12. South Africa

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Until 1997, the marketing of wine, like most sectors of agriculture in South Africa, was extensively regulated by statute. The 1924 Wine and Brandy Control Act pioneered statutory control of agricultural markets. However, whereas most of the 22 marketing schemes introduced under the Marketing Acts of 1937 and 1968 brought markets under state control boards, wine was regulated by the industry's own institutions. The state also provided few direct subsidies. The industry did benefit, though, from price support and import protection, which enabled it to pass costs on to consumers, and from favourable excise taxes, which favoured the distilling of grapes into spirits at the expense of sugar producers.

Like the rest of the agricultural sector of South Africa, the wine industry has been extensively deregulated in two phases over the past 20 years. The origins of the first phase can be found in the shift in monetary policy in the late 1970s and fiscal strategies in the 1980s, which undermined the complex structure of protection, price support and cross-subsidies on which the system of agricultural support was founded. Before 1994, the tax regime was changed, and a start was made to land reform, and to labour legislation and trade policies. The major change was the extensive deregulation of state agricultural marketing schemes within the framework of the Marketing Act of 1968 (Vink and Kassier, 1991; Francis and Williams, 1993; Vink, 1993, 2000; Kirsten and Van Zyl, 1996; Williams et al., 1998). One consequence was that statutory intervention lasted longer in the wine and sugar industries, which were not covered by the Marketing Act.

Then the government of national unity, elected in 1994, ushered in policies across the entire range of government activities. In agriculture, some tended to follow the direction of changes already under way (Williams et al., 1998; Hall and Williams, 2000). Major direct policy changes had to wait until after the National Party, and its Minister of Agriculture, Kraai van Niekerk, withdrew from the government in 1996. New policy initiatives included the land reform programme; laws protecting agricultural workers and labour tenants against eviction and extending their rights; liberalization of international trade and

agricultural marketing; the Marketing of Agricultural Products Act, No. 47 of 1996; a new rural development policy; and institutional restructuring in the public sector. The purpose of the reforms was to correct the injustices of past policy, principally through land reform, to direct agriculture towards a less capital-intensive growth path, and to enhance its international competitiveness. The wine industry did not escape these changes. Future developments in the wine industry will be driven by policy reforms as well as by changes in domestic and global markets.

This chapter examines how the political, social and economic changes in South Africa affect the situation and future of wine farmers and those involved in the further processing, distribution and marketing of wine. The South African industry long shared characteristics with Australia, as both were predominantly producers of distilling and fortified wines for the first half of the twentieth century and then switched, initially to the production of table wines. Table wine exceeded fortified wine production for the first time in South Africa in 1953 and in Australia in 1968 (KWV, 1963, pp. 52–53; Osmond and Anderson, 1998, p. 48).

However, South Africa differs today from its competitors among 'New World' wine producers, including Australia, New Zealand and Chile, which all export a high proportion of their vintage: 41, 36 and 50 per cent respectively for 2001 compared with South Africa's 15 per cent (and Argentina's 7 per cent – see Anderson and Norman, 2003). Historically South Africa produced large quantities of cheap wine for the domestic markets, a legacy they share with Languedoc-Roussillon. This pattern of demand and supply constrains the capacity to adapt to a more differentiated international demand. South African producers thus face a considerable challenge in the wake of changes in global market conditions and in the South African policy environment if the country is to become and remain a force in global wine markets.

HISTORICAL LEGACIES

Bringing the Surplus under Control

Van Zyl (1993, p. 33) quotes a wine farmer as warning in 1918, at the beginning of a boom period for the industry, that he was 'bang dat 't te lekker gaan. Die surplus sal kom want men plant agter die prys aan' (he was 'frightened that it was going too well. The surplus will come [back] because one plants after the price'). These words summarize the legacy that the South African industry must escape if it is to succeed in the global marketplace, namely, to avoid excess production of poor-quality wine. Farmers took steps to address the problem, creating institutions, and specifically the Koöperatieve

Wijnbouers Vereniging van Zuid-Afrika (KWV), to manage the problem, but they never fully succeeded despite ever more sophisticated attempts to manipulate the market. Industry insiders persisted with arrangements such as guaranteed markets and fixed prices in periods of shortage and surplus as if farmers would voluntarily forego increased production in the boom years and not continue to expect assured markets and guaranteed prices when supply rose again ahead of demand.

The industry first reached maturity as a slave economy during and after the Napoleonic Wars, although the first vines had been planted and the first wine was made in the mid-seventeenth century. The number of vines planted increased from 15 million in 1808–10 to 32 million in 1823–25 (compared to 314 million vines in 2000). Between 1810 and the 1820s wine was the most important export commodity from the Cape, responsible for some 90 per cent of the Colony's exports. Under imperial preference policies, the duties payable on Cape wines were one-third of those levied on Iberian wines, their main competitor, and Britain became the largest market for the industry (Keegan, 1996).

When imperial preference was abolished in 1825, exports to Britain fell by 75 per cent, and the industry plunged into depression. Despite continued complaints about the quality of the wine, however, the industry revived sufficiently to export wine to the value of more than £120 000 annually to Britain in the late 1850s (Van Zyl, 1993). Then the industry had to face a new series of challenges during the second half of the nineteenth century. The 1860 trade treaty between Britain and France meant that by 1861 South Africa's wine exports to Britain had dropped to £8000. Then followed oidium and other diseases, and from 1885 the spread of phylloxera (Perold, 1936). Recovery from the ravages of phylloxera was slow, but local consumption did not rise to meet the expanding supply.

