HK Oosthuizen STP. [illegible]

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LANVOKON AGROCON '82

AGRICULTURAL OUTLOOK CONFERENCE 1982

PRESENTED BY -

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Control Boards
- Department of Agriculture and Fisheries

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AGRICULTURAL OUTLOOK 1982

WINE

1. INTRODUCTION

The wine industry extends over an area of approximately 113 000 ha, with an investment in viticulture of about R700 million. From this farming operation flows a production of about 950 000 tons of grapes, from which approximately 710 million litres of wine are produced (approximately 320 million litres good wine and 390 million litres distilling wine). The industry realises a gross income of about R150 million.

The winemaking function is mainly undertaken on a co-operative basis by 71 wine co-operatives. With a total investment of more or less R120 million in winemaking facilities these co-operatives process about 84 percent of the total wine crop.

Taking into account other functional institutions on producers level as well as the activities of estate wine producers, the total investment in viticulture and winemaking amounts to approximately R1 000 million in 1981.

It is a well-known fact that the production of wine grapes is a long term process. The productive life of vines extend over a period of 25 to 30 years and are established at a high capital cost. As a result of the inflexable production structure of winegrapes it is impossible to make short term adjustments without incurring heavy capital losses.

On the other hand this intensive long term production structure renders stability to its community.

This representation gives a review of different facets of the wine industry and a picture of the future.

PRODUCTION

2.1 Viticultural areas

For administrative purposes, the production area in South Africa are divided into eight KWV districts as follows:

Montagu: Mainly Klein Karoo, including Barrydale, Montagu, Ladismith, Calitzdorp and Oudtshoorn

Malmesbury: The Divisional Council areas of Malmesbury and Piketberg

Orange River:	The Orange River and surrounding areas as well as the provinces of Transvaal, Orange Free State and Natal
Olifants River:	The Divisional Council areas of Clanwilliam, Vanrhynsdorp, Calvinia and Namaqualand
Worcester:	The Divisional Council areas of Worcester, Caledon, Ceres and the south and south-easterly parts of Tulbagh
Robertson:	The Divisional Council areas of Robertson and the region further east and south of the Langeberg up to Knysna
Paarl:	The Divisional Council areas of Paarl and the north and north-easterly parts of Tulbagh
Stellenbosch:	The Divisional Council areas of Stellenbosch and the Cape.

The distribution of South Africa's vines one year and older, during 1971 and 1980 are shown in figure 1.

It appears that during 1980

2.1.1 approximately 83 % of all vines were situated in the area which is traditionally known as the Western Cape;

2.1.2 7 % of all vineyards were situated in the Olifants River district;

2.1.3 the Orange River area, also known as the northern viticultural area, covered approximately 10 % of the total area under vines.

There is, however, a difference between the trend in production according to the KWV districts and the area under vines, which can be attributed to climatic differences and soil potential. Table 1 shows the contribution of each district to total wine production.

From this table follows that

2.1.4 the non irrigated wine producing areas of Paarl, Stellenbosch and Malmesbury produced only 33,0 % of the total crop during 1980 while 52 % of the total area were under vines, due to a lower yield per hectare;

2.1.5 Worcester, an irrigation area, with some 19 % of the total area under vines, produced more than 23,3 % of the 1980 wine crop;

2.1.6 Olifants River, an intensive irrigation area, with high unit-production was responsible for 14 % of the 1980 wine crop while only 7,2 % of the total area under vines grows in this area.

2.2 Production

The production of wine grapes since 1970 is shown in table 2. Since 1960 an average annual growth rate of 3,6 % was experienced (excluding seasonal fluctuations). The 1981 wine crop of approximately 6 442 568 hl shows a decrease of about 8,9 % compared to 1980. This decrease in production is to a large extend the result of flood damage.

Preliminary estimates for the 1982 wine crop indicate a small increase compared to the 1981 wine crop, mainly as a result of favourable climatic conditions. According to estimations the crop will be of normal size.

2.3 Gross value of the wine crop

The gross value of the wine crop since 1970 is shown in table 2. This value does, however, not reflect the amount available to producers because production costs were not taken into account.

The monetary value of the wine crop showed an annual growth rate of 14,2 % since 1970 and amounted to approximately R149 million during 1980.

Preliminary estimates of the gross value of the 1981 wine crop indicate an increase to R152 million which is a growth of 2,0 % compared to that of 1980. This illustrates the impact of the smaller crop as a result of the flood damage.

