# Centre on Regulation and Competition

# WORKING PAPER SERIES

**Paper No. 107**

## HOW GLOBALISATION AND COMPETITION POLICY INHIBIT POVERTY REDUCTION: THE CASE OF THE SOUTH AFRICAN WINE INDUSTRY

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**September 2004**

ISBN: 978-1-905381-06-9

Further details: Centre Secretary
Published by: Centre on Regulation and Competition,
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Harold Hankins Building, Precinct Centre, Oxford Road, Manchester M13 9QH, UK
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*'What is the difference between a terrorist and a supermarket buyer? Answer: one can negotiate with a terrorist.'*

Joke doing the rounds in the Cape wine lands

## INTRODUCTION

In studying the relation between global markets and agricultural industries and the consequences the processes involved have for inequality and poverty, the South African wine industry highlights many of the key issues in need of analytic and policy attention. Among these issues the questions of racial and class divisions within the industry, the implications of government competition and regulatory policies and the problems (for producer companies and workers) of being absorbed into the global value chains of oligopolistic retailers, are evident. [1] This paper discusses these and cognate matters and briefly indicates some of the policy conclusions that seem relevant not only for this industry and for South Africa, but perhaps also for other export-oriented agricultural and agricultural processing industries elsewhere in the developing world.

## THE CHALLENGE

In its most recent policy papers the South African wine industry defines the major challenge as 'creating a vibrant, united, non-racial and prosperous South African Wine Industry' (SAWB 2003). While it acknowledges the significant progress made over the last decade or so, not least of which is a tenfold increase in exports, it admits that it still has a considerable way to go towards greater 'competitiveness, sustainability and equity'.

In a significant passage the SAWB's (2003) Wine Industry Plan (WIP) admits '…that while there has been some progress in poverty alleviation in South Africa, this has largely been

[1] Behind the discussion developed here lies a framework for analysing value chains (or production networks) as forms of global economic integration. See *IDS Bulletin* (2001), Henderson et al (2002) and Henderson (2002).

the result of progress in urban areas. Farm workers remain one of the poorest and most marginal groups in South African society, and are the poorest in terms of wage employment in the formal sector. *The wine industry must ensure that this categorization does not apply to its profile* [our emphasis]' (SAWB 2003: 22-23).

The statement echoes the findings of a research team that investigated the feasibility of a statutory minimum wage for South African agriculture: 'Our main conclusion…is that the circumstances of farm workers justify the introduction of a minimum wage…'. Using a 'capability' measure of poverty, the report stressed that '…improvement…[also] requires investment in nutrition, education, health etc.' (CRLS 2001). Although farm workers in the Western Cape (were most of the wine industry is situated), were generally better off than in other provinces, their condition still necessitated a statutory minimum wage, albeit at the highest of a four-tier wage (CRLS 2001: xiv). In the end the Department of Labour set a two-tier wage, with most of the magisterial districts in the Western Cape falling into the top category.[2]

Despite widespread poverty in the rural Western Cape, the WIP does not highlight 'poverty alleviation' as an explicit objective. Instead, 'socio-economic transformation' 'de-racialisation' and 'economic empowerment' is to be achieved through '…equitable access to resources, business opportunities, markets and decision-making [along the full value chain] by historically disadvantaged and economically marginalized South Africans'. The report recognizes that the challenge is not made any easier in the face of 'large inequalities and entry barriers …and the relative slow progress to redress these characteristics since 1994'. Nevertheless, the SAWB thinks that its objectives can be attained through 'the strengthening of representation' of the previously excluded, the institutional integration of…these groups into industry level decision making processes; and a targeted approach to open up access to business and economic growth opportunities and social upliftment'…'[F]ocus [is] on the most disadvantaged participants rather than on old or *new elites* [our emphasis]'. Nice words, but there is no reason to believe that it will turn out this way. Only time will tell. Already there are ominous signs.

### Easier said than done: obstacles in the way of 'empowerment' and the alleviation of poverty

A striking feature of both the *Vision 2020* (**ref?)** and WIP policy papers is their voluntarist and normative, not to say ideological, nature. A lot of space is spent on what *should* or is

[2] The 'Sectoral Determination' set two minimum wages: R 800 and R 650 (about £67 and £54) per month.

*going to be done* (i.e. objectives) in the way of transformation. However, there is little analysis of the current state of the industry and the formidable structural obstacles that stand in the way of change. While not insurmountable, obstacles to market access, brand development, redistribution and the problems generated indirectly by oligopolistic retailers, need to be faced head on if viable strategies are to be forged.

Our analysis of these obstacles focuses on three interlinked transitions, which, it is held, are central to the understanding of wine industry re-organisation and its implications for livelihoods on the ground. These are: firstly, the process of local industry deregulation and restructuring; secondly, the increasing integration of the local industry into international markets and value chains; and thirdly, the legislative changes that have accompanied democracy in South Africa. These transitions, it will be argued, have had complex, mutually overlapping and reinforcing effects. On the one hand, the industry has seen lateral expansion and an impressive, sustained rise of exports. On the other hand, many co-operative wine cellars and their members have found it very difficult to re-gear themselves away from the industry's historic orientation towards bulk wine production, and to face up to the 'quality revolution' and the demands of supermarket wine retailers. Power is shifting downstream: away from primary producers to processors, marketers.

