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AGRICULTURAL OUTLOOK CONFERENCE 1984

PRESENTED BY -

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AGRICULTURAL OUTLOOK 1984

WINE

1. INTRODUCTION

The 1982/83 production was an exceptional year in every aspect for viticulture. Rainfall was distributed throughout the growing season. Together with a relative desease free season it resulted in a new record wine crop of approximately 9,1 million hectolitres at 10 % A/V. Compared to the estimated average long term crop of 8,6 million hectolitres at 10 % A/V, the crop was 5,8 % above average.

2. PRODUCTION

2.1 Production of wine

hl @ 10 % A/V

Year	Good wine	Distilling wine	Total wine
1982	4 444 741	4 504 645	8 949 386
1983 *	4 000 000	5 103 000	9 103 000
1984 **	4 000 000	5 000 000	9 000 000

*Preliminary
**Estimate

2.2 Gross value of the wine crop

Rand

Year	Total wine
1982	213 011 484
1983 *	217 500 000
1984 **	223 500 000

* Preliminary
** Estimate

2.3 Production and gross value of the wine crop

The 1982 crop was about 7,2 % above the projected average crop of 8,3 million hectolitres at 10 % A/V. The 1983 wine crop is a new record level of approximately 9,1 million hl @ 10 % A/V.

Preliminary estimates for the 1984 wine crop indicate that it could be of the same size as the 1983 wine crop if climatic and desease free conditions which prevailed up to November continue.

After a period of reasonably strong growth in production since 1976, as a result of quota extensions, expectations are that growth in production will level off due to the limitations imposed by production quotas and will stabilise at a growth rate of 0,5 % per annum for the medium term.

The strong downward trend in the demand for wine products during the period 1975 to 1979 resulted in a disturbance of the equilibrium between production and demand which prevailed from 1960 to 1975. This resulted in the accumulation of stocks by KWV, for which there is no local market during this transitional stage. Together with a surplus alcohol on the world market, a high demand for capital to create storing facilities in experienced.

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 result in a higher yield per hectare and a consequented increase in production.

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

The monetary value of the wine crop showed an annual growth of 16,4 % since 1970 and amounted to approximately R213 million during 1982.

The larger wine crop, with conservative price increases of 9,6 % for good wine and 4,7 % for distilling wine as well as an increase in the declared surplus, from 29,5 % in 1982 to 45,8 % in 1983, may result in a gross value for 1983 of R217 million. This represents an increase in gross value of 2 %.

It is estimated that the gross value of the 1984 wine crop may only increase with about 2,8 %, due to poor economic conditions which is expected to result in an estimated decrease in the demand for wine products.

2.4 <u>Potential production</u>

Figure 2 of the statistical appendix shows the production of wine since 1960 to 1983 and a projection of the potential production up to 1996 based on average crops in terms of production per hectare.

The production trend, although steadily levelling off because of quota restrictions, will continue a modest upward trend until 1996 with a projected average crop of 10,1 million hectolitres at 10 % A/V.

3. LOCAL AND EXPORT MARKETS

3.1 Local market

Year	Natural wine * (hl)	Fortified wine (hl)	Brandy (Litres AA)	Wine Spirits (Litres AA)
1982	2 419 140	503 454	15 350 500	3 283 828
1983 **	2 575 000	461 000	14 788 000	2 747 000
1984 ***	2 738 000	434 000	15 556 000	2 701 000

* Including sparkling wine
** Preliminary
*** Projection

3.2 Export market

bulk hl

Year	Natural wine *	Fortified wine	Brandy	Wine Spirits
1983 **	38 173	32 628	13 341	615
1984 ***	38 227	30 899	12 648	970

* Including sparkling wine
** Preleiminary
*** Projection

3.3 Substitution

From an analysis of the spirit segment of the alcohol market and more specifically the role of brandy in the segment, it is clear that imported spirits, including whisky, is receiving increased protection against brandy, the reason being because custom tariffs can only be increased with a simultaneous increase in excise on brandy. This has various results.

- The excise duty on brandy was increased by 792 % since 1947 whilst the increase in customs duty increased with only 240 %.

- The tariff benefit of 230 % experienced by brandy in 1947, declined progressively with every increase to a mere 25,8 % in 1981.