3. POTENTIAL PRODUCTION

Figure 2 shows the production of wine since 1960 to 1981 and a projection of potential production up to 1990, based on normal crops in terms of production per hectare. The long term trend of production, although steadily leveling off, will continue its upward trend until 1987/88, before it will stabilise at about 7,2 million hl for an average wine crop due to the limitation imposed by production quotas. The maximum positive deviation in production in any given year can be up to 10 % whilst the maximum negative deviation should not exceed 15 %. It follows that a good crop during 1982 may be as much as 7,6 million hl and a bad crop as low as 5,8 million hl.

The effect of technological development on the production of wine grapes cannot be under estimated. Development of improved planting material, new and improved trellising and irrigation systems, as well as changes in cultivating methods, may improve production. As a result of the long term production process it is unlikely that technological development will have a quantitive effect in the medium term up to 1985, but may well have a positive effect on the quality of the crop.

4. CONSUMPTION OF WINE PRODUCTS

4.1 Domestic consumption

Table 3 shows the consumption of the more important products of the vine for the period 1970 to 1980 with an estimate for 1981.

4.1.1 Natural wine experienced a strong growth rate of about 7,3 % per annum, reaching a maximum of 1,983 million hl during 1973. Since 1973 demand declined with 13 % reaching a turning point in 1977, only 7,2 % above the level of 1970.

The decrease in demand was, however, halted during 1978 and a moderate growth rate of 0,8 % was experienced for that year. This growth rate continued during 1979 and 1980 and consumption exceeded the 2 million hl mark during 1980.

Continued growth in this marketing sector is being experienced during 1981 and a growth rate of approximately 13 % is projected.

Preliminary projections indicate that this growth will continue during 1982 but at a slightly slower rate.

4.1.2 The demand for fortified wines showed an annual growth of approximately 9 % for the period 1970 to 1974. Since then a sharp decline, especially in the market for aperitif wines was experienced with the result that consumption during 1980 was only 0,7 % above that of 1970. There are, however, indications that the decline in consumption is stabilising on this level for 1981 and a slight increase in consumption may be experienced during 1982.

4.1.3 Brandy: Since reaching its summit in 1976, the brandy market showed a lack in growth. After a decline in consumption during 1977 this market stabilised on 36,5 million bulk litre during 1978, 1979 and 1980. Projections of consumption for 1981 indicate that there may be an improvement in consumption. Growth in consumption started during June 1981. The drastic increase in excise duty of 23,6 % in August 1981 may, however, suppress this growth and may even lead to a decrease in consumption. The market situation for 1982 is uncertain and a further year of stagnation is expected.

4.1.4 White spirits (gin, vodka and liqueurs): The consumption of white spirits experienced a sharp decline of 50 % since 1975 to 29 197 hl AA during 1978. During 1979 this market sector recovered with a growth of 31 % to 38 350 hl AA.

This strong growth continued during 1980 (38 %) and consumption for 1981 may show a growth of up to 17 % above that of 1980. Preliminary projections indicate that the 1982 consumption may increase with a further 20 %.

Consumption of these products are influenced by excise duties as well as excise regulations regarding price equivalency.

4.2 Exports

South Africa exports wine to approximately 30 countries. Including re-exports to the value of between R200 000 and R400 000 per annum exports of wine and spirituous liquor from South Africa since 1971 have been as follows:

Year	Value R million
1971	4,47
1972	4,95
1973	5,94
1974	8,30
1975	7,01
1976	8,08
1977	6,53
1978	8,80
1979	11,70
1980	17,67

The most important products exported are shown in table 4.

5. MARKET POTENTIAL

5.1 Domestic market

Consumption of wine for the period from 1960 to 1980 and a projection of potential consumption up to 1990 are shown in figure 2.

The long term consumption trend indicates an average growth rate of 3,8 % per annum. Recovery of total consumption of wine products took place during 1979 after a decline since 1974. It is expected that consumption may grow at a rate of 5,6 % in the medium term up to 1985 (at which stage production and consumption will be in equilibrium). In the longer term, up to 1990, however, it is expected that consumption will level off at an annual growth rate of 3,8 %.

5.2 Exports

Only a small portion of the total wine production is exported and as previously mentioned, amounted to approximately R18 million during 1980. The market for natural wines is experiencing a strong growth and may grow at an annual rate of 13 % up to 1985.

Sparkling wine, fortified wine, brandy and white spirits will, however, experience either a slight decrease or stagnate during the same period resulting in an annual growth rate of 3,5 % for all wine products.

6. PRICES

6.1 Producer prices

Producer prices for wine products are shown in table 5.

As a result of the long term and capital intensive production structure the wine producer needs stabilisation of income in view of all prevailing circumstances.

Consideration of producer prices especially in the present circumstances where production exeeds consumption accordingly calls for careful investigation and cautious action in order not to hamper the long term production structure which may lead to serious capital losses.

