

**Voluntary Report** – Voluntary - Public Distribution

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**Report Name:** Wine Industry at a Crossroads Due to Export and Domestic Sales Restrictions

**Country:** South Africa - Republic of

**Post:** Pretoria

**Report Category:** Wine, Agricultural Situation

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**Report Highlights:**

The South African wine industry is currently facing restrictions on wine exports and imports, and domestic wine sales. These restrictions are expected to impact the South African wine sector and wine trade, including U.S. wine exports to South Africa. The wine industry has reported losses at R650 million (US\$35 million) due to the restrictions on exports during the first three weeks of the lock down. United States wine exports to South Africa are minimal and were only 32,172 liters (US\$ 136,789) in 2019. The restrictions on the transportation of liquor products, and the prohibition of domestic wine sales is expected to impact South African wine imports negatively. This is expected to further decrease the already minimal U.S wine exports to South Africa.

**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/>

Bureau for Food and Agricultural Policy - <https://www.bfap.co.za/>

Exchange Rate – 1US\$ = 18.79 Rands

**Background**

South African President Cyril Ramaphosa imposed a 21 day nation-wide lockdown from March 27 to April 17, 2020 to contain the spread of the corona virus (COVID-19). This was further extended by two weeks to May 1, 2020. During the lockdown, people are only allowed to leave their residences for essential purposes, including for food and medical reasons. While the agriculture and food sectors were classified as an essential service and are operational during the lockdown, the wine sector was initially excluded. As a result, the harvesting of wine grapes, wine production, exports, imports and the domestic sale of wine were initially not permitted during the lockdown. Following some lobbying from the wine industry, the South African government [published a notice on March 26](#) permitting the harvest of wine grapes and production of wine. On April 27, the South African government also [published a notice](#) lifting the restrictions on wine exports. However, [on April 16 the government published a notice](#) announcing that the transportation of liquor products is now prohibited, which has effectively restricted wine exports and imports.

The impact of all these restrictions and uncertainty created by the ever changing regulations is expected to impact the South African wine sector and wine trade, including U.S. wine exports to South Africa.

**Impact of Liquor Transportation Restrictions to Wine Trade**

The prohibition of liquor transportation will significantly impact wine exports the most. South Africa normally exports between 40 – 60 percent of its total wine production. In 2019, wine exports were 412 million liters and valued at US\$662 million. South African wine exports to the United States were 10 million liters (US\$39 million) in 2019. Wine exports are a critical revenue earner for the South African wine industry and a decrease in export revenue will negatively affect wine producers, who were already under financial pressure prior to the COVID-19 pandemic. The wine industry has indicated that most wine producing countries and competitors such as Australia, Spain, Chile, Italy and France are still exporting wine. As a result, South Africa is at risk of damaging its reputation of consistent supply and may be de-listed and replaced by competitor products in key retail shelves in export markets. Obtaining listings and regaining retail shelf spaces may take up to 3 years in some export markets. Thus, the impact of restricting wine exports may have long term implications for the South African wine sector beyond the COVID-19 pandemic. The Bureau for Food and Agricultural Policy (BFAP) forecasts that South African wine exports could decrease cumulatively between 41% and 72% in the next three years due to these export restrictions.

In 2019, South African wine imports amounted to 36 million liters (US\$52 million). Europe is the largest exporter of wine to South Africa accounting for 90 percent of the total South African wine imports. U.S. wine exports to South Africa are minimal and were only 32,172 liters (US\$136,789) in 2019. The restrictions on the transportation of liquor products, and the prohibition of domestic wine sales is expected to impact South African wine imports negatively. This is expected to further decrease U.S wine exports to South Africa.

### **Domestic Wine Sale Restrictions**

The domestic sale of liquor products including wine is prohibited during the government lockdown. About 45 percent of South African wine production is sold in the local market. While this is also expected to place revenue pressure and negatively affect the wine industry, there seems to be a degree of acceptance of this prohibition by the industry. Limited lobbying is being undertaken to try and lift the prohibition of domestic wine sales at this stage. Some industry contacts expect that this restriction may continue much longer even when the lockdown is lifted. The prohibition on domestic wine sales is also expected to affect the demand for wine in South Africa, and contribute to the decline of wine imports.

### **Wine Industry Seems to be at a Crossroads**

The wine industry has reported losses at R650 million (US\$35 million) due to the restrictions on exports during the first three weeks of the lock down. In addition, the wine industry is losing revenue due to the prohibition of domestic wine sales. This will have a negative impact on businesses in the wine sector and lead to significant job losses. The wine industry estimates that they may shed between 4,335 to 8,505 jobs in the next five years. Job losses to the total value chain in the next five years are estimated at between 13,830 and 27,440 jobs. According to Vinpro, the wine industry contributes about 300,000 jobs to the economy.

Wine grape producers have been under severe financial pressure in recent years with many of them making losses amid crippling drought in the Western Cape. The wine industry indicated that only 28 percent of wine grape producers were profitable in 2019; 33 percent were not profitable; and about 39 percent broke-even. This highlights the dire situation of the wine industry. As a result, unexpected negative shocks, such as COVID-19, are expected to have serious implications to the industry such as the closures of some wine producers. Notwithstanding these challenges, the wine industry remains optimistic about the potential of exports if these restrictions are lifted, due to the rising wine prices on the global market.

In light of the challenges indicated above and the sustainability risks that the sector faces due to the export and domestic sales restrictions, the wine industry is expected to continue lobbying the government. Post suspects that export restrictions may be lifted in the coming weeks, and will continue to provide updates on the situation.

### **Attachments:**

No Attachments.