- The tariff benefit is at present insufficient to prevent the undermining of brandy sales through price cutting of imported spirits which is marketed under surplus and subsidised conditions.
- Whisky imports increased progressively since 1968 to more than 12 % annually in 1980 and exceeded 15 % in 1982.
- Imported spirits (mainly whisky) gained market share from 8,92 % in 1971 to more than 20 % in 1982 at the expense of brandy.
- As a result of this the market share of brandy dropped from 52,2 % in 1971 to about 40 % in 1982.

3.4 Demand for wine products

3.4.1 Sales on the local market

Sales of wine products for 1982 and estimates for 1983 and 1984 is shown above and also from 1970 to 1983 in table 3 of the statistical appendix.

3.4.1.1 Natural wine sales experienced a strong growth up to 1973 after which it declined to be only 7,7 % higher in 1977 than in 1970. This declining trend was checked in 1978 after which growth was experienced reaching 2,4 million hectolitres in 1982. This growth continued during the first half of 1983. Estimates for 1983 indicate total wine sales to be about 2,533 million hectolitres.

Projections for 1984 in which economic indicators play a major role and where the horisontal extention of the market is not taken into account, show increase in sales of up to 6,3 % to 2,693 million hectolitres.

3.4.1.2 Fortified wine sales experienced an annual growth rate of 9 % since 1970 up to 1974 after which it declined to 7 % increase in 1980 compared to 1970. During 1982 a decrease of 8,2 % was experienced to reach 503 454 hl. During 1983 the absence of real growth factors in the market lead to an estimated decline of 8,5 % to 461 000 hl. Preliminary estimates for 1984 indicate a continuation of this trend.

3.4.1.3 Brandy is of major importance to the wine farmer in terms of market share because this product represents about 80 % of total wine spirits. Brandy sales generates between 42 and 47 % of total income for the industry. It is of major concern to the industry that the market share of brandy declined from 52,2 % in 1970 to about 40 % in 1981; the per capita comsumption declined with 15,6 %; the sales of brandy stagnated from 1975 up to 1980 and only revived in 1981 to show a growth of nearly 8 %. This promising growth, however, was checked by a drastic increase in excise duty in August 1981. This increase resulted in a decline of 9,1 % during 1982 compared with the same period for the previous year. The estimated downturn in brandy sales for 1983 is about 3,6 % to 14,788 million litres AA.

Market conditions for 1984 is uncertain but it is expected that this market sector can recover and show a moderate growth.

3.4.1.4 Wine spirits (gin, wodka and liqueur): Total consumption of white spirits declined since 1975 with about 50 % to a mere 2,9 million litres AA during 1978. This market segment revived, however, and consumption for 1981 was 7,535 million litres AA. The market share of wine spirits in this segment was 58 % in 1981 but declined to about 48 % in 1983. As in the case of brandy, wine spirits is similarly effected by increases in excise duty. This market segment showed a decline for 1983 of about 1,2 %. During 1983 this market sector is likely to experience a further 14,5 % decline in sales. For 1984 a decrease of 1,7 % is expected.

3.4.2 Exports

South Africa exports wine to about 30 countries. The above table shows exports of different wine products and estimates for 1983 and 1984.

Present economic recessions of our export countries are impeding development of this market. The bulk of wine products is sold as lower priced wine where the Republic find it difficult to compete with subsidised and protected wine products of other wine producing countries.

Over and above high prescribed minimum imported prices in the EEC, natural wine exports to other countries are subsidised with up to R13 per hl at 10 % and fortified wines op to R19,50 per hl at 10 %.

4. PRICES

4.1 Producer prices

R/hl @ 10 % A/V

	1982	1983	1984
Good wine	32,95	36,10	
Distilling wine - advance price	16,57	13,33	
Distilling wine - trade price	23,50	24,60	

* 1984 prices to be announced during middle January 1984

4.2 Consumer price

% Share

	1982	1983	1984
Natural wine:			
Producer	29,6	29,3	
Excise	0,0	0,0	
Wholesale and retail	70,4	70,7	
Total	100,0	100,0	
Fortified wine:			
Producer	30,5	30,7	
Excise	10,0	9,2	
Wholesale and retail	59,5	60,1	
Total	100,0	100,0	
Brandy:			
Producer	12,5	11,7	
Excise	38,5	37,0	
Wholesale & Retail	49,0	51,3	
Total	100,0	100,0	
White spirits:			
Producer	12,3	10,7	
Excise	44,9	40,7	
Wholesale & Retail	42,8	48,6	
Total	100,0	100,0	

* 1984 prices to be announced during middle January '84

4.3 Prices

4.3.1 Producer prices

Producer prices, as fixed annually, are shown in the above table for 1982 and 1983.

