity to the prescribed standards before providing a certification seal for the bottle.