This has had uneven and complex implications upstream for farm-based livelihoods. On the one hand, the changed environment encourages farmers go beyond management strategies based on cheap, expendable and low wage labour: improved wages, higher levels of training and modernised management approaches are required, not only by law, but by the imperatives of survival in an increasingly competitive sector. Farm managers have however stopped short of the wholesale modernization of the employment relationship. The selective introduction of elements of 'modern' organization and the partial compliance with labour legislation has resulted in a wide range of hybrid formations – strategies that rely simultaneously on elements of both traditional paternalist and modern capitalist management approaches. But not all workers have benefited from this. Across the board - and perhaps particularly on estate and private cellars in the vanguard of globalisation – the 'triple transition' has accelerated and deepened trends towards the rationalization of labour.
On the farmed landscapes of the Western Cape, a deepening divide is therefore taking shape. The shrinking core of workers who manage to hold on to permanent employment, though often still living on the farm and caught in the web of paternalism, are on the whole net beneficiaries from these changes. Increasingly, their permanent status, improved skills,

better pay, housing and other benefits set them apart from the seasonal, casual and contract workers: a rural *lumpenproletariat*, often residing in rural, peri-urban or metropolitan shanty towns. These trends look hard to ameliorate, let alone to reverse. Unless agricultural employment is supplemented by economic growth, state support for competitiveness and pro-poor welfare strategies, peripheral workers will be doomed to scrabble for a precarious existence on the margins of the Cape wine lands.

**The world wine market: a tough playing field**

One of the most noticeable features of the South African wine industry between 1917 and the mid-1990s was its elaborate regulatory system, presided over by the KWV. Planting quotas, minimum prices and mechanisms of 'surplus removal' decisively shaped the dominant features of the South African wine industry for the greater part of the 20th century (Ewert 2003, Williams and Vink ??).

At the level of primary production an important part was played by the co-operative cellars, which came to dominate wine production. Most of these implemented a 'pool system' in terms of which grapes of a particular cultivar were sold in bulk, with farmers being paid according to the number of tons delivered and the selling price realised for the pool as a whole. An important objective of every co-operative was to realise the highest possible financial return ('payouts') for its members. Co-ops were also linked closely to the networks of white power in the rural Western Cape. Rural civil society in the farming areas of the Western Cape was dominated by the white landed settler elite. Formal institutions such as the National Party and the Broederbond obviously played a key role; but as important were the informal networks of filiation and affiliation between key settler families – and the way these networks allowed political control of agro-institutions.[3]

From early on this system was marked by a high degree of downstream concentration and integration. Farmers and their co-operatives sold most of their wine in bulk to the KWV and other producing wholesalers. Although they were guaranteed a minimum price, periodic surplus production and a limited domestic market continued to favour the wholesalers well into the 1990s. In addition, the distilling industry – buoyed by South Africa's distinctive brandy market - played an unusually important role. Not only did it help with the removal of surplus wine, but the producing wholesalers on whom co-operatives so heavily depended came to see distilling as the place where the real money was to be made: one author

[3] For an example from the fruit farming regions, see du Toit (2003).

described the South African wine industry as '…a vast distillery draining a partly subsidised annual wine lake.' (Robinson 1999: 648).

Given its history, the industry has been facing novel and important challenges since the late 1980s. These challenges need to be very clearly understood. It is a truism in the South African wine industry that 'the future' lies in re-orienting production away from bulk wine and developing the ability to produce for the 'quality' market (Spires 2001). Like most truisms, it is in equal parts fundamentally correct and seriously oversimplified. Wine is never just wine, grapes are never just grapes, and the implications of 'the demand for quality' differ from context to context. The global alcoholic beverage market is fragmented and complex and the markets for South African wines and wine grapes are no exception.

Three linked trends in the international alcoholic beverage market and its commodity systems have played a particularly important role. Firstly the global beverage industry has increasingly come under pressure, partly because of the global economic downturn and partly because of increasing health concerns among consumers. Secondly, the wine market has been increasingly affected by the growth of supermarket wine retailers, which have fundamentally changed the way in which wine is consumed and marketed. This is closely linked to the third trend, which is the increasing prominence in the premium and super premium[4] wine market of branded wines promising to deliver not only quality but also consistency.

Together, these trends have meant that wine markets have been characterised by increasingly divergent price trends. Low-priced blended table wines have poor prospects in a world where consumption has fallen by a quarter since 1982. In France and Italy – the bastions of working class wine drinking - consumption has halved in the past thirty years. At the same time there is a global trend towards buying better-quality wines Rachman 1999).

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[4] The South African beverage industry distinguishes 'good wine' into 'Standard Price' (SP), 'Medium Price'(MP) and 'High Price'(HP) categories. SP wine is essentially good wine of the lowest quality - that sold at or below production costs in the infamous *papsakke* (foil bags) and soft plastic bottles. MP wine is of slightly better quality and is often sold in two-litre box format, while HP wine is often broadly categorised as anything in a 750ml glass bottle and/or with a cork (**Beverage Business Yearbook 2002**:121-123). Increasingly, however, wine industry analysts follow Rabobank's distinction of the wine market into 'Basic', 'Premium' 'Super Premium', 'Ultra Premium' and 'Icon' categories. These do not refer simply to price points but also to the markets in which these wines compete. 'Basic' wine, comprising some 50% of the international wine market, is anonymous, with little or no linkage to vineyards or even countries. Premium wines comprise some 30% of the wine market: they are usually of better quality, often retail through the supermarkets in the "value for money" market, and usually linked to distinct brand (rather than vineyard or cellar) identities. Super premium wines comprise about 10% of the wine market and sell on the basis of quality style and perceptions about their unique identity in the market. Ultra premium wines are of highly distinctive and individual quality, and are not marketed on a mass basis. Finally, Icon wines are those whose value is mainly linked to the act of purchasing them (see Loubser 2001).

While wine sales at lower price points have remained stagnant, higher price points have shown buoyant growth. At the turn of the new century the most lucrative price bracket was at over 4 pounds sterling in Britain and $7 in the USA. In the latter market, wines selling at more than $7 account for only 22% of sales by volume, but almost 50% of revenues. As *The Economist* put it in a recent survey of the international wine industry: '… [T]he message is clear: the best place is at the upper end of the market, where growth is fastest and margins are fattest' (Rachman 1999: 111).