As a result of the longterm 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 exceeds consumption accordingly calls for careful investigation and cautious action in order not to hamper the longterm 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 demand it was necessary to follow a bridging policy in relation to producer prices.

For the period 1975 - 1983 producer prices were adjusted

- for good wine with about 10,2 % per annum
- for distilling wine (advance price to producers) with 5,7 % per annum
- for distilling wine (trade) with 10,6 % per annum
- whilst production cost for wine grapes increased with 14,5 % per annum and
- the combined index for farming requisits increased with 15,2 % per annum and the consumer price index with 12,8 % per annum.

During the strong upward trend in 1982 an attemp was made to eliminate the backlog, resulting from the rapid increases in production cost and the producers' price for good wine was increased by 20 % and that of distilling wine with 15 %. As a result of the poor economic climate a conservative price policy was followed during 1983 with an increase of 9,6 % in the price of good wine and 4,7 % in the price of distilling wine.

4.3.2 Consumer prices

Ties are prohibited by the Liquor Act, 1977 between wholesaler and retailer and consumer prices for the same product vary according to situation, type of outlet and competition between retailers.

In 4.2 above the price combination of some of the lower priced wines is shown for 1982 and 1983.

4.3.3 Export prices

Wine products are exported to about 30 countries which makes it difficult to give all the prices on the export market. The value of exports is given in the statistical appendix.

5. FUTURE OF THE WINE INDUSTRY

With a production of approximately 9 million hectolitres wine South Africa is at present the eighth biggest wine producing country in the world, although relatively small compared to France and Italy. South Africa produces 2,5 % of world production and has 1,1 % of total acreage under vines of the world.

The gross income of the wine industry amounted to R213 million in 1982 whilst the government received more than R163 million in the form of excise duty. The consumer payed around R800 million for the 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.

As a single farming enterpirse viticulture is responsible for 12,9 % of total horticultural production and is the third largest industry after the total decidious fruit and vegetable industry.

Wine consumption in SA is still on the relatively low level of a litre per capita which is 25th on the list for wine consuming countries. Having regard to France with 90 litres per capita, Portugal 77, Italy 74 and Argentine 75, it is evident that the wine industry has a bright future, especially when considering the expansion potential of the natural wine market in the northern provinces.

Preliminary projections of total consumption of wine products, indicates that consumption may exceed 13 million hectolitres by the year 2000, which would mean a longterm growth rate of 4,4 % per annum.

The share of good wine in total wine consumption is estimated at 61 % compared to 44 % at present. Taking into account the distilling wine produced in the production process of good wine only about 20 %

of total production should derive from distilling wine cultivars as such. According to this, a high priority must accordingly be given to a structural change towards quality cultivars for the production of good wine.

A sharp decline in consumption since 1975, caused a disturbance in the balance between production and consumption which prevailed from 1960 to 1975. If the expected levelling off in production as a result of quota restrictions should come about, balance between production and consumption will be restored around 1992.

In spite of present problems with extremely high stocks which is of a medium term nature, the larger term prospects is excellent given sound planning for the industry.

