

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Rebounding South African Wine Industry facing Rising Imports and Growing Stocks

**Country:** South Africa - Republic of

**Post:** Pretoria

**Report Category:** Wine

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**Report Highlights:**

Post estimates that the wine grape production will increase marginally by one percent to 1.25 million Metric Tons (MT) in the calendar year 2020, due to the improved availability of irrigation water, favorable weather conditions, improved yields, and some regions that have recovered from the 2016 to 2018 drought conditions. This will result in a 0.1 percent increase in wine production to 947 million liters in 2020. While the South African wine industry is showing signs of rebounding, it is faced with growing imports from low value wine suppliers and rising stocks. Imports from the United States are minimal at 32,172 liters in 2020, due to a high import tariff of 25 percent and abundant wine supply in South Africa. However, there may be potential for growth in U.S. premium wine exports to South Africa, targeting restaurants, hotels, wine clubs and private premium wine consumers.

## Sources:

South African Liquor Brand Owners Association (SALBA) - <https://salba.co.za/>

South Africa Wine Information System (SAWIS) - <http://www.sawis.co.za/>

VINPRO - <http://vinpro.co.za/>

Wines of South Africa (WOSA) - <https://www.wosa.co.za/home/>

Exchange Rate – 1US\$ = 15.5 Rands

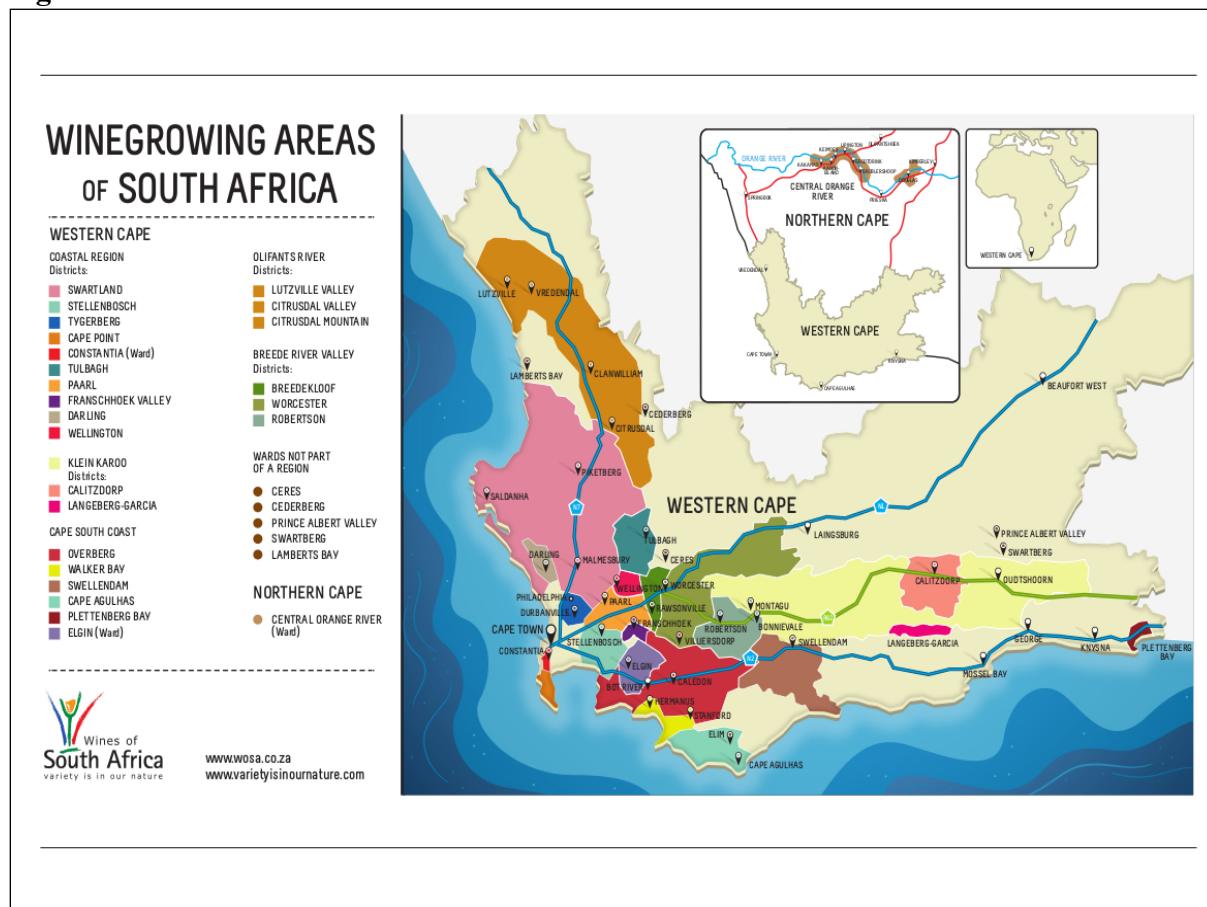
MT – Metric Tons

MY – Marketing Year (January to December)