The most important international wine market is Western Europe, where 70% of the world's wines are still made and consumed. Within this region, Britain is particularly important for premium wine exporters. Unlike the parochial market of France, where imports command less than 5% of premium wine consumption, Britain is the fourth largest wine market and world's biggest importer of wine – and supermarket retailers are particularly prominent here. Supermarkets distribute over 60% of all wine consumed in the UK (Rachman 1999: 111) [5]. The main beneficiary of this trend has been Australia, which has pioneered the industrialisation of premium branded wine production; while France has traditionally had the biggest share of the British market, Australia's share of the UK wine market has risen from 8% to 15% between 1993 and 1999, while 7 of the top selling wine brands in the UK in 2001 were Australian.

South African wines have also made important inroads into international markets. Wine exports grew to 210 million litres in 2002 – up from 50.7 million litres in 1994. Exports accounted for 33.5% of 'good wine' (i.e. table wine) production, compared to just 14.6% in 1995. In addition, 61.5 million litres of bulk wine were exported. Total export value for wines in 2001 was about R 4.5 billion. Approximately 50% of bottled wine exports are to the UK, 21% to the Netherlands, 9% to Scandinavia and 6.5% to Germany – together accounting for more than 85% of South Africa's wine exports (VinPro 2004: 20). In 2002 South Africa was the fastest growing wine country in the UK. For the first time the country had a brand listed in the top five wines retailed in the UK with 'Kumala' at number four[6].

This growth has contradictory implications for wine makers. The most important buyers of South African wine in Britain are the oligopolistically organised supermarket chains Of these, Tesco, Asda-Walmart, Morrison-Safeway and J. Sainsbury are by far the largest, though

[5] The situation is similar in the Netherlands, South Africa's second most important market in Europe. In the USA 45% of all wine is sold in supermarkets. (Rachman, 1999: 107)
[6] 'KUMALA' is marketed by the British firm Western Wines and blended from wines sourced from a variety of Cape cellars.

Waitrose and The Co-op also have significant market shares. To land a sales contract with one of them is a much sought after prize in the Western Cape wine lands (especially for co-operative cellars). But while these new markets mean new opportunities, they also mean tougher bargaining. Supermarkets have stringent purchasing practices. They impose strict phytosanitary and technical requirements on suppliers and they work consistently to force down prices. Applying practices typical of their branded food and drink retailing in general (see GPN 2003), they, for instance, charge 'rents' for shelf space and position and pass-on the profit-loss associated with temporary product 'promotions' to their suppliers, rather than absorbing these themselves. While Tesco is often regarded as the most problematic of the British supermarkets in these senses, only Waitrose and The Co-op seem to escape the criticism of South African wine industry personnel. [7]

For producers who cannot conform to the threshold requirements indicated above, there is a risk of being left out of this market altogether. For would-be entrants into the South African wine industry (black-owned companies, for instance), such threshold and purchasing practices represent formidable obstacles indeed.

So, although South African growers and cellars are starting to learn the rules of the 'new competition', life is not going to get easier. Competition between wine-producing countries and between individual producers is bound to intensify. Much will depend on the ability to establish 'branded' wines that stand out from the rest. This requires not only the ability to make good wine, but also the ability to deliver consistency and volume at the same time. To build a brand in the UK, for instance, requires the ability to bring 3 to 6 million litres to the market per year, and to support it through strong advertising and an efficient logistical supply operation (Loubster 2001: 36). Very few cellars can achieve this on their own.

These trends are particularly significant given that the most important growth opportunities for South African wine remain in these overseas markets. In the context of the South African beverage industry as a whole, wine has done relatively well and the market for table wines and lower end premium wines blended in bulk - wines such as Distell's mass-market leaders Graca, Paarl Perlé and Autumn Harvest Crackling - has remained healthy (*Alcoholic Beverage Review,* 2002). These markets, however, show scant opportunity for growth. And,

[7] Fieldwork, November 2003. It is no coincidence that Waitrose and The Co-op have parent companies (the John Lewis Partnership and the Co-operative Wholesale Society respectively) with strong historical commitments to corporate social responsibility and ethical trading. Additionally, should projects like the Ethical Training Initiative become more effective, they will have cost implications for producers as least as much as for retailers (du Toit 2002).

more to the point, there is very little money in them for grape growers. Bulk wines, after all, can now be sourced internationally, and even South African stalwarts such as 'Tassenberg' include wine made from Argentinean grapes.

Survival is not made any easier by the fact that globalisation is a two-way street. In 2002 South Africa imported approximately 31 million litres of 'natural wine', compared to approximately 216 million litres of exports (SAWIS 2003: 26). While most of the imported premium wines remain unaffordable for all but the wealthiest section of South African society, it is the import of bulk blending and distilling wine that is impacting the most on South African co-operative wineries, many of whom came to rely on the product for the greater part of their existence. As a result, these growers and cellars were often poorly prepared for the new environment to which they awoke in the mid-1990s. At that stage, less than 20% of South Africa's good wine production qualified for the "HP" price category. Also, the industry had become almost exclusively oriented towards the domestic market. Having neither the know-how, nor the confidence to compete in Europe on a big scale, the industry found it difficult to venture into foreign domains. This is especially true for the co-operative sector.

**After deregulation: concentration and diversification**

The second important dimension of change is local industry de- and re-regulation. Starting in 1988, deregulation was a practical fact two years before the coming to power of the ANC. One year later sanctions were lifted. Since then the South African wine industry has been in a process of major flux. Political transition has removed the privileged status of the wine industry and farmers' lobbies. The measures that protected farmers from competitive pressures have been removed, and old alliances have been cracked by new opportunities and new markets. The wine grape commodity system is being restructured in complex and contradictory ways – with significant consequences for growers.

Firstly, traditional industry power relations are being reshaped by processes of globalization, deregulation and legislative change. Moves to amend liquor legislation have signalled to the producing wholesalers that their competitive stranglehold over retail would no longer be tolerated (Hoe 1998: 79) – while the increasing importance of local supermarket wine retailing is causing a rethink in 'trade' strategy anyway. Consolidation in the international drinks industry – particularly through the merger of Grandmet and Guiness to form of industry giant Diageo – has called into question many of the historic arrangements around distribution rights for international liquor brands (*Financial Mail*, 15 December 2000: 30-32). South Africa's producing wholesalers, for many years the biggest frogs in a very small pond, are themselves increasingly vulnerable to international and local competitive pressure.