As in the case with other agricultural sectors, the wine producer is in a situation of ever rising costs. During the period of declining volume demand it was necessary to follow a bridging policy in relation to producer prices.

Since 1975 producer prices were adjusted

- for good wine with 8,9 % per annum

- for distilling wine (advance prices for producers) with 6,6 % per annum

- for distilling wine (trade) with 10,9 % per annum

whilst

- production costs for wine grapes increased with 13,6 % per annum
- the combined index for farming requisits increased with 13,9 % per annum and the consumer price index with 12,5 % per annum.

6.2 Consumer prices

Ties are prohibited by the Liquor Act between wholesaler and retailer and consumer prices for the same product vary according to situation, type of outlet and competition between retailers.

Figures 3 and 4 illustrates the price structure of some lower priced natural wines and brandy since 1970.

From this figures follows that

6.2.1 with regard to natural wine, the producers' share increased from 24 % during 1970 to 27 % in 1981;

6.2.2 the producers share in brandy amounts to about 10 % which is the smallest of all wine products. The producers share does, however, show a slight increase since 1970 and is at present (1981) at approximately 12,3 %;

6.2.3 the share of excise as well as the manufacturing and distribution sectors is more or less the same and both receive approximately 44 % of the consumer's Rand.

7. COMPETITIVE PRODUCTS

A sharp decline in the total sales of all wine products were experienced since 1975/76. Although there are numerous reasons for this, the influence of competitive products are of the utmost importance. The most important competitive products are beer as light drinks and whisky, cane and grain spirits in the spiritous market.

With 1975 index = 100 the 1980 index for the sales of these products were as follows:

Natural wine	111
Fortified wine	75
Brandy	97
Cane spirits	154
Imported whisky	150
"Greymarket" (liqueurs, vodka, gin) ..	96
Beer	176

It is clear that the non wine products are showing a much more favourable sales trend.

Price equivalence for spirituous liquor forms part of the basic policy of the Board of Trade and Industries in fixing excise duties for various products. During the past few years, however, changes in excise duty resulted in lower prices for all spirituous liquor compared to brandy.

The grey market (liqueurs, vodka, gin) declined sharply during the past few years. While this is a traditional market for wine spirit and was acknowledged as such until 1975, changes in excise duty favoured cane spirit to such an extent that the market share for wine spirit was a mere 23 % in 1978.

During 1979 the situation of wine spirits deteriorated further with the entry of grain spirits to this market sector. According to official statistics the share of wine, cane and grain spirits were respectively 19,6 %, 44,2 % and 36,2 %.

During April 1980 price equivalence between wine spirits and cane and grain spirits were re-established and the wine industry is again in the position to supply the major portion of this market. The change to wine spirits has already started during May 1980.

8. FUTURE OF THE WINE INDUSTRY

With a production of approximately 7 million hectolitres wine, South Africa is at present the 11th biggest wine producing country in the world, although relatively small compared to France and Italy with production 10 times bigger. The gross producers' income amounts to approximately R150 million while the government receives an equal amount in the form of excise duty for the different wine products on the market. The consumer pays approximately R800 million per annum for the different wine products.

The wine industry in particular is responsible for economic viability in eight different wine growing districts in the Western Cape and the northern wine producing regions. The socio-economic and social welfare responsibility of the industry lies in the provision of a way of living for 6 000 wine farmers, 3 000 employees in wine co-operatives and 42 000 farm employees. Including their dependants about 300 000 people are dependant on the primary wine industry.

Viticulture as a single agricultural sector is responsible for the largest contribution to agricultural income in the Western Cape.

The value of an agricultural sector to the community is far greater than can be expressed in monetary terms.

Although gross income describes the fisical contribution of an enterprise to the economy it is not the only means to measure its contribution because the quality of its contribution as well as the importance thereof varies.

The socio-economic benefits of an enterprise is to a large extend situated in the income stability to the community it serves.

Long term planning is of the utmost importance in a situation of unflexable production structures. In this regard the wine industry has a particular advantage in stabilising and controlling of production for orderly growth (limiting uncontrolled upward manipulation of production).

As a result of the inherent stability of the production structure of the wine industry, it is not only its economic activity in the short term but also its dominating share in the capital structure which is of major importance for stability and development of the rural economy in the Western Cape.

Three structural problems in the liquor trade were rectified with the founding of Cape Wine (CWD). It brought about effective differentiation between beer, wine and spirituous liquor interests, which were previously centralised in the same trade group.

It halted the integration between wholesale and retail and for the first time, the producer have effective participation and a say in the marketing of his product.

The restructuring of the liquor trade did not only benefit the primary producer, wholesaler and retailer, but also the consumer. The growing independance of retailers will be conductive to increasing competition, resulting in more effective service to the consumer.