## Background

The Western Cape and Northern Cape Provinces are the main wine production areas in South Africa. There is also insignificant wine production from about three wine estates located in the Kwa-Zulu Natal Province. **Figure 1** shows the wine production areas in South Africa.

**Figure 1: Wine Production Areas in South Africa**



Source: Wines of South Africa (WOSA)

There are about 3,029 wine grape producers, and 546 wineries in South Africa. About 72 percent of wineries are small, with each winery crushing between 1 to 500 tons of grapes. **Table 1** shows the distribution of wineries by the size of grapes they crush per annum.

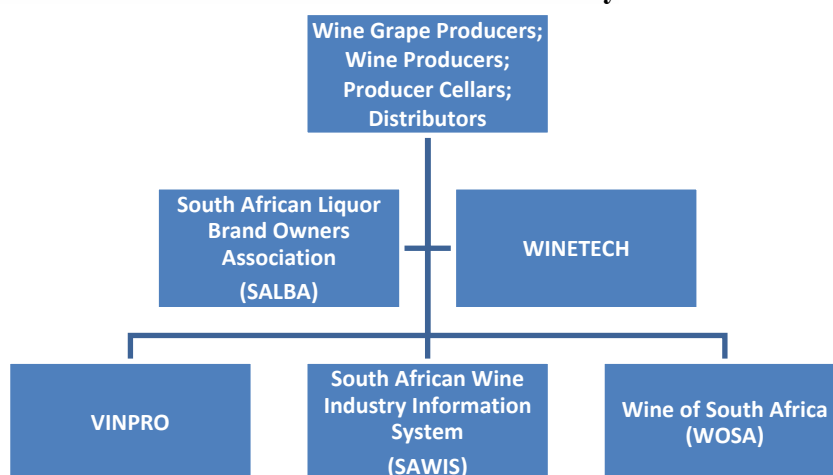
**Table 1: Distribution of Wineries Based on Size**

Categories (Tons Wine Grapes Crushed)	2018		2019	
	Number of Wineries	Percentage	Number of Wineries	Percentage
1 - 100	224	41.0%	222	41.0%
100 - 500	167	30.6%	166	30.6%
500 - 1,000	42	7.7%	45	8.3%
1,000 - 5,000	58	10.6%	58	10.7%
5,000 - 10,000	16	2.9%	13	2.4%
> 10,000	39	7.1%	38	7.0%
<b>Total</b>	<b>546</b>	<b>100.0%</b>	<b>542</b>	<b>100.0%</b>

Source: South Africa Wine Information System (SAWIS)

**Figure 2** shows the main organizations providing services and support to the South African wine industry. VINPRO represents wine producers, cellars and industry stakeholders on issues that have an impact on the profitability and sustainability of its members and the industry as a whole e.g. technical expertise and specialized services ranging from soil science to viticulture, agricultural economics and transformation and development. The Wines of South Africa (WOSA) represent producers of wine who export their products and is recognized by government as an Export Council. Winetech operates as a network of participating institutions and individuals to support the South African wine industry with research and technology transfer. The South African Liquor Brand Owners Association (SALBA) represents manufacturers and distributors of liquor products on issues of common interest e.g. lobbying government on regulatory matters. The South African Wine Industry Information Systems (SAWIS) support the wine industry through the collection, analysis and dissemination of industry information, and the administration of the industry's Wine of Origin system.