Two distinct trends seem to be taking shape. On the one hand, there are clear moves toward concentration and integration, e.g. the merger of Distillers and Stellenbosch Farmers Winery to form Distell, South Africa's second largest alcoholic beverage company, and the alliance between Stellenbosch Vineyards and Australian-based BRL Hardy. Although the Distell merger was challenged before the Competition Tribunal, the latter gave it the green light. Distell now controls more than 70% of all brandy sales and 60% of the total production of premium wine and spirits. Opinion is divided about the creation of this new giant. Some – notably Seagrams South Africa and Bulmers – have argued that it will exercise an unhealthy domination in the wine sector, squeezing out competition and stifling innovation. Distell itself portrays itself as a company poised to enter decisively into the global market, there to compete with Gallo, Southcorp, Diageo and the real giants of the wine world [8]. Sixty percent of Distell's shares are controlled by the combined holding of Rembrandt and KWV. While the shareholders may be happy, others were less fortunate. Two thousand people lost their jobs in the wake of the merger (du Toit ??).

At the same time there is significant diversification, with an increase in the numbers of independent wine makers and cellars. Private cellars and independent labels are proliferating. [9] Their number has increased from 105 in 1998 to 266 in 2002. The increase in private cellars is the result of estates de-listing, in order to have more freedom in the sourcing of grapes and co-operative cellars that have transformed themselves into private companies. Producing wholesalers have increased from five in 1998 to 13 in 2002.

Since 1998, indeed, the number of co-operatives has fallen from 69 to 50. Of those that have 'disappeared' two have gone bankrupt [10], while the others have undergone mergers and/or changed into companies. If the survivors want to escape the more pessimistic

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[8] The argument, that *size* is necessary to compete in the global wine market may have played a role in the decision of the tribunal.
[9] In 2002 the structure of the industry was as follows: 4501 primary producers (i.e. grape growers), 50 co-operative cellars, 92 estates, 8 producing wholesalers. Personal communication, Debbie Wait, SAWIS, 8.5.02. The most important producing wholesalers today are: Distell, Guinness UDW, Douglas Green Bellingham, Edward Snell and Co., Jonkheer Boerewynmakery, Mooiuitsig Wynkelders and KWV. All these, except KWV, are represented by CWSI. One of the biggest international liquor firms, Pernod Ricard, may soon join the CWSI. Personal communication, Marike de Kock, Cape Wine and Spirits Institute (CWSI), 3.6.03.
[10] The cellars (without the farms of the former members) were snapped up by private investors as a bargain.

scenario, more may be forced to pool their resources [11]. In 2000, a study of 28 co-operative and former co-operative cellars showed that only five had retained their traditional co-operative structure. All others were in a process of transformation – with regard to both their internal and their external organisation (Martin 2001).

The implications of these shifts are complex and uneven, but together they seem to signal an important shift in the power relations between growers, cellars and retailers. One particularly important development is the coming into being of a complex new internal market in both wine and grapes. With the development of new branded premium wines (e.g. 'Arniston Bay' and 'Two Oceans') that are not linked to particular vineyards, cellars that can produce premium wine according to desired specifications have a wider range of possible buyers for their products than before. Similarly there is a much more dynamic market for wine grapes. A part of both these markets are driven simply by quality and price, but many brand owners, cellars and growers also tend to prefer entering into medium- and long-term relationships in order to avoid uncertainty.[12] Increasingly, staying in these relationships depends on the ability to produce grapes and/or wines that conform to 'quality' and other standards specified by the buyer.

The result is a complex and shifting new strategic terrain. Cellars are exploring a wide range of different routes through trial and error and incremental changes. Some co-ops have chosen to remain in a medium to long-term contractual relationship with domestic producing wholesalers, while others have embarked on their own marketing and sales. Nevertheless, four years ago, 70% of production was still sold in bulk – mainly to domestic wholesalers, but also to overseas buyers (Martin 2001). Only a handful of co-operatives did their own marketing and sales. They were only exporting an average of 5% of their output[13]. Although some headway has been made in co-ops' effort to gain more independence from the wholesalers, it remains difficult. Two years ago, the manager of one former co-operative estimated that it costs R 1 million to establish a 'brand'[14]. In addition one needs the necessary volumes, an effective supply chain and the international marketing network – all things difficult to achieve for co-operatives, not to say 'new farmers'.

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[11] The marginal co-ops face a classical Catch-22 situation: if they don't succeed in making the transition in time, the best farmers may leave to become private growers. If the latter leave in significant numbers, it becomes ever more difficult for the co-op to produce better wine and weather the storm. The situation is putting the solidarity of the membership under enormous strain (see Chiffoleau et al 2002).

[12] Interviews with Distell officials, November and December 2001.

[13] One former co-operative, now company, exported as much as 50% of its production.

[14] Personal communication, MD of Simonsvlei cellar, February 2002.

None of these shifts are easily accomplished. New and emerging sales strategies often require or presuppose organisational changes. The transition from mass to 'quality' production entails shifting power relations in grower-cellar relationships at district level, and brings power struggles between co-op management and growers that are not always easily resolved. It is often hard to 'engineer' the transition – particularly in a context where recalcitrant members can veto changes that challenge established practices.

For 'new farmers' the issue is not whether they should take the side of the pro-change faction amongst co-op members or not. For them it is extremely difficult to become a member in the first place. Not only are land and establishment costs extremely high[15], but would-be members also have to pay an entrance fee (a so-called 'delivery right') which can run into hundreds of thousands of Rand. To set up one's own cellar involves millions. As a result, a more feasible option for 'new farmers' may be a kind of 'outgrower' relation with a private cellar or producing wholesaler[16]. Farm worker equity schemes are another possibility, but they have their own difficulties as we shall see below.

