# Tides are turning for SA's wine industry, despite challenges

The South African wine and brandy industry is recovering from the pandemic, despite facing challenges. This is according to the latest Outlook Report 2023-2032 from the Bureau for Food and Agricultural Policy (BFAP).

Source: wirestock via Freepik

The area of land used to grow wine grapes dipped below 90,000 hectares in 2022 for the first time since 1998. This is due to a number of factors, including low-profit margins for producers. Only 12% of producers are profitable, while 49% are breaking even and 39% are making a loss. However, the decline in area is expected to bottom out by 2025, as prices rise in response to reduced supply.

Wine stocks increased significantly in 2020 and 2021 due to the Covid-19 pandemic, which led to alcohol bans and disruptions in trade. However, stock levels have since fallen significantly in 2022 to an acceptable level. In an effort to clear stocks and rebalance the market, a much larger-than-desired portion of wine was exported in bulk format in 2022, including wine for other purposes.

## Market constraints

While 2022 saw domestic consumption recover to levels similar to 2017, the market remains constrained from a value perspective since consumers are under pressure to manage their spending. Looking ahead, domestic wine sales are expected to remain largely dominated by low and entry-level-priced wines, with some movement towards higher-value categories.

Many challenges hampered wine sales over the past year, including the high inflation globally, the energy crisis that resulted from the conflict in Ukraine, and the continued disruption of global supply chains. The South African industry is hamstrung by factors such as loadshedding, high input costs, limited government support and inefficient port operations, and must compete in an uncertain global market.

Furthermore, the demand response of consumers in a post-pandemic inflationary environment brings further heterogeneity to wine consumption behaviour across the globe.

Trade with Europe – the UK, the EU and non-EU countries – is likely to decline as production volumes are projected to contract, causing higher prices domestically. Both 2021 and 2022 also generated record export revenue in rand terms, largely the result of exchange rate movements and decisive action to reduce stock levels.

## SA wine industry global presence

"Our focus for the past few years and going forward is to drive premiumisation of South African wine and to ensure that our wine becomes recognised globally as premium quality, exciting and distinctive," says Siobhan Thompson, Wines of South Africa CEO.

The growth in the premium categories signifies an important positive trend in the domestic market, with a willingness to pay more for wine. While premium-priced wines made up 17% of the wine categorised in 2022, it's projected that this proportion will rise to 20% of domestic consumption by 2032.

Given the higher projected prices due to a possible production volume decline and thus smaller volumes available for export, the industry needs to strongly focus on extracting higher returns per unit of sales.

The same exchange rate movements that favoured export returns in 2021 and 2022, however, also exacerbated increases in input costs in grape production and the industry continued to uproot more vineyards than it established during the year.

Unless farm gate returns improve, wine grape producers who aren't vertically integrated into the value chain will continue to either uproot without replacement, replace ageing vineyards with higher-yielding cultivars and/or investigate opportunities to vertically integrate beyond the farm gate.

"Although this forecast still predicts a challenging time ahead for wine and brandy producers, this does also present an opportunity, with a call on all producers to take note and plan accordingly," says Rico Basson, CEO of the newly formed industry body South Africa Wine. "The tides are turning, and things are slowly looking up for our industry."

"While producers may be more cautious to react to price stimuli overnight, given the number of challenges they have faced in the recent years, and on the back of many structural challenges over the past two decades, the recovery of wine prices should lead to higher grape prices and therefore stimulate the reinvestment in new vineyards," Dr Tracy Davids from BFAP notes.

"As stock levels are projected to drop below historic longer-term averages, the increase in nominal prices, together with the increase in farm-level risks in some of the fruit industries, could instigate a selective swing back towards wine grapes."

## Wine business and investments

"The South African wine and brandy industry now needs to use this forecast as an opportunity to unlock greater value for the industry with the right product," says Basson. "Now is the time to identify long-term business partners, attract investment, prioritise improved bottled and bulk wine prices, and sustain and build on our repositioning of premiumisation, which should benefit the whole wine and brandy value chain," Basson concluded.

Dr Kandas Cloete from BFAP agrees. "The sustainability of the industry has broad-based socio-economic benefits. The wine industry contributes considerably to the Western Cape economy and remains one of the cornerstones of the horticultural trade.

"On the social side, it also has some of the biggest multipliers in the agricultural sector with about 10 jobs off-farm for every one job on-farm. Consequently, incentivising the producers of the 90 000 hectares of wine grapes to remain operational would sustainably support over 270,000 jobs and over a million dependents."