**Figure 2: Structure of the South African Wine Industry**

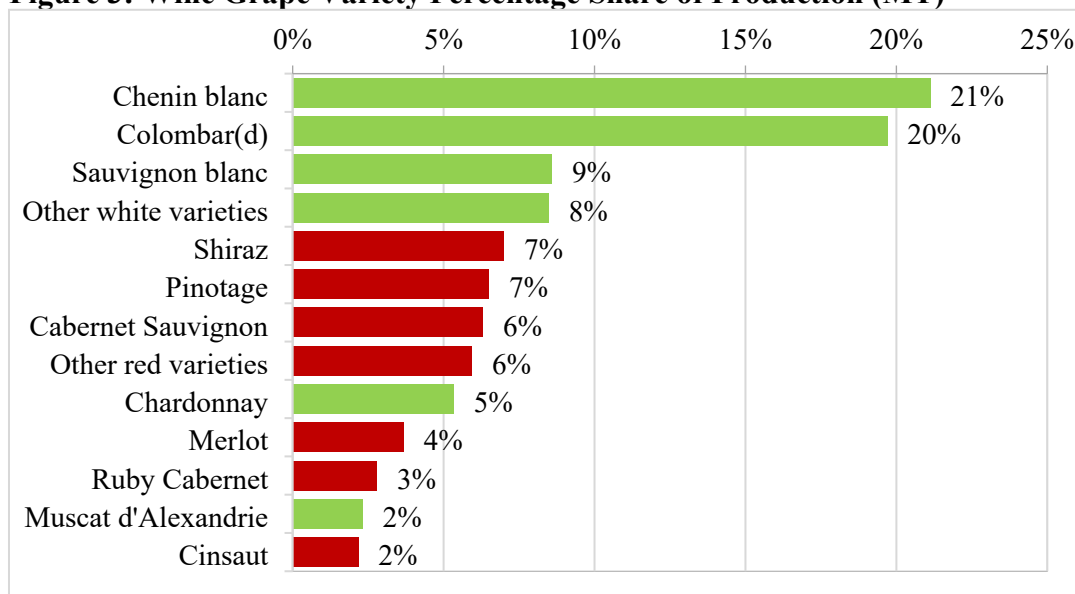


## Grape Production

Post estimates that wine grape production will increase marginally by 0.4 percent to 1.25 million MT in the year 2020, from 1.24 million MT in 2019. This is due to the availability of sufficient water for irrigation, favorable weather conditions, improved yields, and some regions starting to recover from the 2016 to 2018 drought conditions.

White wine grape varieties contribute 66 percent of the total wine grapes produced in South Africa, and red wine grape varieties contribute 44 percent to the total wine production. Chenin blanc is the leading grape variety produced in South Africa, accounting for 21 percent of total wine grape production, followed by Colombar (20 percent), Sauvignon blanc (9 percent), Shiraz (7 percent), Pinotage (7 percent), and Cabernet Sauvignon (6 percent), as shown in **Figure 3**. Notably, Pinotage is a South African variety bred in 1925 by Abraham Izak Perold.