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D3/D24
14 November 1983

STATISTICAL APPENDIX

WINE

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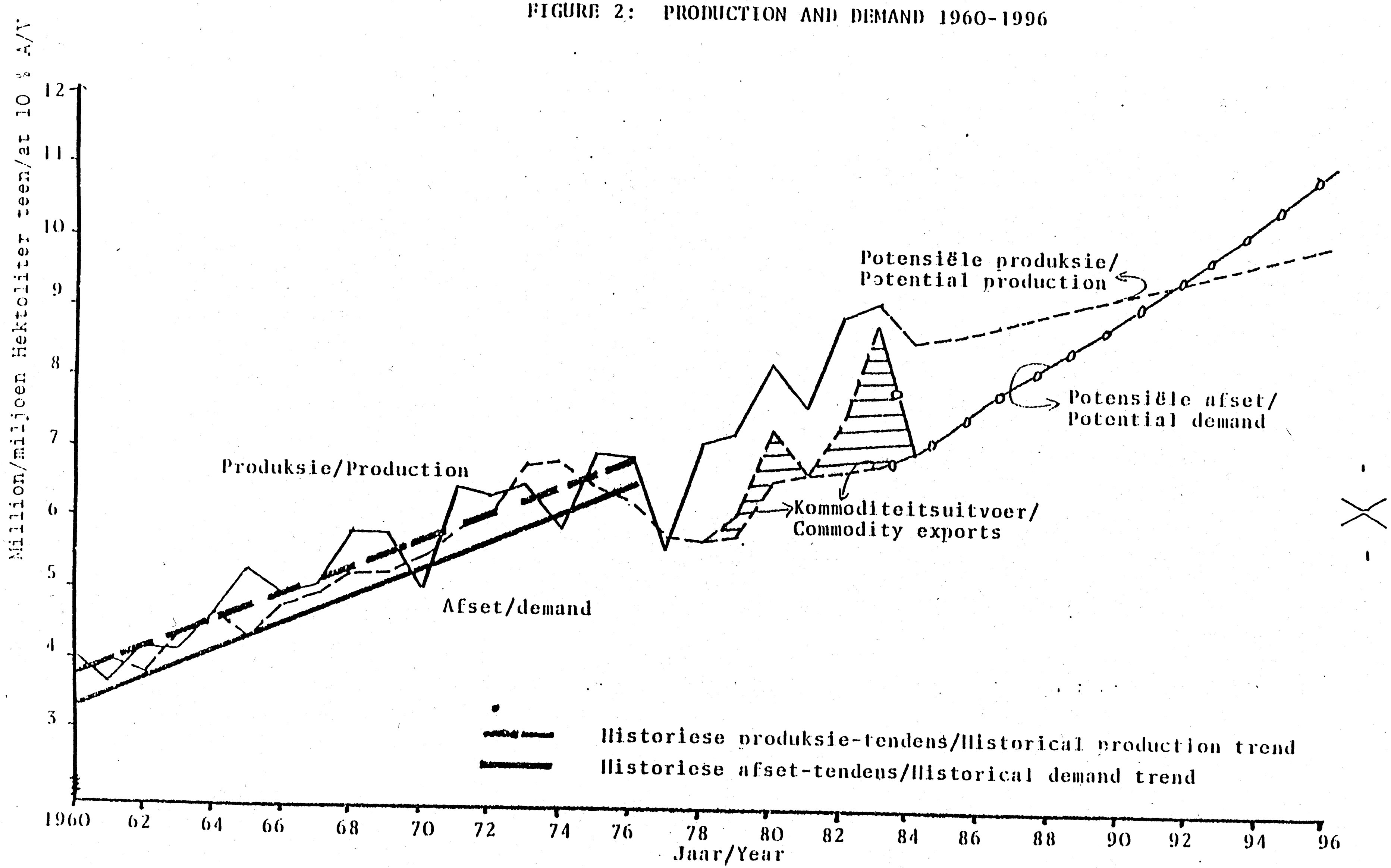
FIGUUR 1 : WINGERDVERSPREIDING 1971 EN 1981 (% VAN TOTAAL)

FIGURE 1 : VINEYARD DISTRIBUTION 1971 AND 1981 (% OF TOTAL)

1971	DISTRIK/DISTRICT	1981
21,1 %	PAARL	21,2 %
16,4 %	WORCESTER	19,7 %
18,4 %	STELLENBOSCH	15,9 %
20,2 %	MALMESBURY	14,3 %
INGESLUIT BY CERES EN TULBAGH INCLUDED IN CERES AND TULBAGH	ORANJERIVIER	10,1 %
8,7 %	ROBERTSON	8,5 %
INGESLUIT BY MALMESBURY INCLUDED IN MALMESBURY	OLIFANTSRIVIER	7,3 %
4,4 %	MONTAGU	3,0 %