The continuing promotion of wine as a civilised life style and the concept of wine with food is an important task for KWV and all concerned with marketing of wine. New ideas and plans especially in the field of packaging and promotion is essential. The 5 litre carton has already changed the domestic market and similar innovations will have to be implemented in developing the wine market. Per capita wine consumption in South Africa is at the very low level of 9 litre. This places South Africa 26th on the list of per capita consumption in the world. Having regard to France with 92 litres per capita, Portugal 91, Argentine 78, Spain 70 and Italy 91, it is evident that the wine industry has a bright future expecially when considering the expansion potential of the natural wine market in the northern provinces.

The legalisation of the existing distribution system in the black areas ("sjebeens") will also contribute to a revolution in wine marketing.

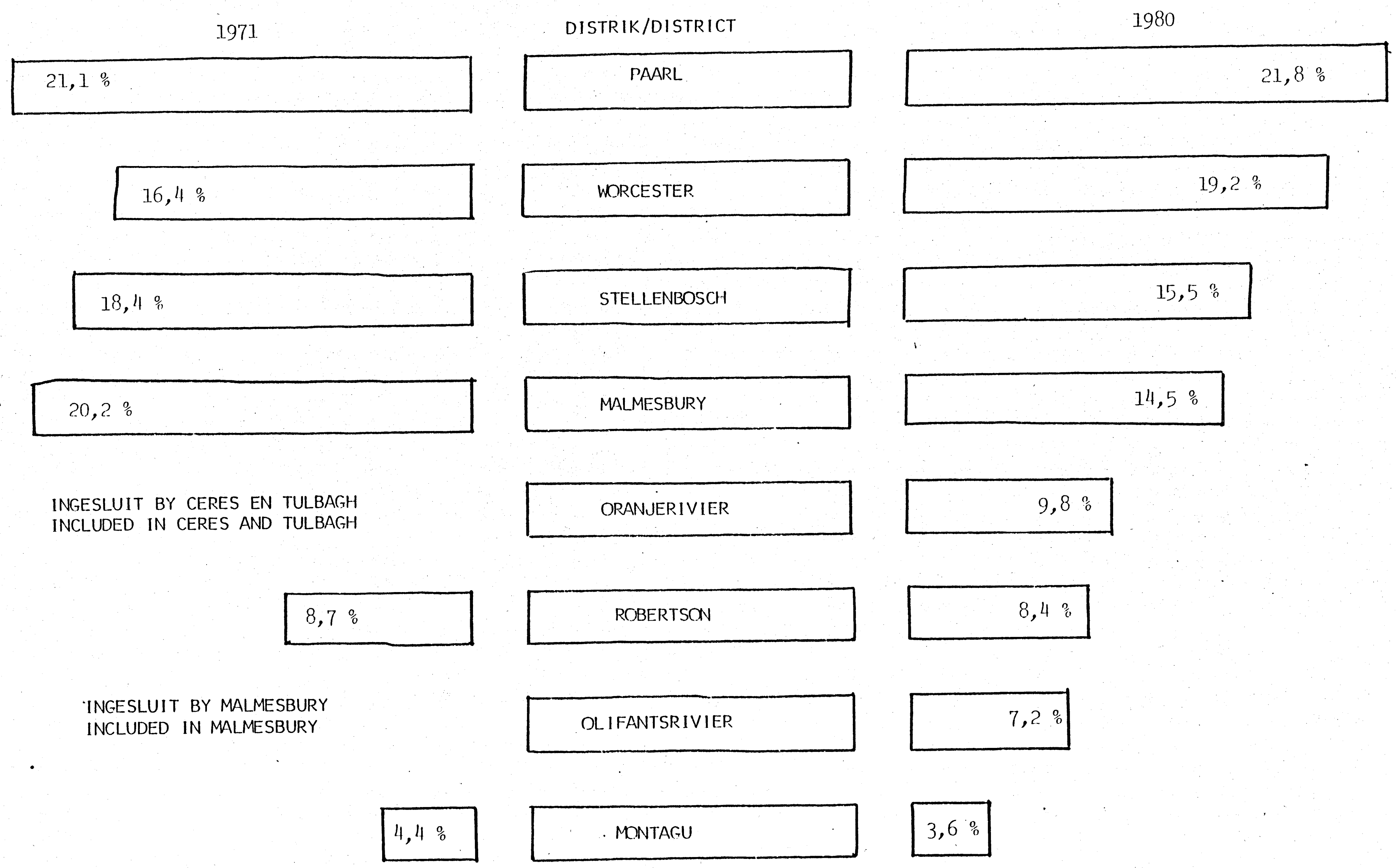
For the wine industry this is a challenging prospect and everything possible will be done to reach the set goals.