**Figure 3: Wine Grape Variety Percentage Share of Production (MT)**



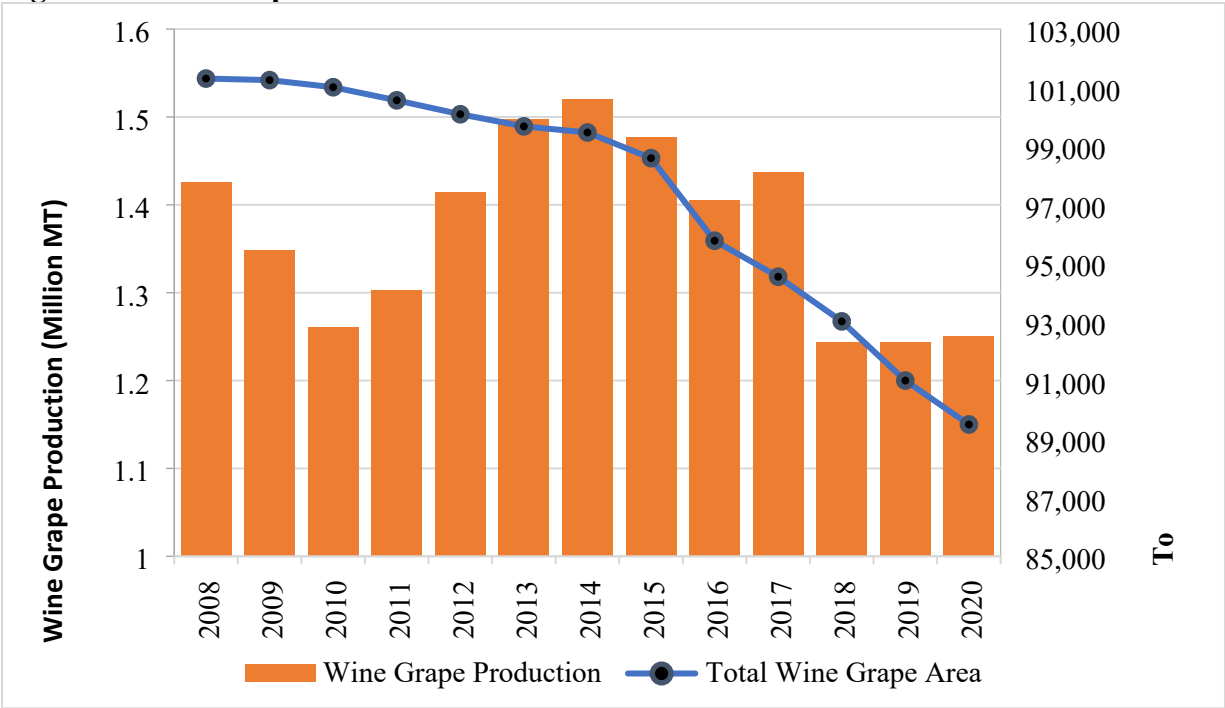
Source: SAWIS

**Figure 4** shows that the area planted to wine grapes has been in decline since 2008, mainly due to the reduction in profit margins of wine grape production, impact of the drought and competition for land from other crops with better investment returns such as citrus, blueberries and table grapes. The decrease in area planted is expected to stabilize once profit margins improve, and new plantings begin to increase faster than the current trend where uprooting of orchards for other fruit types have been outstripping new plantings of wine grape orchards in the past decade.

While the area planted to wine grapes has been in decline since 2008, on the contrary, wine grape production has been cyclical since 2008 as shown in **Figure 4**. Based on the cyclical nature of wine production and on economic principles, industry expects that the downward production cycle and declining supply will result in increases in prices over time, and production will start to increase again. However, there are growing concerns that the declining area planted to wine grapes and the low profit margins are an indication that the wine industry should restructure and reconsider its wine production

practices to become competitive or to improve the return on investment. If this does not happen, the downward trend could result in the permanent contraction of the wine industry in South Africa.

Figure 4: Wine Grape Production and Area Planted



Source: SAWIS and Post Estimates.

## Wine:

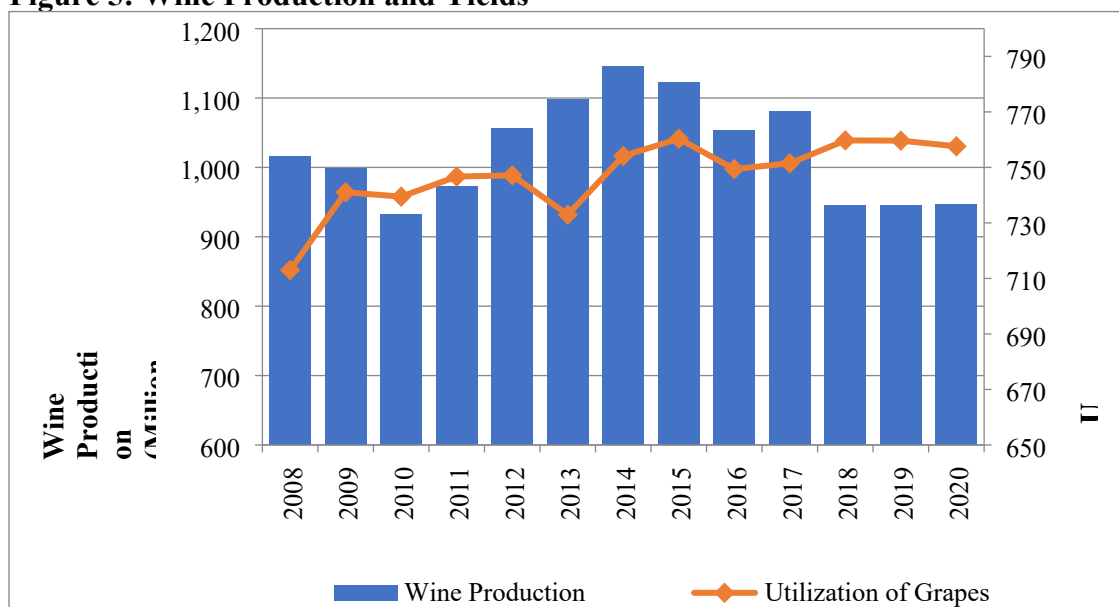
### Production

Post estimates that wine production in South Africa will increase marginally by 0.1 percent to 947 million liters in 2020, from 946 million liters in the 2019. This increase is due to the increase in the quantity of grapes crushed for wine production and improved efficiencies. The wine production figures include natural and sparkling wine, wine for brandy and distilling wine. The figures exclude grape juice concentrate and grape juice.