Farmers made several attempts to cooperate in the face of disaster. However, De Zuid-Afrikaanschse Wijnbouwersvereeniging (The SA Winemakers' Association) in Paarl in 1877 and the Paarlberg Wyn- en Brandewynmaatskappy Bpk (The Paarlberg Wine and Brandy Co. Ltd) in 1885, failed to survive more than a few years. In this period wine (and wheat) farmers organized politically against excise taxes to defend their economic interests (Giliomee, 1987). In 1905, a Committee of Inquiry reported that 'Large stocks held by producers and merchants are practically unsaleable, or saleable only in small quantities at unremunerative prices' (Cape of Good Hope, 1905). The government provided loans to finance the creation, under the Companies Act, of nine cooperative cellars to improve the quality of Cape wines (Malherbe, 1932, p. 9; Botha, 1966). In 1907, the Cape Wine Farmers and Wine Merchants Association (CFWWMA) was formed, with Charles Kohler as President. On 14 April 1909, a mass meeting of wine farmers

protested against the excise tax. The Prime Minister, John Merriman, rejected these demands, blaming overproduction by the farmers for their plight (Kohler, 1946, pp. 74–6).

In 1913, the price for wine rose from £6 to £9 per leaguer (= 127 imperial gallons = 5.6 hectolitres). When the ostrich boom collapsed that year, farmers in the inland districts turned their irrigated fields from lucerne to vines. By 1918, there were 87 million vines, an increase of 25 per cent over seven years. Farmers had to sell their wine at the close of the season for whatever prices they could get in order to make space for the next vintage. In 1916 the South African government announced plans to increase excise duties. When the customary representations to the government failed to produce results, plans for a congress of wine farmers gained momentum. Kohler put forward plans for a cooperative of wine and brandy farmers, which would regulate the prices at which vine products were sold to the trade (merchants and manufacturers) by controlling the supply of grapes and wine.

KWV was initiated as a cooperative in 1916 and registered as a company in 1918. Its members had to sell all their wine through KWV and contribute a levy of 10 per cent on their sales. KWV would declare an annual 'surplus', which it would remove from the market. Some 90 per cent of the wine farmers in the Cape signed the constitution of KWV by the end of 1917. They insisted that they should not be prevented from planting more vines; Kohler realized that this would exacerbate the 'hideous nightmare' of surplus production (Kohler, 1946).

A few Stellenbosch farmers and most of the Constantia farmers refused to join. They argued that they had no need for such an institution, as they were producing a superior quality wine. Distillers and merchants and so on were opposed to the scheme from the outset. Kohler used the threat that KWV would enter the trade in its own right to secure their cooperation. Originally, this took the form of a five-year contract, which was signed at the end of 1917 (that is, even before the formal founding of KWV). The merchants agreed that they would buy only from KWV. The two sides reached a 'gentleman's agreement' in 1918. The manufacturing wholesalers ('the Trade') would distil and store the surplus on behalf of KWV who, in return, would not 'compete with the established wine or spirit trade or distilling of manufacturing interests in Africa south of the equator' (Kohler, 1924, p. 21).

In 1920, prices of wine rose to £30 per leaguer and then collapsed. In 1921, KWV signed a new agreement with a group of merchants. Between 1921 and 1923, members received £3 per leaguer for distilling wine. Merchants paid £9 in 1921–22 and £6 in 1923. The difference represented the 'surplus' of two-thirds or one-half. By the end of 1923, KWV could no longer sustain its control of the market. Constantia farmers had, in court, won their claim not to pay a 'surplus contribution' on sales of 'good wine' (K.W.V. v. Cloete, 1922

AD). Merchants could buy wine directly from farmers below the minimum price but well above what farmers would receive through KWV. At the end of 1923, the merchants withdrew from the agreement (Kohler, 1946, pp. 93–8; Van Zyl, 1993, pp. 35–7, 42–3). KWV had no way out other than to resort to a scheme for compulsory cooperation.

Smuts, the Prime Minister, agreed to such a scheme as long as it had support from the National Party opposition (Van Zyl, 1993, pp. 46–8; Kenney, 1981, p. 76) and overrode objections from the Constantia farmers and the Trade. The Constantia farmers succeeding in excluding wine not sold for distilling ('good wine') from control. Membership of KWV, registered in 1923 as a cooperative, and payment of levies were not made compulsory. The manufacturing wholesalers objected that the Bill sought to exclude them. It conferred a monopoly that enabled KWV to charge an artificially high price 'for wines to enable them to pay their members for the portion of the crop which is not required, and which will then become their property at no cost to themselves' (Cloete, 1924, p. 3).

The Wine and Spirits Control Act 5 of 1924 provided that the KWV would fix a minimum price for the sale of any wine for distilling, and that sales could only be made 'through or with the consent of' KWV. KWV was required to supply wine only in wholesale quantities and at a uniform price to 'any bona fide distiller, wholesale trader or cooperative society' for sale anywhere in southern Africa. Brandy sold after 1 June 1928 had to contain at least 25 per cent brandy pot-stilled for three years. The failure of KWV's attempt to control the production and marketing of wine and brandy led the government to extend statutory powers to enable the KWV to do so – and thereby save the KWV from liquidation (Drew, 1937, p. 9). The 1924 Act laid the foundation on which the institutional structure and patterns of production of the industry were built for the following 73 years.

Good Wine and Brandy Wine

KWV fixed the price of distilling wine to the merchants at £7 18s. 9d. per leaguer (1s. 3d. per gallon) and kept it there between the wars. It set the initial surplus deduction at 40 per cent. Wine production doubled from 95 211 leaguers in 1924 to 202 444 leaguers in 1934 and continued to rise. The largest increases in planting took place in the interior, irrigated districts of Worcester, Robertson and Montagu (Drew, 1937, Tables 1, 2, 5, expanded in Swart, 1944, Tables 2, 3, 5). Up to 1928, consumption of wines and brandies increased. Brandy was temporarily kept off the market by pot-stilling. By declaring generous 'surplus contributions', KWV was able to expand its distilling capacity and financial reserves, on which it drew to sustain prices between 1931 and 1933. KWV argued determinedly against

the campaign for temperance that strongly influenced the 1928 Liquor Act. It wanted to expand the market by liberalizing liquor licences and the prohibition of sales to Africans and to extend to the Transvaal and Natal the *dop* system of providing free wine to farm workers (House of Assembly, 1926, pp. 733–70, 1054–69).