The long term prospects for the wine industry is excellent given the great potential of the South African market. The revival of the South African economy did also contribute in extending marketing horizons. There is no doubt that any problems, which may arise in the medium term, can be solved with the co-operation of all parties concerned, the most outstanding historical feature of the wine industry, namely stability and moderate but continued growth, will continue in the years ahead.

L2/T17
10 December 1981

FIGUUR 1: WINGERDVERSPREIDING 1971 EN 1981 (% VAN TOTAAL)

FIGURE 1: VINEYARD DISTRIBUTION 1971 AND 1979 (% OF TOTAL)



FIGUUR 2: PRODUKSIE EN AFSET VAN WYN, 1960-1990

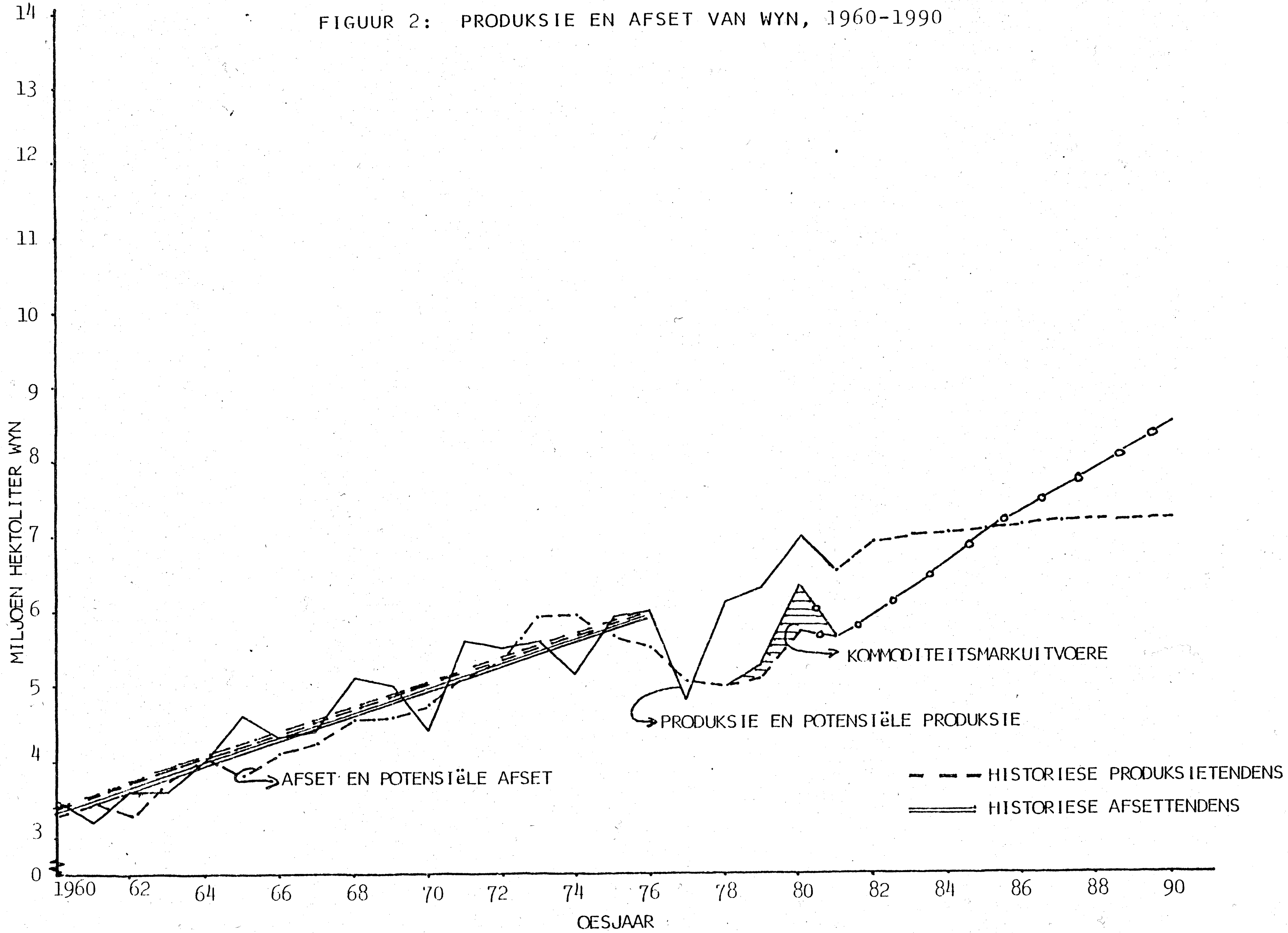


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FIGURE 3 : THE SHARE OF THE PRODUCER, MANUFACTURING AND DISTRIBUTION SECTOR AND EXCISE IN THE CONSUMER'S RAND FOR NATURAL WINE