At least 82 percent of the wine production is accounted for by natural and sparkling wine, followed by distilling wine (10 percent), and then wine used for making brandy (5 percent). White wine production constitutes about 65 percent of the total wine production in South Africa, and the remaining 35 percent is red wine production.

Wine production has been cyclical since 2008 as it is dependent on wine grape supply. The 2019 wine production is the lowest during this period as shown in **Figure 5**. This is due to the impact of the drought and decrease in profit margins/ returns on investments on wine grape production. Wine production has remained relatively flat from 2018 to 2020, a signal that the industry may be rebounding.

**Figure 5: Wine Production and Yields**



Source: SAWIS and Post Estimates

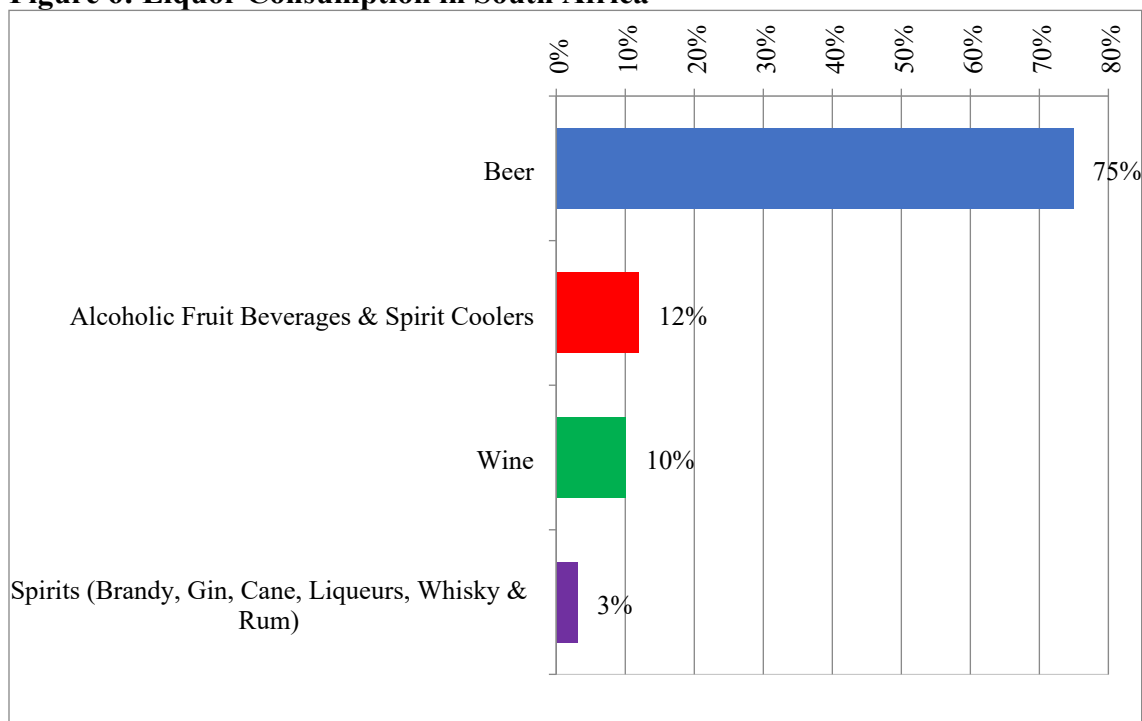
### Consumption

Post estimates that the domestic consumption of wine will increase by 4 percent to 430 million liters in 2020, from 414 million liters in 2019, based on the increase in wine production, growth in the demand for semi-sweet wines, and growth in the premium wine segment market.

The per capita consumption of wine in South Africa at about 11 liters is still low compared to other countries such as Portugal (59 liters), France (51 liters), Italy (44 liters), Switzerland (37 liters), Austria (32 liters), Belgium (32 liters), Australia (30 liters), Argentina (27 liters), Namibia (20 liters) and the United States (12 liters). The South African wine industry has a comprehensive plan called the Wine Industry Strategy Exercise (WISE) project, which seeks to increase the domestic consumption of wine to at least 450 million liters by the 2024/25 MY.

Beer is the preferred alcoholic beverage, and at an annual consumption level of 3.2 billion liters, it accounts for 75 percent of the total alcoholic beverage consumption in South Africa, followed by alcoholic fruit beverages and spirit coolers (e.g. Smirnoff Spin) at 12 percent. Wine consumption accounts for 10 percent, and spirits account for 3 percent of total alcoholic beverage consumption as shown in **Figure 6**. Post expects beer to maintain this market dominance given the current consumer preferences and the relative low price of beer. Spirits consumption is also expected to grow driven by the increase in whisky consumption, which is gaining a wider market appeal, and the growth of craft gins.