Imperial preference was re-established in 1919 and increased in 1924, opening access to the British market for the first time since 1861. In 1927, the KWV arranged to sell all its exports to the UK through Vine Products Ltd; they were mainly blended into 'British wine'. Brandy exports expanded to New Zealand and Canada. KWV fortified 'good wine', purchased from farmers, with surplus 'distilling wine' for export production. It was able to exclude merchants and farmers from the UK market for fortified wines because they had to pay the full price for distilling wine, which the KWV acquired and disposed of as part of the surplus. (C.C.W.E.S.A. v. K.W.V., *C.P.D.* 1934 and Drew, 1935–37, I, pp. 207–11; K.W.V. v. Bruwer 1936, *AD* 17 Aug. 1936). Exports increased from 26 104 bulk gallons in 1926 to 338 926 bulk gallons in 1929, and reached 2.2 million bulk gallons in 1939. However, exports did not keep pace with production and, over this period, only amounted to 51 per cent of the wine manufactured for export. The purchase of good wine for fortification helped to assure farmers of a sale and removed it from the domestic market, but it did so by incorporating it into accumulating stocks of fortified wine, which reached 11.5 million bulk gallons by the end of 1939 (Drew, 1937, Table 8; Swart, 1944, Table 9).

Domestic demand for good wine increased more slowly than production so that a rising share of the vintage had to be taken off the market as 'surplus' distilling wine. The fixed price paid to the producer for distilling wine was reduced from a peak of £5 0s. 6d. in 1928 to £3 3s. 6d. in 1932 and then increased slightly to reach £4 4s. 3½d. in 1939. The price paid by KWV and manufacturers for 'good wine' also fell from £7 7s. 0d. to £5 in 1939 and the gap between the two narrowed during the decade. Throughout the whole period, manufacturers had to pay a higher price for distilling wine than for 'good wine' (Drew, 1937, Table 2; Swart, 1944, Table 3). Most producers had little incentive to improve the quality of their wines and every reason to irrigate land, increase yields and stay with their tried and tested varietals. Production of quality table wines remained confined largely to Constantia, Stellenbosch and Paarl (Perold, 1936).

From 1929, the directors of KWV warned their members that continuation of surplus production would lead to a fall in producer prices. In 1931, they set up the first of a series of committees, and supported a bill in parliament, which sought to produce a scheme for discouraging surplus production. They all ran up against conflicts of interest between the established districts of Paarl and Stellenbosch and the expanding and irrigated districts of Worcester, Robertson

and Montagu (State Archive Depository, K404; Drew, 1935–37, pp. 102, 179–84, 198–202; House of Assembly, 1932, pp. 3794–829) .

The 1934 Commission on Co-operatives and Credit argued that the KWV's minimum pricing policies had encouraged overproduction and discouraged quality, and objected to its refusal to discount the price of spirits for export to the UK. It recommended that a statutory board take control of distilling and also of good wine (Viljoen, 1934, pp. 16, 82–94). The appointment in 1935 of the Wine Commission by a new Minister of Agriculture, Deneys Reitz, kept the wine industry outside the 1937 Marketing Act. The Commission agreed that the buying of the surplus by KWV encouraged expansion of production and that a producer cooperative should not exercise statutory control over an industry. It decided that the only solution to the failure of partial control was to apply a comprehensive system of statutory control. This would have to fall under KWV, who had invested in the necessary cellar and distilling capacity. The Commission argued for minimum prices for 'good wine' and 'quality wine', opposed production quotas and suggested the creation of an advisory board (Drew, 1937, pp. 57–89, 104–5).

The Wine and Spirits Control Act 23 of 1940, introduced by W.R. Collins, Smuts's Minister of Agriculture, over the merchants' objections empowered KWV to set an annual minimum price for 'good wine', and for 'quality wine' of which wholesalers had to buy a minimum percentage. It made provision for production limits but did not introduce an advisory board or require KWV to discount sales of spirits for export (House of Assembly, 1940). Thus, KWV had maintained and extended its control of the industry, acquired the powers to set prices for distilling good and quality wine, protected its effective monopoly of the export market and secured, in principle, powers to limit production.

Regulation and Monopoly

Demand for brandy during the World War II solved the immediate problem of surplus disposal. Prices of good wine increased relative to distilling wine, and KWV withdrew from buying grapes for export production. Hence farmers needed access to cellars to produce 'good wine' (most of which was not very good at all). Farmers delivered grapes to their cooperatives, which took delivery and paid farmers from a pool in accordance with tonnage, sugar content, and possibly cultivar. The incentives to produce standard, high-yielding grape varietals on irrigated land continued. The number of cooperative cellars increased from six to 19 between 1939 and 1944, to 30 by 1950 and 46 by 1955. This initially suited the merchants to whom the cooperatives now supplied wine rather than grapes. The costs of new technologies, notably cold fermentation which was first introduced to South Africa in 1959, encouraged

more farmers to join and form cooperatives, whose number rose to 69 by the end of the 1975 (Botha, 1966).

Wine production peaked in 1944 at 424 948 leaguers and only reached that level again ten years later (KWV, 1958, p. 16). KWV was able to raise the prices for distilling wine, and government increased the excise tax on brandy in 1942 (Kohler, 1944). A postwar shortage of wine allowed KWV to pay substantial bonuses to its members. In 1947, the supply had to be pooled between KWV, which got 25 per cent of the vintage, and the merchants, who shared the rest. In 1954, new laws were passed providing that, when supplies were rationed, the surplus should be between 15 and 25 per cent, thus enabling KWV to claim a share of the vintage to meet its export needs (Theron, 1954; Van Zyl, 1993, pp. 134–6).

From 1954 to 1963, increased production led to rising surpluses. Act 47 of 1957 made new provision for planting quotas, which were introduced in 1960. They were set above current output and expanded ahead of supply, and thus encouraged people to increase production to justify their quotas. A renewed shortage led to rationing of wine spirits in 1964 and to KWV acquiring an exclusive right to import distilling wine (Du Toit, 1960, p. 2; Deacon, 1980, p. 29; Van Zyl, 1993, pp. 141–3, 174).