FIGUUR 3 : DIE AANDEEL VAN DIE PRODUSENT, GROOT- EN KLEINHANDEL EN AKSYNS IN DIE VERBRUIKERSRAND T O V DIE AANBEVOLE KLEINHANDELPRYS VAN NATUURLIKE WYN

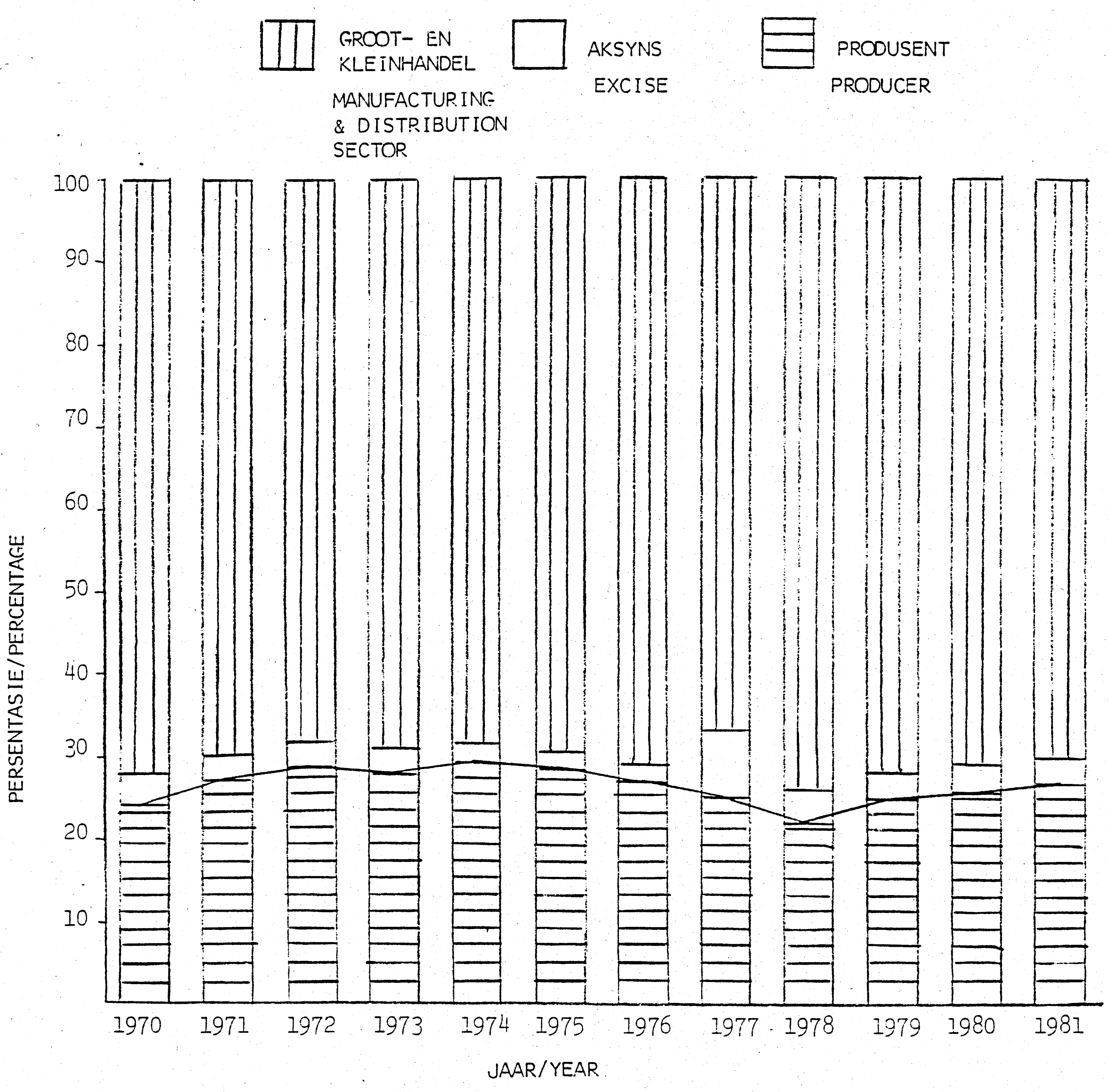
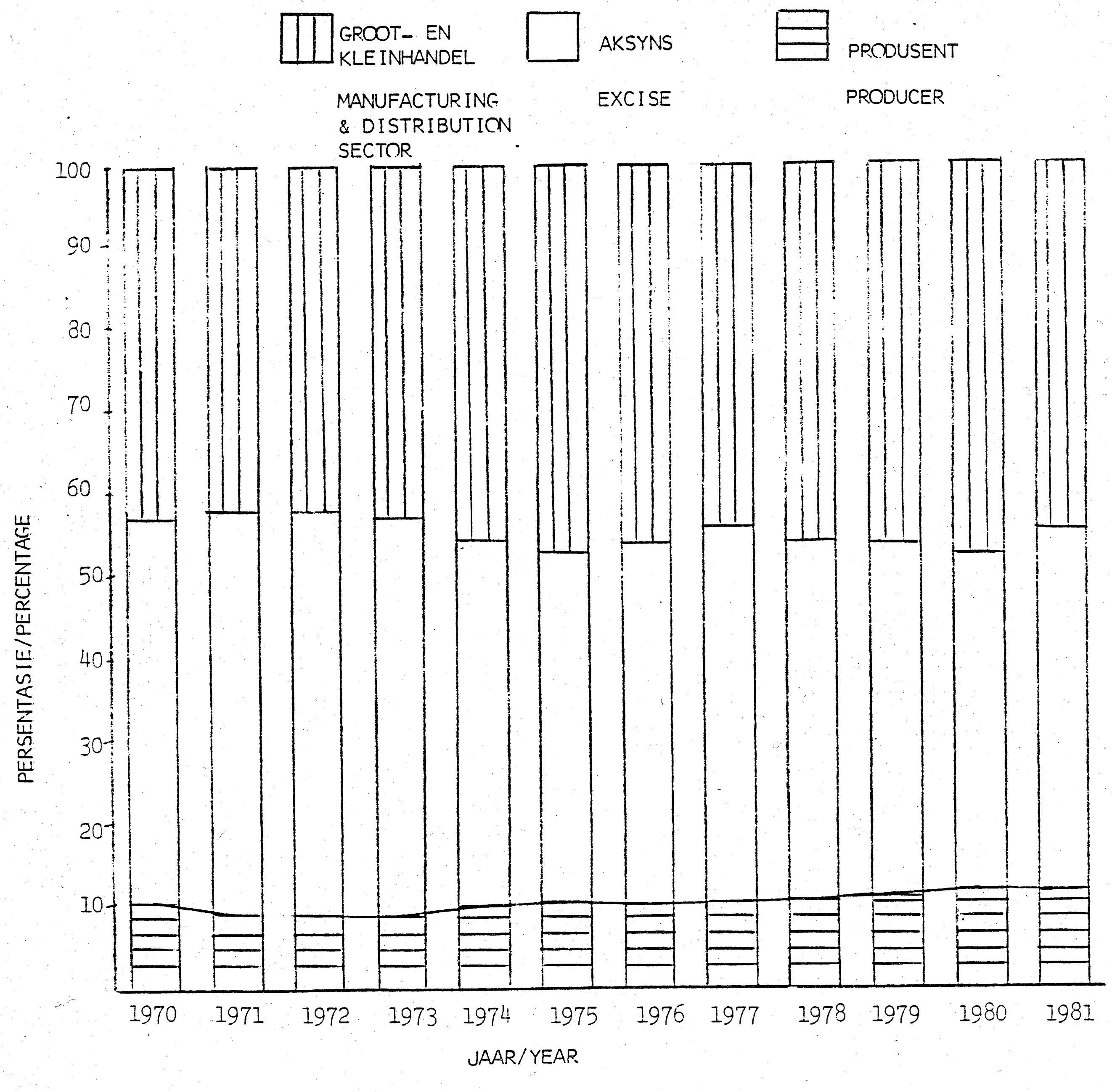