**Figure 6: Liquor Consumption in South Africa**



Source: SAWIS

## Exports

Posts estimates that wine exports will increase by 16 percent to 480 million liters in 2020, from 412 million liters in 2019. This is a return to normal export levels based on the increase wine production, increased demand from markets in Africa and industry's strategy to grow exports by 100 million liters in 2020. However, exports in 2020 may be partially offset by depressed global demand, and high global wine stocks.

The United Kingdom was the biggest market for South Africa's wine exports accounting for 19 percent of the total exports in the 2019, followed by Germany (15 percent), Namibia (13 percent), Canada (8 percent), Netherlands (6 percent), Denmark (4 percent), Russia (4 percent), France (4 percent), Sweden (4 percent) and United States (4 percent). Notably South Africa has a free trade agreement with the European Union, and exports to the United States are duty free under the Africa Growth Opportunity Act (AGOA). Industry expects that the United Kingdom's exit from the European Union (Brexit) will not have major shifts or disruptions to South African exports. There has been remarkable growth in South African wine exports to other African countries, from 5 percent in the 2003 to 21 percent in the 2019. This growth is expected to continue especially when the African Continental Free Trade Agreement is implemented and becomes fully operational. **Table 2** shows South African wine exports to various markets since 2017.

Bulk wine exports account for about 65 percent of the total exports. The growth in bulk wine exports is a global trend driven largely by cost reduction measures, demand for lower priced wines, and competition. This global trend is expected to continue in 2020. The European Union, which is the biggest market for South African wine, is the leading importer for bulk wine. As a result, unless South Africa significantly diversifies its export markets from Europe, the growth of bulk wine exports from South Africa is expected to continue in the next five years.

**Table 2: South Africa Wine Exports**

South Africa Exports to _World				
Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.)				
Year Ending December				
Partner	Unit	Quantity (Liters)		
		2017	2018	2019
World	L	516,750,812	530,350,303	412,447,028
United Kingdom	L	102,276,512	111,177,760	77,329,052
Germany	L	82,293,371	95,660,035	63,131,151
Namibia	L	28,846,931	55,048,239	52,196,873
Canada	L	24,173,979	20,505,995	32,480,077
Netherlands	L	28,073,133	24,396,095	25,723,570
Denmark	L	19,992,111	21,765,583	16,997,104
Russia	L	23,136,675	16,603,852	16,637,439
France	L	26,960,875	29,878,386	15,878,432
Sweden	L	18,211,612	15,513,442	15,268,101
United States	L	25,276,171	13,380,597	10,182,652
Belgium	L	8,995,195	8,760,485	9,815,566
Finland	L	5,279,765	6,059,594	5,878,854
Botswana	L	9,019,612	8,848,254	5,847,808
Kenya	L	5,239,822	5,183,137	5,656,627
China	L	18,138,130	10,886,169	5,611,219



United Arab Emirates	L	5,107,754	6,513,020	4,370,368
Tanzania	L	16,251,743	3,555,002	3,549,868
Zambia	L	2,924,656	3,109,370	3,539,084
Japan	L	3,976,688	4,826,833	3,216,475
Papua New Guinea	L	1,400,119	2,772,739	2,097,666
Switzerland	L	3,623,181	6,606,324	1,933,196
Mozambique	L	3,022,051	2,534,171	1,852,486
Swaziland	L	1,868,396	1,995,706	1,798,342
Nigeria	L	1,224,176	1,013,088	1,655,333
Mauritius	L	1,709,313	1,857,809	1,596,242

Source: Trade Data Monitor

## Imports

Post estimates that wine imports will increase by 13 percent to 40.0 million liters in 2020, from 35.5 million liters in 1999, due to the growing demand for lower priced wines in South Africa. **Table 3** shows that Spain (US\$ 22 million) and Argentina (US\$ 11 million) were the leading suppliers of wine to South Africa in 2019, accounting for 92 percent of the total imports and had the lowest average prices, at \$0.41/L and \$0.34/L, respectively.