A sharp increase in excise taxes in 1958 reduced brandy consumption but encouraged the demand for natural wines. In 1959, KWV increased the surplus declaration to 35 per cent and compensated producers by a sharp increase in the minimum price. Wholesalers responded by attacking KWV's unilateral right to fix powers and exclusive exports to the UK and demanded a commission of inquiry. They objected to direct sales at the minimum price by cooperative wineries and by 'pseudo-wholesalers' selling by the case to the public, thus excluding them from the distribution chain. They were not mollified by a law to 'load' the minimum price by the costs of bottling and storing wine (Steenkamp, 1967, pp. 168–77).

The expansion of demand for urban labour and the restriction of African migration to the Western Cape created a shortage of farm labour. This led both to increased use of prison labour and farm prisons, and to policies to improve conditions for coloured rural communities and to subsidize farm housing. In 1963, the supply of liquor to Africans was legalized and grocers were licenced to sell natural wine but not beer. The *dop* system was outlawed, in law if not in practice.

The system by which KWV unilaterally set uniform prices for distilling, good and even quality wines protected farmers' incomes but discouraged competition among buyers; and wholesalers' ties to retail outlets discouraged competition among sellers. This facilitated the process of concentration of control of markets for wines by Stellenbosch Farmers' Winery (SFW) and for spirits by Distillers. They sustained their domination of the market by building

brand loyalty to familiar, established trademarks. In 1956, the country's three main breweries merged and in 1960 South African Breweries (SAB) took control of the Stellenbosch Wine Trust, which controlled SFW (Fridjhon and Murray, 1985, pp. 40–42; Van Zyl, 1993, pp. 226–9). Regulation of the industry facilitated monopolistic arrangements but also opened up bitter political contests for control of marketing arrangements between KWV and the Cape Wine and Spirits Institute, formed in 1967 to defend the interests of the 'Trade'.

The 'KWV Act', 47 of 1970 replaced and consolidated previous legislation. KWV no longer needed the support of two major parties and could rely on its links to the ruling National Party to secure political support for detailed amendments to Act 47 and its administration (Deacon, 1980, p. 52).

Legal regulation of standards of production of wine for the local and the export markets goes back to colonial legislation, consolidated in Act 15 of 1913 and in Act 36 of 1917 respectively. These and subsequent measures were consolidated in the Liquor Products Act 60 of 1989. The Agricultural Products Export Act, No. 36 of 1917, regulated the quality of wines for export. The Liquor Products Act, No. 60 of 1989 consolidated these measures (De Klerk, 1997).

The Plant Improvement Scheme, instituted by Act 53 of 1976, regulates the certification of material for the propagation of vines. In 1986 the Vine Improvement Association was established, with KWV, CWSI, the Western Cape Co-ordinating Vine Nursery Association and producer members from the wine cooperatives and independent estates. This led to revision of the Super grade scheme, whereby KWV had been the only institution certified to conduct plant propagation, to allow other participants. Full control over source material and certification, originally shared between the state and the Vine Improvement Board, was transferred to the Board in 1993.

Production quotas allowed rather than restricted an expansion of output far ahead of consumption, particularly in the irrigated Olifants and Orange River areas, where new distilleries were opened in 1977 and 1978. A wine of origin scheme, initiated by independent estate producers and Nietvoorbij (the industry research institute at Stellenbosch, now part of the Agricultural Research Council) was introduced in 1973; its provisions threatened to undermine the established trademarks of the major wholesalers (Van Zyl, 1993, pp. 198–210). Firms continued to complain that cooperatives were not prevented from selling directly to retailers.

Rembrandt acquired control of the renamed Inter-Continental Breweries (ICB) in 1973 to try to challenge SAB's domination in the beer market. In 1975, the government allowed SAB to take full control of SFW and changed the law to override a court challenge to this decision. In 1978, Rembrandt acquired all the shares in ICB and Oude Meester (Distillers); the government

agreed to Oude Meester buying 49 per cent of Gilbey's and to Gilbey's acquiring the Rebel liquor chain contrary to its own rules. The 1979 beer (and the brief wine and spirits) war between SAB/SFW and Rembrandt (Oude Meester/ICB) was resolved by an agreement suggested by Fred du Plessis of Sanlam to Anton Rupert of Rembrandt. This separated the dominant beer interests from two leading wine and spirits companies (SFW and Oude Meester), which would be amalgamated. This could only be done with the approval of KWV (Deacon, 1980, pp. 53–5; Van Zyl, 1993, pp. 227–32).

In November 1979, the cabinet announced their approval of a restructuring of the liquor industry. SAB would again become a 'temporary sole supplier' of malted beer. SFW and Oude Meester (Distillers) would be amalgamated into Kaapwyn (CWD), in which Rembrandt, KWV and SAB would each hold 30 per cent of the shares; SAB and Rembrandt agreed to dispose of their retail interests (a step they did not take). Rembrandt then formed a joint holding company with KWV to control CWD. Objections from Union Wine were stilled when the minister allowed them to acquire 75 more retail outlets.

In 1982, the Competition Board belatedly accepted SAB's monopoly of beer as a *fait accompli*. However, it declared unlawful SAB's previous controlling interest in SFW, the integration of KWV as controlling body at primary level with SFW and Distillers, the combining of SFW and OM in CWD and the vertical integration of suppliers and off-consumption retailers. The Prime Minister chaired a cabinet committee that consulted Rupert and KWV and the Minister for Industry, Dawie de Villiers. It rejected the decisions of the Competition Board and upheld the cabinet's previous support for the restructuring (Deacon, 1980, pp. 371–5; Competition Board, 1982; Fridjhon and Murray, 1985, pp. 136–43; 181–3; Van Zyl, 1993, pp. 229–35, 241–3).

Exports, mainly of fortified wines and brandies, were reduced by informal actions from 1963 and formal sanctions from 1985, and by the entry of Britain into the European Community in 1973. Declared exports fell by about two-thirds between 1964 and 1989 (Anderson and Norman, 2003), modified only by low-price export deals to Eastern Europe, which in 1983 amounted to 3.5 million hectolitres, over a third of the vintage. In the domestic market, vertical integration and market sharing under state auspices enabled liquor cartels, now in partnership with KWV, to dominate the beer, wine and spirits industries.