FIGURE 4 : THE SHARE OF THE PRODUCER, MANUFACTURING AND DISTRIBUTION SECTOR AND EXCISE IN THE CONSUMER'S RAND FOR BRANDY

FIGUUR 4 : DIE AANDEEL VAN DIE PRODUSENT, GROOT- EN KLEINHANDEL EN AKSYNS IN DIE VERBRUIKERSRAND T O V DIE AANBEVOLE KLEINHANDELPRYS VAN BRANDEWYN



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TABEL 1 : Produksie volgens KWV-distrik

TABLE 1 : Production of KWV district

KWV-distrik/district	% van totale produksie/% of total production					
	1971	1976	1977	1978	1979	1980
Paarl	13,4	14,9	14,2	14,1	14,6	14,2
Worcester	25,1	25,2	25,3	23,4	24,7	23,3
Stellenbosch	15,7	12,7	10,1	12,9	12,8	11,9
Malmesbury	17,4	7,7	7,9	8,6	6,5	6,9
Oranjerivier/Orange River	7,4*	7,3	7,9	8,7	8,6	9,3
Robertson	16,6	15,4	15,9	14,3	15,8	15,9
Olifantsrivier/Olifants River ...	**	12,0	12,9	13,0	12,1	13,8
Montagu	4,4	4,8	5,8	5,0	4,9	4,7
TOTAAL	100,0	100,0	100,0	100,0	100,0	100,0

