

VININTELL

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AFRICA –
PATCHWORK OR LONG
TERM POTENTIAL?





AFRICA – PATCHWORK OR LONG TERM POTENTIAL?

Welcome to this edition of the quarterly newsletter as a value-added service to members of the SA Wine Industry. The purpose is to provide you, the decision-maker, with meaningful insight into events, trends, opportunities and threats through the analysis of the ever-changing competitive environment. The analytical approach is a multifaceted, multidisciplinary combination of scientific and non-scientific processes.

We trust that this publication will become part of your strategic thinking, strategic planning and decision-making process. You are welcome to send comments and suggestions to the publisher.

Contents

Africa's hidden Wine Market Jewels	3
South African wine exports to Africa points to potential	4
Peeking at select Africa wine consumer markets	8
The islands as potential growth market	11
Nigeria	13
Kenya	14
Angola	15
Tanzania	16
Mauritius	17
Conclusion	18



Source: Map of Africa, 2011

AFRICA'S HIDDEN WINE MARKET JEWELS

Globally, traditional wine markets are showing slower growth. After an uninterrupted period of growth since 2000, global wine exports registered the effects of the world economic crisis in 2008 and started a downward trend in 2009. However, in 2010, the trend has shifted upwards and the global volume of exported wines is still largely superior to that recorded in 2006 and the previous years. Wine producers are therefore closely watching wine growth in the key emerging markets such as Brazil, India, Russia, and China (BRIC countries, of which South Africa is since recently also a member making it BRICSA), waiting for the day when half the population of China and India starts consuming a social glass of wine or two every day. However, that day has yet to dawn and the queue of producers wanting to exploit it is growing steadily longer. The question therefore begs: Are there other niche markets that show current and future potential and that have hitherto been overlooked? Niche and new markets do exist. According to Wines of Chile, for example, Colombia buys more than 5.5 million litres of Chilean wine each year. Rather more surprisingly, the Czech Republic takes 4.5 million litres. Is Africa among these awakening prospects?



South African wine exports in particular are affected by the strength of the Rand dampening demand in export markets. Major import markets are showing mixed signs. For many exporters, growth globally is coming not from the major markets such as the UK and the US, but rather from secondary markets and emerging markets or even from regional markets such as Kenya, Angola and Nigeria for South Africa.¹ Although very little is written about these markets at present there are eyes that turn to the African continent with its 54 sovereign states including various island groups and some lucrative places to do business for those in the know. The islands are Cape Verde (West Africa), Mauritius, Madagascar, Seychelles, Comoros (all East Africa) and São Tomé and Príncipe (Central Africa). Africa is the world's second largest and second most populous continent, after Asia. With 1.0 billion people (as of 2009) in 61 territories, it accounts for about 15% of the world's human population. Africa encompasses numerous climate areas; it is the only continent to stretch from the northern temperate to southern temperate zones. Africa's expected economic growth rate is about 5.5% for 2011.

The wine sector worldwide, dominated for a long time by European countries is now experiencing the challenge posed by the expanding wine industries in the Americas, Australia and Asia (especially China). Exploiting new markets is therefore especially important from a South African wine exporter perspective. South Africa saw total export volumes decline 10% for the 6 months ending June 2011, as the rand continues to strengthen. Bottled wines declined faster than bulk wines, creating further strain. Improvements in volumes to markets such as Denmark, Canada, Russia and several African countries were not enough to offset declining sales to major markets such as the UK, Germany and Sweden.^{2,3,4,5}