**Table 3: Average Price of Imported Wines in South Africa**

	Import Value (\$)		Import Quantity (L)		Average Price (\$/L)	
	2018	2019	2018	2019	2018	2019
World	49,983,635	52,013,028	18,665,040	35,533,120	2.68	1.46
Spain	831,162	9,036,369	95,609	22,096,722	8.69	0.41
Argentina	6,185,668	3,600,997	15,028,396	10,673,468	0.41	0.34
France	34,420,343	32,291,868	1,106,085	1,100,314	31.12	29.35
Italy	4,622,032	4,984,070	798,250	992,822	5.79	5.02
Portugal	1,133,885	778,989	298,570	235,182	3.80	3.31
United States	166,910	136,789	36,568	32,172	4.56	4.25

Source: Trade Data Monitor

European countries such as Spain, France, Italy and Portugal are the main suppliers of wine to South Africa as their imports are duty free. Imports from the United States are currently minimal due to a high import tariff of up to 25 percent, while competitors such as France, Italy, Portugal, Chile, Spain and Argentina have preferential access. However, there may be potential for growth in United States premium wine exports to South Africa, especially wines with a price point of between \$20 to \$60 from restaurants, hotels, wine clubs and private premium wine consumers. This is further augmented by the rising wine prices and growing trend towards premiumization of wines in South Africa. The potential shortages of distilling wine and wine for brandy production also presents an opportunity for United States suppliers. However, the growing closing stock levels in South Africa may push prices down in the coming years, affecting imports. **Table 4** shows South African wine imports from various markets since 2016.

**Table 4: South Africa Wine Imports**

<b>South Africa Imports from _ World</b>				
<b>Commodity: 2204, Wine Of Fresh Grapes, Including Fortified Wines; Grape Must (Having An Alcoholic Strength By Volume Exceeding 0.5% Vol.) Nesoi</b>				
<b>Year Ending December</b>				
<b>Partner</b>	<b>Unit</b>	<b>Quantity (Liters)</b>		
		<b>2017</b>	<b>2018</b>	<b>2019</b>
World	L	2,378,038	18,665,040	35,533,120
Spain	L	164,511	95,609	22,096,722
Argentina	L	45,033	15,028,396	10,673,468
France	L	854,987	1,106,085	1,100,314
Italy	L	595,212	798,250	992,822
Portugal	L	192,683	298,570	235,182
Chile	L	55,810	41,787	61,128
China	L	9,835	2,017	53,424
United States	L	28,917	36,568	32,172
Australia	L	39,459	18,631	26,200
New Zealand	L	9,412	8,501	23,959
United Kingdom	L	54,407	10,888	14,001
Belgium	L	27	2,823	13,255
Switzerland	L	23	56	10,272
Israel	L	12,818	24,942	6,735
Germany	L	16,523	11,354	4,970
Uganda	L	0	8	2,120
Greece	L	2,244	2,889	1,739
Other	L	21,278	1,390	1,709

Source: Trade Data Monitor

**Stocks**

Post estimates that wine stocks will continue its increase to 581 million liters in 2020, from 504 million liters in 2019, due to the increase in production and imports.

**Table 5: Production, Supply and Demand (PSD) of Wine**

Wine Market Begin Year  South Africa	2018/2019		2019/2020		2020/2021	
	Jan-18		Jan-19		Jan-20	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Total Grape Crush	0	1,243,597	0	1,244,985	0	1,250,000
Total Beginning Stocks	0	347,607,463	0	349,306,536	0	503,978,232
Total Production	0	944,796,052	0	945,740,848	0	947,000,000
Total Imports	0	18,665,040	0	35,533,123	0	40,000,000
Total Supply	0	1,311,068,555	0	1,330,580,507	0	1,490,978,232
Total Exports	0	530,350,303	0	412,447,028	0	480,000,000
Total Domestic Consumption	0	431,411,716	0	414,155,247	0	430,000,000
Total Ending Stocks	0	349,306,536	0	503,978,232	0	580,978,232
Total Distribution	0	1,311,068,555	0	1,330,580,507	0	1,490,978,232
	0	0	0	0	0	0

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## Policies and Regulations:

### Customs Duties

The United States continues to trade at a disadvantage in South Africa, in comparison to countries that have a free trade agreement especially the European Union. **Table 6** shows that United States wine exports face customs duties of up to 25 percent.