### Enter the state: attempts at 'empowerment'

The third important dimension of change relates to national democratisation. Again, the periodization of this shift is complex. Moves to bring farm workers into the fold of modern industrial relations started before 1994[17], but the coming into power of an ANC government deepened and accelerated these trends. A veritable slew of legislation was passed, providing for a wide range of labour, social and land rights, ranging from basic conditions of labour in 1993 to the promulgation of minimum wages in 2003[18]. A paternalist state has stepped in to push back the paternalist authority of the farmer, and has created new limits

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[15] It is estimated that establishment costs for one hectare of vineyard is approximately R 70 000. This does not include the price of land. This can be as high as R 120 000 per hectare in a prime area like Stellenbosch or Paarl.
[16] Distell has established such an 'outgrower' arrangement with a number of new coloured growers in the Olifantsriver region. They will deliver grapes earmarked for brandy prduction.
[17] The Basic Conditions of Employment Act was the first piece of labour legislation extended to agriculture in 1993.
[18] The most important pieces of legislation applicable to farm workers are:
the Basic Conditions of Employment Act, 1998 ('the BCEA'); the **Occupational Health and Safety Act of 1993** ('OHSA'); the **Compensation for Occupational Injuries and Diseases Act of 1993** ('COIDA');

the **Labour Relations Act 66 of 1995** ('The LRA'); the **Employment Equity Act 55 of 1998** ('The EEA'); the **Skills Development Act and Skills Development Levies Act** ('The SDA' and 'the SDLA'): the **Extension of Security of Tenure Act 62 of 1997** ('ESTA'); the **Unemployment Insurance Act** ('UIF'): the **Sectoral Determination 8: Farm Worker Sector:** the determination sets two categories of minimum wages, viz. R 800 p.m. or R 4.10 per hour (for those working 27 hrs or less per week) in 'Areas A' and R 650 p.m. or R 3.33 per hour in 'Areas B'. The determination came into effect on the 1st of March 2003 and is valid until 29 February 2004. The rates may then be increased.

to farmers' control over workers' lives.[19] These changes seriously challenge the legal and formal underpinnings of traditional farm paternalism.

But challenging paternalism is not the same as replacing it. There is evidence that many farmers are reluctant to comply with labour legislation, if not downright hostile to it (Kleinbooi and Hall 2001). Most farmers comply with the main provisions of the BCEA (e.g. hours of work, leave and holiday provisions), but some are reluctant to implement the UIF, the EEA, and the SDA (Sunde and Kleinbooi 1999). However, most of farmer anger and opposition is reserved for ESTA – the Extension of Security of Tenure Act, which gives farm workers the right to keep on living in the farm cottage even after they have been retrenched or reached retirement age. Nevertheless, enforcement by the state is weak and as a result, many farm workers have lost their permanent jobs and housing on the farm since the act was introduced. Given the state's track record, it remains to be seen whether the enforcement of the minimum wages is going to be any better. Weaknesses in the legislation[20], a small inspectorate, huge caseloads and a shortage of conciliation commissioners compound the problem. [21]

Although labour law has significantly disrupted the institutional order of paternalist labour management, it has not decisively transformed it. The state is far away and lacks the ability to enforce its own laws. Farm workers find that insisting on their rights can be a dangerous strategy, and know that maintaining patronage relationships may be as important. The result on the ground is a complex palimpsest in which labour relationships are simultaneously governed *both* by the formal codes of legislation *and* by the personal relationships and implicit contracts of paternalist practices (Flensted-Jensen 2002).

In addition, farmers are changing the nature of the battleground. Though labour law has curtailed their power, they have retained the ability to restructure their business on their own terms. This results in trends that could make labour law irrelevant in important sectors – and that poses important challenges to traditional forms of worker organisation.

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[19] Dismissals, for instance, are no longer simply a matter of farmers' prerogative. Statistics for the Commission for Conciliation, Mediation and Arbitration, Western Cape show that of the 4801 disputes heard by CCMA commissioners in Western Cape agriculture between November 1996 and October 2003, 67% were unfair dismissal disputes, followed by 'matters of mutual interest' (7,9%), 'unfair labour practices' (6,2%) and 'organisational rights' (3,5%). Statistics supplied by Anthea Edwards, CCMA head office, Johannesburg, 6 October 2003.

[20] Especially with regard to the UIF, ESTA, the EEA and the Sectoral Determination.

[21] Commissioners are appointed by the CCMA, the Commission for Conciliation, Mediation and Arbitration – a body set up in terms of the Labour Relations Act which is supposed to solve labour disputes before they get to the Labour court.

### Farmers' responses and implications for workers

How growers are affected by these changes depends partly on how they are located within the agro-commodity system. Not everyone is well positioned to take advantage of the growing market for premium and export wines. One important obstacle is geography: generally speaking, wine grape farmers in the hotter regions face serious disadvantages in trying to break into the quality market. A second factor is the historical bias in existing plantings toward high yielding cultivars unsuitable for the production of quality wines.

Nevertheless, approximately 50% of all vineyards have been replanted since the early 1990s. Most of the new plantings involve the so-called 'noble' varieties, i.e. Cabernet Sauvignon, Merlot, Pinotage, Shiraz, Sauvignon Blanc and Chardonnay. In 2002, noble cultivars represented 40,5% [22] of all plantings, compared to only 13.8% in 1991. Red wine production increased from 10.9% of all grapes pressed in 1992 to 21% in 2002.

The conversion has come at a price, not only in the form of land and establishment costs, but also in the guise of more labour intensive vineyard practices required by 'quality production'. Better quality grapes require more precise pruning techniques, careful 'suckering', and canopy and crop control. This means higher labour costs.

There are more problems. The unleashing of market forces among grape growers and the revival of the tendency to 'plant after the price', reintroduces important elements of instability. During the late 1990s, when red wine grapes were in short supply, farmers could command good prices for quality Shiraz and Cabernet Sauvignon grapes. As more and more farmers join the bandwagon, those prices are sure to drop. Increasingly, growers of wine grapes are at the mercy those further downstream in the value chain. Though high margins will be possible for some, many growers will face tightening quality, 'ethical' and phytosanitary standards, increasing pressure on their margins and increasing levels of risk.