Regulation and Markets

Production continued to increase to reach a peak of 9997 hectolitres in 1992, while domestic demand stagnated and exports were blocked. But critical changes began to take place in the 1980s. State regulation and commercial monopoly slowly began to be undermined. These changes in turn created

conditions that made possible the response of the industry to the opening of export markets in the 1990s and the collapse of the system of regulation. In 1980, six premium cultivars (Cabernet Sauvignon, Shiraz, Pinotage, Merlot, Sauvignon Blanc and Chardonnay) made up 6.5 per cent of the national vineyard. From 1980, producers began to shift production away from high-yielding to higher-value cultivars. By 1990, the six premium cultivars made up 12.5 per cent of acreage and, by 1995, 19 per cent of acreage and 42.5 per cent of new planting (KWV, 1981–90; SAWIS, 2003).

Production quotas did not reduce overall production levels but hampered independent producers of quality wines. In 1984 KWV conceded a limited market in quotas within wine regions. In 1991, a group of estate producers formed an action group to challenge quotas and the fines that accompanied them. In 1992, KWV agreed to suspend quotas. The task of regulating production was now transferred to the cooperatives. They were encouraged to define, limit and even charge for their members' rights to crush grapes (Welgemoed, 1992, 1993). The cooperatives now needed to discriminate more carefully in the prices paid to their members for different cultivars and for grapes, or even vineyards, or different qualities. These changes exposed conflicts of interests among cooperative members and brought into question the established arrangements for paying members for their produce.

Rather than consolidating their domination of the wine and spirits market, the manufacturing wholesalers saw their share of the market fall significantly from their initial 85 per cent to 65 per cent in 1991 and 49 per cent in 1996 (Ewert et al., 1998, p. 21). Cooperatives were threatened by KWV acquiring an interest in Kaapwyn and thus in a lower producer price for wine. Cooperatives and estate producers expanded their direct marketing of wines, despite pressures to sell their whole vintage or none to the wholesalers. In 1988, government announced the separation of CWD back into SFW and Oude Meester, without any change in ownership, and a plan to separate wholesale and retail interests (Boonstra, 1988). From 1989, the CWSI renewed their complaints that cooperatives were able to undercut the minimum price in local markets, while KWV continued to use their statutory privileges to undercut them in export markets. In 1993, KWV insisted that the minimum price for good wine would continue. But it was undermined by arrangements that were designed to meet the complaints of wholesalers and allow cooperatives to take account of services by wholesalers in setting a lower delivery price (Marais, 1994a,b). The separate minimum price for good wine was suspended from 1995.

In the 1980s, the industry set up the Rural Foundation with government support to improve the social conditions of workers in the industry. An attempt by a few producers in 1989 to secure a commitment to a minimum level of wages and conditions was resisted by most estate producers and KWV.

KWV expanded production of grape juice and obtained a 25 per cent share in Ceres fruit juices in 1992, thereby acquiring a new way to dispose of much of the 'surplus' (Van Zyl, 1993, p. 255). Nevertheless, in 1992, the surplus pool still took up 45 per cent of the vintage, of which 20 per cent was used for concentrate (ibid., p. 270). International markets offered new opportunities for producers to export wines. The end of the white minority regime in 1994 led to a sharp increase in brandy consumption and renewed imports of distilling wine to enable KWV to meet demand. In 1993, KWV declared that it would not convert to a company under the 1993 Co-operatives Amendment Act. However, it provided for non-members to be eligible for election as directors (Van Zyl, 1993, pp. 290–91).

The regulatory mechanisms that KWV had built up could not be sustained. On 9 October 1996, KWV announced its intention to apply to the Western Cape Division of the Supreme Court to change from a cooperative to a company. The Minister of Agriculture, Derek Hanekom, asked the court to delay KWV's application to enable him to examine the future regulatory framework of the industry, to ask which assets acquired for KWV's regulatory functions were to be distributed among members, and to consider the unresolved issues of competition in the liquor industry. The Minister's intervention was initially supported by CWSI, even though KWV Investments owned a 30 per cent share in CWSI's two main members (SFW and Distillers). The Minister of Agriculture appointed a committee, chaired by Professor Kassier, Chair of the National Agricultural Marketing Council, to investigate the regulatory framework of the wine and distilling industry.

The Ministerial Committee included representatives from KWV, CWSI and the Department of Agriculture. Professor Vink was an independent member of this committee. KWV wished to maintain statutory provisions under its own control, failing which it preferred to leave matters to the market rather than come under the 1996 Marketing of Agricultural Products Act. CWSI was concerned that KWV would be able to use its accumulated assets to compete with the 'Trade' in the domestic market. The Committee completed its deliberations by the end of January 1997. Its report recommended that the industry be deregulated and that remaining statutory powers (for example levies to collect information and fund research; maintenance of quality standards) be placed under the control of a body that represented the whole industry (Kassier, 1997). These recommendations were largely acceptable to the Minister. KWV agreed to give CWSI due notice before entering the domestic market.

An initial audit concluded that KWV's performance of its 'statutory function did not contribute to their reserves' (Steyn, 1997). The Minister commissioned a further investigation, which found that 'the pooling mechanism contributed substantially to KWV's net asset wealth', which it estimated at

R803 million. It did not, however, establish that the state had any right to these assets. After negotiations, the Minister agreed to approve conversion of KWV. KWV confirmed that it would expand abroad and not enter the domestic market, although it was now no longer under any obligation not to do so. KWV also agreed to contribute R200 million over ten years and to provide services, valued at R227 million for five years, to the South Africa Wine Industry Trust (SAWIT), directed by nominees of the Minister and KWV. SAWIT established a Business Committee (Busco) and a Development Committee (Devco). The main function of the former is to provide funding for groups such as Wines of South Africa (the exporters' association), Winetech (the research funding arm of the industry), SAWIS (providers of information and systems services) and Vinpro (the industry extension service). Devco, on the other hand, is charged with responsibility for promoting 'development', including land reform and facilitating entry of new farmers who had been racially excluded in the past.