**Table 6: Import duties of wine to South Africa**

Item	Description	Unit	General	EU	EFTA	SADC	MERCOSUR
2204.10	Sparkling wine	liter	25%	Free	25%	Free	25%
2204.21.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free	25%
2204.21.40	Unfortified wine	liter	25%	Free	25%	Free	25%
2204.21.50	Fortified wine	liter	25%	Free	25%	Free	25%
2204.29.30	Grape must with fermentation prevented or arrested by the addition of alcohol	liter	25%	Free	25%	Free	25%
2204.29.40	Unfortified wine	liter	25%	Free	25%	Free	25%
2204.29.50	Fortified wine	liter	25%	Free	25%	Free	25%
2204.30	Other grape must	liter	25%	Free	25%	Free	25%

Source: South African Revenue Services (SARS)

### Domestic Taxes on Wine

The South African Revenue Service also imposes additional taxes on domestic and imported wine through the excise tax. The excise tax has increased by an average of 7 percent each year since 2012, and according to industry sources, government considers alcohol taxes one of the easy and less disruptive options to increase state revenue. **Table 7** below shows the excise tax schedule since 2012.

**Table 7: Excise Duty on Wine (Rands/ Liter)**

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)	(Rands/ 750 ml)
Sparkling wine	7.53	8.28	8.90	9.75	10.53	11.46	12.43	13.55	14.16
Natural wine	2.50	2.70	2.87	3.07	3.31	3.61	3.91	4.20	4.34
Fortified wine	4.59	4.85	5.21	5.46	5.82	6.17	6.54	7.03	7.17

Source: SARS

## **Export and Import Procedures**

The Department of Agriculture, Forestry and Fisheries (DAFF) is responsible for the administration of regulations relating to the importation and exportation of wine in South Africa. Any liquor product intended for import into South Africa requires an import certificate from DAFF. Application for an import certificate is done online on the following website, [www.dawineonline.co.za](http://www.dawineonline.co.za). The following link provides the procedures, requirements, contact details and step by step guide for the importation of liquor products for sale in South Africa, [download](#).

## **Liquor Regulations**

Liquor and alcoholic beverages regulations falls under three government departments; the Department of Agriculture, Forestry and Fisheries (DAFF), Ministry of Health, and the Department of Trade and Industry (DTI). DAFF using the [Liquor Products Act No. 60 of 1989](#), regulates the import and export of liquor products by issuing certificates and ensuring compliance to the quality standards. DTI using the National Liquor Act No 59 of 2003, develops national liquor laws, e.g. minimum drinking age; 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 Ministry of Health is responsible for the labelling and advertising of liquor products based on the [regulations relating to labelling and advertising](#).

## **Proposed Amendment to the Regulations Relating to Health Messages on Container Labels of Alcohol Beverages**

On September 4, 2014, the MOH proposed amendments to the regulations relating to health messages on container labels of alcohol beverages. The deadline for the submission of comments was December 4, 2014. [Click here to download the proposed amendment](#). Post published a GAIN report in 2015 on the Regulation amendment on container labels of alcoholic beverages ([Click here to download the GAIN Report](#)). Following widespread industry comments, the MOH is re-engaging the domestic liquor industry to review the proposed regulations and concerns raised by industry. Post has attended a consultative meeting arranged by the DOH to discuss the concerns, and it was agreed that industry would make a submission offering solutions and alternative clauses to be included in the new regulations. The DOH stated that the revised regulations would be subject to approval by the Minister but seemed positive that they would consider changing or repealing the regulation depending on the extent of changes that would be required. The date for the finalization and implantation of the regulation is still uncertain.

## **Proposed National Liquor Policy (Liquor Act 59 of 2003)**

On May 20, 2015, the DTI published a government notice (No. 38808) inviting the public to comment on the amendments to the National Liquor Policy Act, 59 of 2003. If the policy is implemented in its current form, it is expected to have economic implications to the liquor industry and could affect U.S. liquor exports. The deadline for submitting comments was August 13, 2015. Post published a GAIN report on this proposed policy in ([Click here to download the GAIN Report](#)). The key proposals include raising the minimum legal drinking age from 18 to 21 year old; restrictions on the advertising of alcoholic beverages and prohibitions on sponsorship and promotions associated with alcoholic

beverages; extended liability for liquor manufacturers and distributors. While the intentions of the liquor policy are well meaning given the challenges and problems associated with alcohol and alcohol abuse in South Africa, the proposed policy requires further clarification, simplification and some of the policy proposals are impossible to implement or enforce compliance. Based on industry comments, if the policy is implemented in its current form, it is expected to have economic implications to the liquor industry and could affect United States exports. Due to the significant criticism of the policy, the DTI published the following document on August 2016 to outline and explain the policy recommendations intended to amend the Liquor Act, [Click here to download the document](#). The proposed policy is yet to be finalized and published as the DTI is still undertaking consultations and considerations.

**Attachments:**

No Attachments.