This has important consequences for workers. Unlike grape growers in the EU for instance, South African wine farmers receive no subsidies and have to absorb the higher labour costs themselves. Little wonder that many farmers are reacting angrily to the state's attempts to intervene in labour affairs on 'their' farm. Minimum wages in particular caused huge protests in certain quarters of the organized farming lobby (*Die Burger* 14 May 2003).

[22] The percentage of new plantings may have been higher, were it not for conflicting signals coming from the market: in the mid- to late 1990s relatively high prices for grape juice concentrate and distilling wine were sustained, lulling some co-op managers and farmers into a false sense of security and slowing down the shift to noble cultivars. Towards the end of the decade, distilling wine prices dropped, driven down by cheap imports.

However, formal protest is not the farmers' most significant response. Facing a sustained challenge to their power as employers, and feeling increasing competitive pressures, many farmers seem to be opting for the one measure that still is within their power: restructuring their businesses. Many seem to be resorting to casualization, externalization and contractualization [23], deepening an already segmented labour market and further deepening the divide between 'winners' and 'losers'[24].

In the first years after democratisation, evidence on employment trends seemed mixed. While the initial post-sanction years still recorded an increase in aggregate employment, this trend may have started to change in the late 1990s. In 1997, both industry figures and academic research recorded an increase over the previous four years. While industry figures cited a 7% increase,[25] a survey of 104 farms in 1997, revealed a 5% rise in permanent employment. In 1997, farmers also estimated that 'their' permanent labour force would grow by an additional 3% until the year 2002. The same estimate was made for casual labour (Ewert et al 1998). The trends in wine were backed up by Agricultural Census figures (1996) which showed that the Western Cape, together with Mpumalanga, were the only provinces to show an increase in agricultural employment. The fact that agriculture in both provinces was inserted into the export sector played a major part.

Trends may have started shifting, however. The abovementioned survey was done in 1997, shortly after the restructuring of the co-operatives sector had begun in all earnest (i.e. in 1995-1996) and during a huge upsurge in new plantings. Four years later, however, another survey of 77 wine, fruit and vegetable farms in six districts of the Western Cape suggested an uneven but noticeable trend *away* from permanent farm employment (du Toit and Ally 2004). These trends were more pronounced on deciduous fruit growing farms, but they were still present on wine farms. Almost 60% of farms in the survey (and more than 54% of wine farms) had reduced the size of the permanent labour force in the previous 3 years, and on almost half (and 41% of the wine farms sampled), management indicated plans to reduce permanent labour in future. For the most part, jobs were not being replaced by machines, but by casual labour, with strong shifts towards the use of labour contractors and

[23] 'Casualization' refers to a reduction in the size of the permanent labour force and often an inversion of the ratio of permanent to casual workers. 'Contractualization' refers to re-employment under less favourable circumstances. Externalization refers to the rise of intermediaries like labour contractors and labour brokers.
[24] In the 20th century the labour market in the Cape wine industry has always been segmented in the sense of a division between permanent and seasonal labour.
[25] SAWIS, **South African Wine Industry Statistics** 1994 and 1998

casual workers, and a distinct trend towards the use of women workers (du Toit and Ally 2004: 15-16; see also Kritzinger et al 2004).

In addition, significant numbers of white farmers seemed to be walking away from the 'social responsibility' functions they have traditionally been held to have in terms of paternalist ideology. Key here was the withdrawal from the provision of housing to farm workers. Some 57% of farmers reported having at least one empty house on the farm, with this figure reaching 83% in some districts. Less than a quarter of respondents indicated that they planned to continue renovating existing housing stock, and almost a third of farmers (32% of the whole sample, and 33% of wine farmers) were considering abandoning their 'traditional' housing function altogether (du Toit and Ally 2004: 22).

The increasing employment of casual labour is paralleled by the rising introduction of mechanical grape harvesters [26]. Grape harvesters represent important advantages for farmers. Not only do they represent a significant reduction in labour costs - one machine may replace as many at 70 workers per 12 hour shift [27] - but they also offer important quality advantages, enabling farmers to harvest quickly when sugar levels are right, or at night to make sure grapes are cool. In 1995 a total of 95 machines were recorded for the whole industry. A year later this figure already stood at 144 - an increase of 52%. In the 1997 survey of 104 farms, 36% of producers made use of mechanical harvesters (Ewert et al 1998). Diffusion may have slowed down, but there is no reason to believe that it has come to a halt. [28]

Increasing levels of casualization and externalisation have serious consequences for rural livelihoods. Asset poverty means that poor households in the new peri-urban settlements around Western Cape towns in the farming districts lack direct access to land and the other resources required for either household food production or independent entrepreneurial activity. Unemployment is rife, and in many regions and rural towns, livelihoods are cobbled together from state welfare grants and cash from seasonal and casual employment (du Toit ???). In the rural Western Cape, that means farm work. The move off-farm does not end the dependence on the agro-food sector, and in the winelands, the eight to twelve week vintage

[26] The reasons are economic and political. In some regions various crops (e.g. fruit and grapes) ripen simultaneously and harvesters are one way of addressing labour bottlenecks. In other regions the fear of unions is extra strong and farmers are using harvesters as a political weapon against possible organization.
[27] Personal communication, Johan Botha, vineyard manager, Fairview Cellar, Paarl, 28.5.03.
[28] Farmers' political fears played a role in the introduction of harvesters in the period immediately after the 1994 election. When these proved to be unfounded, it may have reduced the rate of adoption. However, this is merely a hunch. To our knowledge no accurate diffusion studies were done after the mid-1990s.

period presents a crucial window for supplementing cash incomes. Women, young people and new migrants are particularly insecure in the search for work. On any given day, there are many more work seekers than the farmer needs. In scenes reminiscent of 'Grapes of Wrath', the farmer or his foreman can pick and choose amongst those clambering to get onto the lorry for a day's wages. Under these circumstances, casuals are unlikely candidates for unions – not as ordinary paid-up members, let alone the vanguard.