FIGUUR 2: PRODUKSIE EN AFSET 1960-1996

FIGURE 2: PRODUCTION AND DEMAND 1960-1996



TABEL 1 : PRODUKSIE VOLGENS KWV-DISTRIK

TABLE 1 : PRODUCTION OF KWV DISTRICT

KWV-distrik/district	% van totale produksie / % of total production						
	1976	1977	1978	1979	1980	1981	1982
Paarl	14,9	14,2	14,1	14,6	14,2	16,4	15,1
Worcester	25,2	25,3	23,4	24,7	23,3	23,9	22,5
Stellenbosch	12,7	10,1	12,9	12,8	11,9	12,6	13,7
Malmesbury	7,7	7,9	8,6	6,5	6,9	6,0	7,7
Oranjerivier/Orange River ...	7,3	7,9	8,7	8,6	9,3	9,1	9,1
Robertson	15,4	15,9	14,3	15,8	15,9	13,1	14,3
Olifantsrivier/Olifants River .	12,0	12,9	13,0	12,1	13,8	14,9	13,4
Montagu	4,8	5,8	5,0	4,9	4,7	4,0	4,2
TOTAAL/TOTAL	100,0	100,0	100,0	100,0	100,0	100,0	100,0

TABEL 2 : PRODUKSIE EN WAARDE VAN DIE WYNOES, 1970-1982

TABLE 2 : PRODUCTION AND VALUE OF THE WINE CROP, 1970-1982

Jaar/Year	Produksie/ Production (hℓ m)	Waarde van die wynoes/ Value of the wine crop (R m)
1970	5,07	34,6
1971	6,46	53,1
1972	6,34	57,1
1973	6,53	61,8
1974	5,90	71,2
1975	6,94	87,3
1976	6,93	101,0
1977	5,54	93,2
1978	7,16	105,5
1979	7,24	120,7
1980	8,24	148,5
1981	7,59	160,7
1982	8,93	213,0
1983	9,10 *	217,5
1984	9,00 **	223,5

* Voorlopig / Preliminary

** KWV beraming / estimate

TABEL 3 : BINNELANDSE VERBRUIK VAN PRODUKTE VAN DIE WYNSTOK, 1970-1982

TABLE 3 : DOMESTIC CONSUMPTION OF WINE PRODUCTS, 1970-1982

Jaar/Year	Natuurlike wyn/ Natural wine * (hℓ m)	Versterkte wyn/ Fortified wine ('000 hℓ)	Brandewyn Brandy (m liter AA)	Witspiritualieë/ White spirits (m liter AA)
1970	1,623	536	12,375	1,304
1971	1,936	532	11,417	1,680
1972	1,953	572	10,934	3,482
1973	2,007	683	12,235	4,334
1974	1,976	764	14,863	1,452
1975	1,887	717	16,122	0,295
1976	1,867	716	16,545	0,289
1977	1,748	661	15,496	0,697
1978	1,762	603	15,688	0,593
1979	1,894	552	15,681	0,708
1980	2,102	540	15,636	2,101
1981	2,330	549	16,882	4,351
1982	2,419	503	15,350	3,283
1983 **	2,575	461	14,788	2,747

* Ingeslote vonkelwyn / Included sparkling wine

** Beraam / Projection

TABEL 4 : UITVOERE VAN WYN EN SPIRITUALIEë, 1971-1982

TABLE 4 : EXPORTS OF WINE AND SPIRITUOUS LIQUOR, 1971-1982

R'000

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Natuurlike wyn/ Natural wine ...	874	1 350	1 717	992	1 262	1 560	2 821	4 051	6 158	5 919	6 979
Versterkte wyn/ Fortified wine ...	2 252	2 418	3 963	3 630	3 806	2 325	2 414	2 094	2 704	1 537	2 390
Vonkelwyn/ Sparkling wine ...	224	176	228	158	135	115	205	293	337	505	453
Brandewyn/ Brandy ...	1 319	1 658	1 877	1 798	2 369	1 915	2 285	3 757	7 096	2 679	3 421
Witspiritualieë/ White spirits ...	31	42	39	67	63	193	203	237	327	173	323
Ander/ Other ...	4	18	21	29	29	50	166	125	105	103	1 963
Totale uitvoere/ Total export ...	4 704	5 662	7 845	6 674	7 664	6 158	8 094	10 557	16 727	10 916	15 529

TABEL 5 : DIE PERSENTUELE AANDEEL VAN DIE PRODUSENT, AKSYNS EN GROOT- EN KLEINHANDEL IN DIE VERBRUIKERSRAAD VAN WYNPRODUKTE