A draft Liquor Act, which sought to prevent any vertical integration of producers, wholesalers and retailers, was blocked by the constitutional court for treading on the powers of provincial governments. The Competition Board announced an investigation into KWV and its agreement with CWSI, and into SAB's beer monopoly (*Business Day*, 1, 4, 15, 18 July 1997). This investigation did not, however, materialize. Deprived of its assured supply of 'surplus' grapes and distilling wine, for which it in the past only paid after the sale of the final product and after deducting its own administration costs, KWV had to compete for supplies with cooperatives cellars (some of which have converted into companies), with the major wholesalers, and with new exporting firms. In 2000, KWV informed CWSI that they would not be bound by the undertaking to stay out of the domestic market. SFW and Distillers, in whom KWV still holds a 30 per cent share, re-merged, without opposition from the Competition Commission.

By the end of the twentieth century, therefore, the South African wine industry was no longer subject to the restrictive structures of regulation that had sustained farm incomes but inhibited innovation. Patterns of production had changed considerably over the previous two decades. But they have only partly escaped the industry's legacy of producing large quantities of standard, high-yielding grapes on irrigated vineyards to make large quantities of cheap wine for which demand is declining – even though prospects for premium cultivars and quality wines had become buoyant.

CURRENT PRODUCTION FEATURES

By 2002, wine producers in South Africa had planted 107 998 hectares of land

to wine grapes. This represented an increase over 1992 of 17 per cent in the area planted. Total production, on the other hand, decreased by only 5 per cent, from an average of 851 million tons of grapes in 1991–93 to an average of 806 million tons in 2000–2002. It is this apparent anomaly between the rate of expansion in land used and of output that is the key to a deeper understanding of the South African wine industry, because the gross value of output from the South African wine industry grew from R594 million in 1989/90 to R2.1 billion in 2002, or by 3.5 times.

South Africa's wine farmers ran fifth in the world in terms of the average grape yield per hectare, well above Australia (15th) and France (18th). Table 12.1 shows the regional distribution of the vines planted in South Africa. These data show that the regions that produce the most wine grapes (Worcester, Olifants River and Robertson, respectively) also produce the highest yields per hectare, while farms in regions such as Paarl, Stellenbosch and Malmesbury produce lower yields.

Table 12.2 shows the composition of types of cultivars grown and planted in different regions. Only in Stellenbosch do the seven premium varieties make up more than 50 per cent of the wine produced, and does red wine constitute more than half of total wine production. Data from SAWIS (2003) for 2000 show that the cooperatives press only 44 per cent of the total Sauvignon Blanc crop, and 65 per cent of the Chardonnay crop, as opposed to

Table 12.1 Regional distribution of grapevines and of wine output, South Africa, 2002

Region	Number of vines (million)	%	Area ('000 ha)	%	% of total output[a]
Worcester	61	19.4	18	16.8	25
Paarl	55	17.4	18	16.3	10
Stellenbosch	54	17.2	17	15.9	7
Robertson	43	13.6	12	11.5	15
Malmesbury	37	11.9	15	13.7	7
Orange River	29	9.2	15	14.3	16
Olifants River	27	8.6	10	8.8	16
Little Karoo	9	3.0	3	12.8	4
South Africa	316	100.0	108	100.0	100

Note: [a] Measured in tons of wine grapes.

Source: SAWIS (2003).

Table 12.2 Cultivar composition of vines and wine grapes crushed, South Africa, 2002

Region	Planted to big 7 varieties (%)[a]	Production from big 7 varieties (%)	White share (%)
Worcester	34	17	77
Paarl	53	44	56
Stellenbosch	75	74	42
Robertson	47	32	80
Malmesbury	52	39	61
Orange River	2	1	97
Olifants River	37	19	85
Little Karoo	22	9	87
South Africa	43	24	77

Note: [a]Cabernet Sauvignon, Pinotage, Shiraz, Merlot, Pinot Noir, Chardonnay and Sauvignon Blanc.

Source: SAWIS (2003).

87 per cent of all white wines. Further, they press 37 per cent of the Cabernet Sauvignon, 45 per cent of the Merlot and 46 per cent of the Shiraz, compared to 62 per cent of all red wines. By contrast private cellars, which press only 12 per cent of the total crop, press 40 per cent of the Sauvignon Blanc, 26 per cent of the Chardonnay, 41 per cent of the Cabernet Sauvignon, 37 per cent of the Merlot and 44 per cent of the Shiraz. The Wine and Spirits Board certified only one-fifth of the 'good wine' production of South Africa in 1997, but that rose to one-third by 2000 and to 44 per cent by 2002 (SAWIS, 2003).

The current production structure of the industry is explained in Figure 12.1. This structure of production is changing rapidly at the same time as the area under vines has been increasing. In the South African circumstances the replanting of vines is arguably affecting the structure of output more than the expansion of the area under vines, although both are adding to the proportion of noble varieties in the total crop. This changing composition is shown in Table 12.3.

The additional 4031 hectares planted to red wines in 2000 and an extra 1900 in 2002 should be placed in the context of the small net increase in the total area planted to wine grape vines in those years. As of 2000, only 5837 of the 71 748 hectares (8 per cent) planted to white varieties are under four years old, while 14 649 of the 33 818 hectares (43 per cent) planted to red varieties are under four years old. The proportion of 'good wine' that has been certified by the Wine and Spirits Board was only 20 per cent in 1997 and has more than

PRIMARY PRODUCERS:[a] 4501		
Primary producers: 4346	Tons	No. of producers
	1–100	2173
	>100–500	1545
	>500–1000	404
	>1000–5000	223
	>5000–10 000	1
		4346

↓

CELLARS THAT PRESS GRAPES: 355				
Cooperatives:[b]	Private cellars, estates:	Private cellars, non-estates:	Producing wholesalers:	Total
66	83	1266	13	428

↓

BULK BUYERS: 104
Wholesalers (including producing wholesalers): 70
Exporters (non-producing): 34

Notes:
[a] Producers sell to producing wholesalers, wholesalers, retailers, the public and exporters.
[b] This does not take account of cooperatives that have recently amalgamated or converted into companies.