## PROSPECTS FOR EQUITABLE CHANGE

### Trade unions and rural social movements

The structural changes in the wine industry affect the prospects for equitable change, and the likely impact of interventions aimed at improving livelihoods on the ground. Most obvious of these is the prospect of trade unionism shifting – or at least challenging – power relations between employers and workers. Again, legal change has had limited effects. Legal 'industrial' action on the part of farm workers first became a possibility with the passing of the 1994 Agricultural Labour Act*;* since this act was replaced by the 1995 Labour Relations Act, farm workers have the explicit right to strike and access to mediation services[29]. But unionisation in most parts of the rural Western Cape has been rather slow and piecemeal [30].

Part of the reason lies in farmer opposition – organised agriculture has vehemently resisted central bargaining in the industry, forcing unions to fight for recognition farm by farm. Here, unions are on unfavourable terrain: not only are resources stretched by distance, isolation, and the poverty of their organisational base, but they are also up against the legacy of paternalism itself.

But that is not the whole story. Trade union strategies themselves may be ill suited to agricultural organising. Farm workers dispose over significant traditions of resistance; but

[29] The services are provided by the Commission for Conciliation, Mediation and Arbitration (CCMA) - a kind of industrial relations "fire brigade" designed for the speedy resolution of disputes, including those in agriculture.

[30] Precise figures are very hard to come by, given the fragile and fluctuating fortunes of unions in the wine sector. Most observers agree, however, that they do not exceed 10% of the permanent labour force (i.e. between 5000-6000 members). Two unions, The Food and Allied Workers Union (FAWU) and the National Union of Food, Wine and Beverage Workers of South Africa, claim a combined total of 3000 signed up members at the cellars of wholesalers represented by CWSI and KWV. Both these unions, plus SAPAAWU (S.A. Agricultural, Plantation & Allied Workers Union) and eight smaller unions claim to have members at private, estate and co-operative cellars and at farm level. However, no reliable figures are available. This also goes for the so-called 'Farm Workers Association'. Interestingly, the General Secretary of the Association is the former MD of the now defunct Rural Foundation, Ockie Bosman. They claim substantial support amongst farm workers, but do not sign up or register members.

these traditions are very unlike the overt, adversarial, confrontational discourse of factory unionism. Rather, they rely on the 'weapons of the weak', operating within the framework of the paternalist moral universe itself, relying on individual appeals, consensual negotiations, and the avoidance of the appearance of open conflict (Scott 1985; see also du Toit ??). These tactics are often dismissed as evidence of servility or compliance by organisations drawing on urban political traditions. These dismissals are based on a failure to understand the complex art of making claims and securing demands in a context where the networks of white power are so tightly woven, and where the previous employer acts as the reference for the next job application (see, for example, Flensted-Jensen 2002). The point is not simply that flirting with the unions – and becoming marked as a 'troublemaker' – would seriously impair a worker's re-employment prospects: it is also that prospects for union organisation remain slender as long as they tend to replace, rather than draw upon, the already existing cultural repertoire and traditions of farm workers' resistance and agency.

While genuine worker representation is vital in the contestation of on-farm power relations, it is unlikely to be secured through the export to the farms of the Fordist models of trade union organisation developed in South Africa's urban workplaces (du Toit and Ewert 2002). If workers and unions want to make headway the focus of organisation needs to shift beyond the ranks of permanent, full-time on-farm and mostly male workers, and greater priority has to be placed on organising the African and female workers who are so much more predominant in the seasonal and externalised labour force. Not only are these workers more vulnerable, but their priorities differ significantly and in gendered ways from those of permanent workers (Barrientos and Kritzinger 2002). In addition, as Andries du Toit has argued, it will be hard to effectively organise these workers if an artificial divide is made between their specifically farm-labour-related problems and all the other serious difficulties with rural service delivery and infrastructure provision that dwellers in rural informal settlements will experience (du Toit 2000).

### Equity share schemes

Much more ambiguous than trade unionism as a possible intervention into the power relations between workers and farmers are farm worker equity share schemes (FWES). Apart from perennial problems like the high cost of arable land, lack of cash flow etc. (VinPro 2004: 41-42), it can be argued that these schemes do not represent a radical break with the traditions of the past: indeed, they bear many resemblances to the innovations of 'neo-paternalist' initiatives like the Rural Foundation, and, in their emphasis on the convergence of the interests of management and workers, may be argued to involve a radicalisation or extension of some of the most fundamental elements of paternalist ideology. They can, however, bring significant benefits to farm workers in the longer run, and, to the extent that they turn management decision-making itself into a contested terrain, may contain significant opportunities for changes to the highly authoritarian, racially hierarchical management practices of traditional paternalism. Ultimately however, they will tend to work mostly to the benefit of the small core of on-farm workers, and even when they are so designed as to minimise differences between permanent and seasonal workers, their overall impact is likely to be the deepening of the division between the 'insiders' and the 'outsiders'.

**Industry initiatives**

Perhaps most ill defined of all are the prospects for equitable change arising out of formal industry transformation. Here, a key question is the extent to which industry leadership can give the process any direction at all. In the years immediately after transformation, the KWV's initial response to democratisation was to attempt to avoid government's grasp simply by privatising itself (Williams and Vink ???). When it finally abandoned this course of action after two years of legal wrangling, it seems to have settled on trying to ensure that what change happens, happens on its terms. The South African Wine Industry Trust (SAWIT), set up by the KWV in terms of its out of court settlement with the then Minister of Land Affairs and Agriculture has manifestly failed to implement its obligations to ensure the development and empowerment of farm workers. Devco, the arm of SAWIT charged with supporting ' new farmers', and the 'upliftment' of farm worker has spent only a fraction of its funding and was, by March 2004, being accused of violating its terms of reference (*Sunday Times* [South Africa] 29 February 2004).