TABLE 5 : THE PERCENTUAL SHARE OF THE PRODUCER, EXCISE DUTY, WHOLESALE AND RETAIL IN THE CONSUMERS' RAND

	Persentuele aandeel in die verbruikersrand/Percentual share in the consumers' rand												
	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
1 Natuurlike wyn/Natural wine													
Produsenteprys/producers' price ..	27,2	28,4	27,6	29,2	28,4	27,3	24,8	22,0	24,7	25,6	27,1	29,6	29,3
Aksyns/Excise duty	3,3	3,1	3,0	2,6	2,1	1,9	8,3	4,0	3,0	2,8	2,7	-	-
Groot- en kleinhandel/ Wholesale and retail	69,5	68,5	69,4	68,2	69,5	70,8	66,9	74,0	72,3	71,6	70,2	70,4	70,7
Totaal/Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
2 Versterkte wyn/Fortified wine													
Produsenteprys/producers' price ..	26,0	25,1	24,4	26,3	27,0	25,5	24,5	23,8	23,8	24,7	26,0	30,5	30,7
Aksyns/Excise duty	19,6	17,8	17,3	15,4	15,0	15,0	14,7	13,4	11,5	10,6	9,8	10,0	9,2
Groot- en kleinhandel/ Wholesale and retail	54,4	57,1	58,3	58,3	58,0	59,5	60,8	62,8	64,7	64,7	64,2	59,5	60,1
Totaal/Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
3 Brandewyn/Brandy													
Produsenteprys/producers' price ..	8,9	9,0	9,0	10,2	10,3	10,2	10,4	10,7	11,5	12,4	12,3	12,5	11,7
Aksyns/Excise duty	49,2	48,9	47,8	44,4	42,7	43,9	45,7	43,9	42,9	40,6	43,8	38,5	37,0
Groot- en kleinhandel/ Wholesale and retail	41,9	42,1	43,2	45,4	47,0	45,9	43,9	45,4	45,6	47,0	43,9	49,0	51,3
Totaal/Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
4 Witspiritualieë/white spirits													
Produsenteprys/producers' price ..	8,7	8,7	8,5	9,4	11,2	10,1	13,1	13,0	11,4	12,5	11,9	12,3	10,7
Aksyns/Excise duty	38,0	37,7	36,9	35,5	39,6	49,0	49,5	46,7	46,4	45,0	47,7	44,9	40,7
Groot- en kleinhandel/ Wholesale and retail	53,3	53,6	54,6	55,1	49,2	40,9	37,4	40,3	42,2	42,5	40,4	42,8	48,6
Totaal/Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

TABEL 6: PRODUSENTEPRYSVERLOOP
TABLE 6: PRODUCER PRICES

R/hl @ 10 % A/V

	1973		1974		1975		1976		1977		1978		1979		1980		1981		1982		1983	
	R	%	R	%	R	%	R	%	R	%	R	%	R	%	R	%	R	%	R	%	R	%
Goelewyn/ Good wine	11,00	0,27	13,88	26,18	16,55	19,24	17,42	5,26	18,77	7,75	19,81	5,54	22,22	12,17	24,84	11,79	27,33	10,02	32,95	20,56	36,10	9,86
Voorskot distilleerwynprys/Distilling wine (Advance price to producer)	6,38	2,90	7,39	15,83	8,58	16,10	9,31	8,51	10,45	12,24	10,43	-0,19	11,89	14,00	11,31	-4,88	12,56	11,05	16,57	31,93	13,33	-19,56
Distilleerwynprys/ Distilling wine	7,65	0,00	8,80	15,03	11,00	25,00	12,17	10,64	13,57	11,50	14,58	7,44	16,35	12,14	18,57	13,58	20,43	10,02	23,50	15,01	24,60	4,68
Kostestygings/ Production cost increases...								16,5		11,3		11,6		13,8		17,6		11,5		18,4		15,6*
Produksiemiddele stygings 1)/ Farming requisits increase								15,6		12,7		13,3		14,9		22,9		11,4		13,7		17,4*
Nasionale inflasiekoers/ National inflation rate								13,5		11,1		10,9		13,2		13,8		15,2		14,7		10,1*

* Beraam/Preliminary