* Gedurende 1971 was Ceres en Tulbagh se bydrae 7,4 %, Oranjerivier ingeslote

During 1971 the contribution of Ceres and Tulbagh, including the Orange River area, was 7,4 %

** Ingesluit by Malmesbury/Included in Malmesbury

TABEL 2 : Produksie en waarde van die wynoes, 1970-1981

TABLE 2 : Production and value of the wine crop, 1970-1981

Jaar/Year	Produksie/ Production (hl m)	Waarde van die wynoes/ Value of the wine crop (R m)
1970	4,24	34,6
1971	5,53	53,1
1972	5,35	57,1
1973	5,39	61,8
1974	5,04	71,2
1975	5,89	87,3
1976	5,97	101,0
1977	4,82	93,2
1978	6,06	105,5
1979	6,30	120,7
1980	7,07	148,5
1981	6,44*	152,4*
1982	6,80**	

* Voorlopig/Preliminary

** KWV-beraming/estimate

TABEL 3 : Binnelandse verbruik van produkte van die wynstok, 1970-1980

TABLE 3 : Domestic consumption of wine products, 1970-1980

Jaar/Year	Natuurlike wyn/ Natural wine (hl m)	Versterkte wyn/ Fortified wine ('000 hl)	Brandewyn/ Brandy (m massa liter) (m bulk litre)	Witspiritualieë/ White spirits ('000 hl AA)
1970	1,603	536	32,4	68,6
1971	1,914	532	30,3	47,6
1972	1,931	572	28,9	41,7
1973	1,982	683	33,0	50,2
1974	1,948	764	37,0	57,4
1975	1,859	717	37,5	58,2
1976	1,840	716	38,5	52,7
1977	1,719	661	36,0	39,8
1978	1,733	603	36,5	29,2
1979	1,864	552	36,5	38,4
1980	2,067	540	36,4	53,0
1981*	2,351	554	37,5	61,9

* Voorlopig/Preliminary

TABEL 4 : Uitvoere van wyn en spiritualieë, 1973-1980

TABLE 4 : Exports of wine and spirituous liquor, 1973-1980

(R'000)

Item/Jaar Item/Year	1973	1975	1976	1977	1978	1979	1980
Natuurlike wyn/ Natural wine	1 350	992	1 262	1 560	2 821	4 051	6 158
Versterkte wyn/ Fortified wine	2 418	3 630	3 806	2 325	2 414	2 094	2 704
Vonkelwyn/Sparkling wine	176	158	135	115	205	293	337
Brandewyn/Brandy	1 658	1 798	2 369	1 915	2 285	3 757	7 096
Totale uitvoer/ Total export	5 602	6 578	7 572	5 915	7 725	10 195	16 297

Geen uitvoerstatistiek word volgens land van bestemming gepubliseer nie

No export statistics are published by country of destination

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TABEL 5 : Produsenteprysverloop

TABLE 5 : Producer prices

	1975	1976		1977		1978		1979		1980		1981		1975-1981 groei-koers/ growth rate p j/p a
	R/c	R/c	%	R/c	%	R/c	%	R/c	%	R/c	%	R/c	%	%
Goeiewyn/Good wine (R/hl)	18,20	19,25	5,77	20,80	8,05	22,00	5,77	24,67	12,1	27,63	12,0	30,39	10,0	8,9
Voorskot distilleerwynprys/ Distilling wine (advance price to producers) (R/hl)	9,87	10,71	8,54	12,01	11,22	11,99	-0,2	13,67	14,0	13,01	-4,84	14,45	11,1	6,6
Distilleerwynprys/ Distilling wine (R/hl)	12,65	14,00	10,67	15,60	11,43	16,77	7,50	18,80	12,1	21,36	13,62	23,50	10,0	10,9
Kostestygings/ Production cost increases			16,45		11,30		11,16		13,80		17,60		11,49	13,6
Produksiemiddele stygings[1]/Farming requisits increase[1]			15,60		13,00		14,00		21,00		16,00		5,26	13,9
Nasionale inflasie/ Inflation rate			11,10		11,00		11,20		13,00		13,80		15,0[2]	12,5

1) Dept Landbou en Visserye/Dept Agriculture and Fisheries

2) BEO Universiteit van Stellenbosch/BEO University of Stellenbosch