Nevertheless, towards the end of June 2004 it was announced that a long-awaited empowerment deal had been struck between the KWV and a 'broad-based consortium' of black businessmen, professionals, trade unions and 'non-profit organisations' (*Die Burger* 28 July 2004). In terms of the agreement, the consortium would acquire a 25.1% share in KWV. It would be partly funded by SAWIT's DEVCO arm.

Although KWV and the beneficiaries hailed the deal as an historical act, it has come in for criticism from various quarters. Some critics point out that a large chunk of DEVCO money is going to a single project, whereas the funds are earmarked for empowerment in the industry at large (*Die Burger* 28 July 2004). Equally serious is the criticism of a conflict of interest. Members of the SAWIT executive are said to be amongst the beneficiaries. At the same time it is not clear how much the unions, NGOs and ordinary workers will benefit, if at all.

Meanwhile, the framework for debating change in the industry was set by '*Vision2020*', a 'strategic study' commissioned by Winetech in 1999. This resulted in the announcement in June 2000 of a 'strategic agenda' dominated by the need to 'achieve international competitiveness' and the imperative to 'shift to a …market-driven industry', 'terroir based production', 'total value chain management' and so forth. The document also contained the customary references to 'human development', 'social responsibility', 'affirmative action' and 'broadening the base of economic participation...' (Winetech 2000).

*Vision 2020* played a key ideological and political role, providing a legitimating framework for the continuation of processes of deregulation and restructuring that were already under way. And in this it seems to have been moderately successful, if one credits its authors' insistence that there was widespread buy-in by co-operative cellar management during 2020's 'road show' in 2000. As a *strategic* document however, it had significant limitations. It tended to avoid dealing at all with the trade-offs, costs, and choices involved in balancing the various imperatives it identified. Neither the 'Agenda' nor the reports that go with it (Spies 2001a, 2001b) provide any clue as to how economic participation is to be broadened or how rural livelihoods can be created and sustained.

These tensions and questions will become increasingly hard to avoid in 2004 and after. In October 2002, the KWV created the South African Wine and Brandy Company, a corporatist body with a council divided into four 'chambers'('producers' (i.e. growers), 'cellars', 'labour' and the 'trade',) but still heavily staffed by representatives of the old establishment. At a conference on Black Economic Empowerment in the South African Wine industry at the end of October 2003, it announced a 'Wine Industry Plan' broadly based on V2020 – a plan which was in principle accepted by the Minister of Agriculture. This set the scene for the development of a Black Economic Empowerment Charter for the Wine Industry. Quite aside from the cloud hanging over the heavily compromised SAWIT, any such charter faces the challenge of balancing and reconciling numerous different agendas – not least being very different models of what 'Black economic empowerment' could be. The expectations of middle class Black South Africans who hope to buy into opportunities to share the profits of the industry will have to be balanced against the demands of those arguing that workers should be included in broad-based empowerment.

Although land-ownership is among the most difficult and least attractive segments of the value chain to buy into, the SAWB in conjunction with VinPro and Nedbank, has just produced a policy paper on land reform in the wine industry. It takes full cognisance of the high entry barriers and 'classical' pitfalls of equity share schemes. At the same time it puts on the table a number of different land reform models which it deems viable – given that certain conditions (incl. 'donor funding') are satisfied (VinPro 2004).

While much in *Vision 2020* and SAWB policy papers makes sense, the more difficult part is putting it into practice. The SAWB leadership may know where it wants to go, but evidence suggests that awareness of the WIP amongst the rank and file wine farmers is very low[31]. Also, the institutional instruments may be in place, but why should the average grape grower, already reeling under cost pressures, go along with it? Clearly, incentives are needed. According to WIP funding will come '…from industry sources and levies, government provisions, international donors, …investors…' and SAWIT (SAWB 2003: v). However, whether the EU, for instance, will assist with more funding over and above the R 114 million promised in terms of EU-SA trade agreement, remains to be seen. As it stands the R 114 million are going into the KWV empowerment deal.

Incentives or not, the government could possibly use 'sticks' to make farmers and cellars buy into transformation and 'empowerment'. For instance, a clause in the Liquor Act gives government the power to withdraw the licence of a cellar that appears to drag its feet on this issue. However, the state will probably think twice, lest it wants more unemployment on its hands.

Thus without much in the way of either 'carrots' or 'sticks', it seems unlikely that either the WIP or the BEE charter will produce much in the way of concrete results for poor people living in the Cape wine lands.

[31] At a recent meeting of a Paarl wine co-operative, none of the 30 members could say what WIP was all about. This was some ten months after its announcement and diffusion.

## CONCLUSIONS

Deregulation, legal reform and global integration in the South African wine industry has brought about the 'deep' restructuring of the labour force into a smaller, permanent core and a growing, casual periphery. For this core of permanent workers, the 'quality revolution' has brought the up-skilling of work – as well as increased opportunities to share in the value they create. Increasingly, however, this improvement goes hand in hand with the loss of permanent work and greater vulnerability for many others. It is improbable that these trends will be challenged by industry transformation and 'Black Empowerment', which are likely to continue to be shaped by the interests of those who already have a stake in the industry.

These trends pose an important challenge to those concerned about the livelihoods, living conditions and interests of farm workers, both nationally and internationally. These issues can not be satisfactorily addressed within the terms of the frameworks of analysis and the metanarratives that structure policy debates. These frameworks are unduly focussed on farm workers' identity as *workers,* and the strategies aiming to address their problems are overly situated within the problematic of employment and workplace transformation. Important though continued growth, workplace change and employment are, they offer only limited scope for addressing farm workers' interests.

The perspective needs to be broadened to include global value chains, state support for greater international competitiveness, pro-poor policies, the building of social capital in the wine lands and equity other than the redistribution of land. Additionally, attempts need to be made to significantly strengthen the commitments of foreign supermarket chains to ethical trading (perhaps through the tax system) and restricting their oligopolistically-derived capacities to force down prices etc to the detriment, ultimately, of the poor.

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