Source: SAWIS (2003).

Figure 12.1 Wine industry structure, South Africa, 2002

doubled since then (34 per cent in 2000, 44 per cent in 2002). This figure can be expected to continue to expand rapidly in the next few years.

The main reason for these shifts in the composition of production can be found in the changing relative prices of the products of the industry, reflecting changes in demand in domestic and export markets and previous planting decisions. Table 12.4 shows the relative producer prices for wine sold in bulk (that is, to wholesalers and exporters). Prices for red wine sold in bulk have

Table 12.3 Net change in area planted to different grape varieties, South Africa, 2000 and 2002

Region	Planted in 2000	Uprooted in 2000	Net change in 2000	Net change in 2002
Sultana	340	448	–108	–504
Chenin Blanc	191	2449	–2258	–1021
Colombar(d)	174	600	–426	–140
Sauvignon Blanc	160	117	43	234
Chardonnay	40	127	–87	76
Other white	83	3249	–3166	–1250
Total white	988	6990	–6002	–2605
Shiraz	1536	76	1460	477
Cabernet Sauvignon	1438	237	1201	880
Merlot	838	76	762	317
Pinotage	500	172	328	–80
Cinsaut	124	337	–213	–126
Other red	619	126	493	432
Total red	5054	1023	4031	1900
South Africa	6043	8013	–1970	–705

Source: SAWIS (2003).

continued to increase rapidly, while those for white wine, including the noble varieties, have increased very little in nominal terms over recent years. Although the price of wine sold in bulk as rebate wine (which is allowed a rebate on excise duties if it meets the prescriptions for the making of brandy) and as distilling wine for brandy has declined since 1998, it is still over 50 per cent higher than in 1992.

The prices for quality wines are already in decline. The problem for producers in future may be to sustain demand, at home and abroad, for South Africa's quality red wines so that their price can be maintained and even increased. When planting decisions must be made several years ahead of the prices at which the crop will be sown, farmers are always likely, with encouragement from merchants, to 'plant after the price' rather than to get ahead of an uncertain market.

Table 12.5 shows the trends in the prices of different grape varieties sold for the making of wine. Again, prices of red varieties have generally risen faster than those of white varieties.

Table 12.4 Average prices for bulk sales of 'good wine', South Africa, 1992–2002 (cents per litre)

Good wine	1992	1997	1998	1999	2000	2001	2002	2002/1997
Cabernet, Merlot, Shiraz, Pinot Noir, Pinotage	–	545	648	708	745	736	719	1.32
Other red	–	304	359	409	448	448	484	1.59
Chardonnay	–	381	392	373	307	328	396	1.04
Sauvignon Blanc	–	381	392	358	340	317	409	1.07
Chenin Blanc	–	–	–	168	166	157	215	n.a.
Other white	–	161	168	147	127	138	192	1.19
Fortified wine	–	206	228	225	201	208	233	1.13
Rebate wine for brandy	68	127	133	127	120	115	130	1.02
Distilling wine for wine spirits	40	80	85	73	65	63	75	0.94

Source: SAWIS (2003).

Table 12.5 Index of prices of various grape varieties sold for winemaking,[a] South Africa, 1997–2002 (2000 = 100)

Variety	1997	1999	2001	2002
Cabernet Sauvignon	59	89	101	101
Merlot	58	93	100	101
Pinotage	67	96	97	92
Cinsaut Noir	61	92	98	107
Pinot Noir	65	89	107	109
Shiraz	63	98	96	96
Other red	59	73	105	107
Chenin Blanc	104	129	99	100
Sauvignon Blanc	79	97	104	103
Chardonnay	92	107	101	107
SA Riesling	88	99	96	99
Colombar(d)	126	147	81	89
Hanepoot	141	154	87	110
Semillon	82	113	96	96
Other white	83	111	108	117

Note: [a] Excluding deliveries by members to cooperatives.

Source: SAWIS (2003).

THE DOMESTIC MARKET

South Africa's domestic wine consumption per capita grew little in the 1990s but there was rapid growth in the volume of exports at around 30 per cent per year. The share of domestic sales of wine sold in glass containers has decreased from above 40 per cent of the total to between 30 and 35 per cent over the 1990s. The proportion of sales of wine sold in foil bags (that is, of lowest-quality wine) has doubled from approximately 10 per cent to 20 per cent. At the same time the proportion of wine sold in conventional 750 ml bottles has increased from about 45 per cent of all wine sold in glass containers to above 50 per cent. Thus the domestic market seems to be becoming more differentiated, with growth in the sales of premium wines as well as the cheapest wine, but a decline in sales of the lower-quality wine categories in between. Also the growth in the value of imports has been only half of the growth in the volume of imports, suggesting that imports have been used to cover deficits in the lower-quality range of wines.

INSTITUTIONAL CHALLENGES

Institutions play an important role in the ordering of economic activity, and are a key factor in determining international competitiveness. One of the main consequences of the historical legacy of the South African wine industry is uncertainty about its future institutional structuring. Institutional change is being fostered in an attempt either to escape the heavy hand of the past or to meet the challenges of the future, and it is often difficult to discern which of these motives is the stronger. The case of the conversion of KWV from a cooperative to a corporate business in 1997 illustrates this dichotomy. Whereas the Board of KWV argued that these steps were taken in order to position the company as a major player in the export market, the government accused them of trying to privatize state assets. As was seen above, the conversion was allowed to proceed, but only after specific arrangements were made regarding the responsibilities of KWV towards the rest of the industry.

Figure 12.1 above shows that no single institution dominates the growing and processing of grapes in South Africa. While the wine cooperatives generally handle more grapes than independent wineries (whether estate or non-estate), only one (a cooperative) presses more than 10 000 tons of grapes per year.

Historically, the large players in the industry were the 'producing wholesalers'. This sector has changed considerably in recent years with the apparent withdrawal of Gilbey's South Africa from the wine business. As we have seen, the two largest firms, Stellenbosch Farmers Winery and Distillers Corporation,

were both part of CWD and retained the same owners when they were separated in 1988. They merged again in 2000 to form Distell. Ultimate control over Distell and KWV now lies in the Rembrandt group of companies, and further changes can be expected. The domination of the domestic markets for wine and spirits by SFW and Distillers has not encouraged competition and innovation in winemaking, which has tended to come from the relatively small sector of independent estate producers.

New opportunities have seen the emergence of medium-scale exporting concerns. These have been formed by the conversion of former cooperatives (for example Simonsvlei); by a new enterprise formed by existing cooperatives (for example Stellenbosch Vineyards); by strategic alliances formed between private producers (for example Winecorp); and by new enterprises (for example Vinfruco).

Cooperatives continue to face the dilemma of adapting their institutional forms to the opportunities created by an increasingly differentiated market, in which the cheapest wines can now be supplied by imports. In some cases, the costs of buying higher-quality grapes and producing wine to a higher standard may not be rewarded by equivalent returns (Ewert et al., 1998, p. 21). It is complex, costly and divisive to devise and implement systems for differentiating the prices of the grapes they buy. Companies can choose from which farmers, and even cooperatives, they source their grapes. Cooperatives need to satisfy their members' expectations that they will press their grapes. On the other hand, they face the risk that members will sell their best grapes to competing firms or will withdraw from the cooperatives. To survive in the new environment, cooperatives need to balance these conflicting interests and secure for their members visible returns to the profits realized through the sale of wine beyond the price for the delivery of grapes (Ewert, 2000).

The rapid institutional change that has characterized the industry in the past decade has come about as a result of strategies to adapt to the new trading environment. A key feature of this environment has been the ability to exploit new opportunities in the global market, and more institutional changes can be expected as the industry consolidates its position in the international market. A second key feature of the trading environment is the uncertain domestic investment climate, especially among South Africa's large corporations, which have tended to invest in foreign markets rather than in the domestic economy since exchange control began to be relaxed.

A recent survey among independent winemakers in South Africa (Schildt and Bosch, 2000) showed that, as expected, foreign-owned wineries were more likely to have begun operations after 1991. Of the foreign-owned cellars, 73 per cent had their first year of production in 2000, compared to 55 per cent of domestically owned cellars. The new foreign-owned operations were much smaller than their domestic counterparts. Farms were smaller (50 per cent of

new domestic operations were above 70 hectares compared to 18 per cent of foreign-owned ones); and their cellars were also smaller.

Interviews with a large number of wine farmers and others close to the industry revealed that the general perception is of a higher level of foreign investment than is the actual case. The reason seems to be the number of Europeans who have moved to South Africa for various reasons unrelated to the wine industry but who have ended up investing in the industry. Local farmers tend to regard these as instances of foreign investment. This reinforces the point made above regarding the lack of evidence of large-scale corporate investment in the industry. This is supported by the investment intentions of foreign-owned cellars. The survey showed that most of the foreign-owned cellars plan to invest in tourist-related activities, while the priority for domestic investors is to upgrade their cellar technology.

STATE INTERVENTION

South Africa's agricultural sector policy is aimed at achieving three main objectives: redressing the inequalities and injustices arising from the apartheid policies of the past; ensuring a more just and equitable distribution of income in the industry; and enhancing the international competitiveness of the industry.

The wine industry subscribes to all three of these objectives through its 'Vision 2020 Strategic Agenda'. Yet the industry is caught in a situation similar to the rest of the agricultural sector. It has successfully weathered the effects of deregulation, and it has learned to cope with new and (in its experience) unusual types of state intervention, such as the challenge to the conversion of KWV as illustrated earlier. Yet failed reform policies, especially land reform, continue to cloud the investment climate. Many of these uncertainties are reflected in the depreciation of the currency, a change that neatly illustrates the nature of the Catch-22 faced by stakeholders in the industry. Whereas exporters welcome a depreciating currency, investors wish to realize their profits in international currencies. They know that the reason for the depreciation is a lack of faith in the future of the economy by foreign investors, accentuated by the seizure of land in Zimbabwe by President Mugabe and the so-called 'war veterans'.

It is for this reason that stakeholders in agriculture in general, and in the wine industry through the 'Vision 2020 Strategic Agenda', have now called for a more vigorous land reform programme. Land reform has proved to be difficult to realize and confronts particular problems in wine and in horticulture, where production requires high levels of capital investment and returns are only realized some years later. In the Western Cape in particular, farmers and

agribusiness companies have used grants to fund the acquisition by workers trusts of shares in farm enterprises. These schemes can potentially enable workers to share in the returns from marketing fruit or making wine and not only from growing grapes and other fruit. They depend on the use of the farmer's or the company's capital, equipment, skills and access to markets and must therefore fit in with the farmers' objectives. They may enable employers to acquire additional land and water resources, as well as capital for the enterprise, and to raise productivity by restructuring incentives. Ownership of shares in the enterprise has, however, not contributed sufficiently to changed power relations between employers and employees. As there are no independent smallholders, these schemes 'do not look like land reforms', but the 'vision of independent small-scale production' may be 'inappropriate in high-value horticulture' (Humphries, 2000; Hamman and Ewert, 1999).

CONCLUSION

The South African wine industry has changed rapidly over the past decade as a result of renewed access to the global market as well as changes in domestic economic and social policies. On balance, the industry seems to have a bright future. Yet these changes have taken place in something of a policy and institutional vacuum, and there are questions about their sustainability. The state has played an ambiguous role in these developments. On the one hand it has supported those in favour of deregulation by seeing to the abolition of all statutory powers to intervene in the industry, and has put in place measures to support exporters. For its own part, it has not been able to implement new programmes such as land and labour reform successfully. As a result, the same stakeholders are driving the process of change in the industry, while new interest groups are still largely excluded from meaningful participation. It is unclear whether this will eventually lead to a collapse in investor confidence and a decline in the industry's ability to compete internationally, or whether it will result in new investments, funding innovation in production of wine for more differentiated markets. It is also unclear whether the required investment will be driven by large multinationals, South African or foreign based, and what complex relations of interdependence may emerge among corporate manufacturing wholesalers, cooperatives and their members, and independent estate and non-estate producers.

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