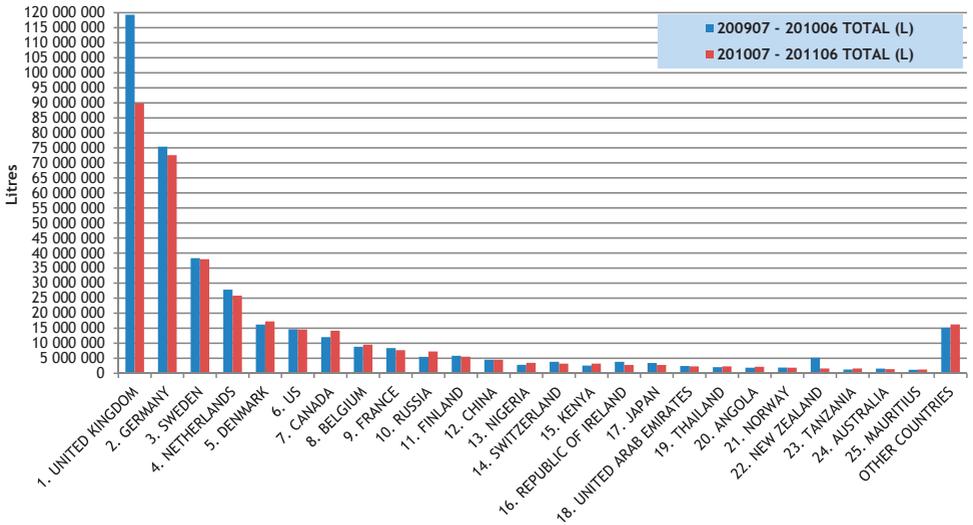
South African wine exports to Africa points to potential

Examining the wine export statistics and looking at South Africa's top 25 wine export destinations, African countries feature surprisingly high up in the ranking. Whereas the top five destinations are still the more traditional markets i.e. the UK, Germany, Sweden, the Netherlands and Denmark, Africa's destination feature strongly with Nigeria (13th overall), Kenya (15th), Angola (20th), Tanzania (23rd), and Mauritius (25th) all amongst the top 25 wine export destinations. In comparison to the top five markets, the top Africa markets are negligibly small with Africa's top current market, Nigeria, totalling 3.45 million litres in the period July 2010 to June 2011 (2.8 million litres in the period July 2009 to June 2010) (see figure 1). It is interesting to note that although Russia and China feature among the top 25 markets, Brazil is conspicuous in its absence. The reasons vary including trade barriers, but perhaps with South Africa's accession to the BRICSA grouping, this situation will change for the better from a South Africa wine export perspective. In total South Africa exported 352 488 520 litres of natural wine in the period July 2010 to June 2011 compared to 385 569 413 in the previous period.

Looking at South Africa's total natural wine exports for all types for the year July 2010 to June 2011 (figure 2) it is clear that packaged wine is by far the most popular for both red and white wine. No bulk red wine was exported during this period.

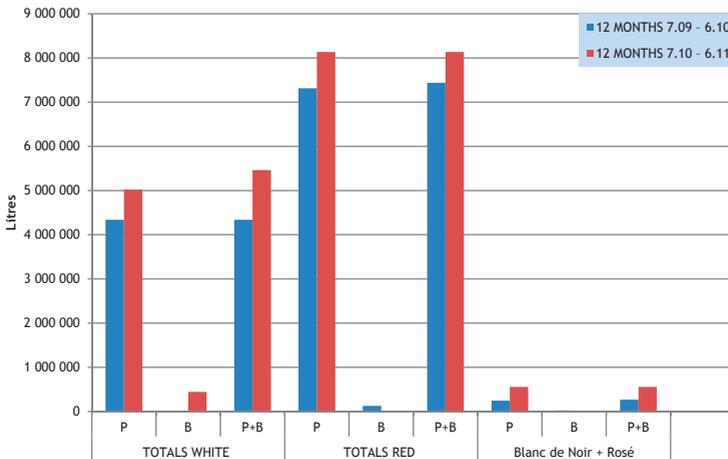


Figure 1: Top 25 Export destinations (total volume in litres)



Source: SAWIS, 2011

Figure 2: Total South African natural wine exports (White, Red, Blanc de Noir / Rosé) to Africa: July 2010- June 2011 (litres)



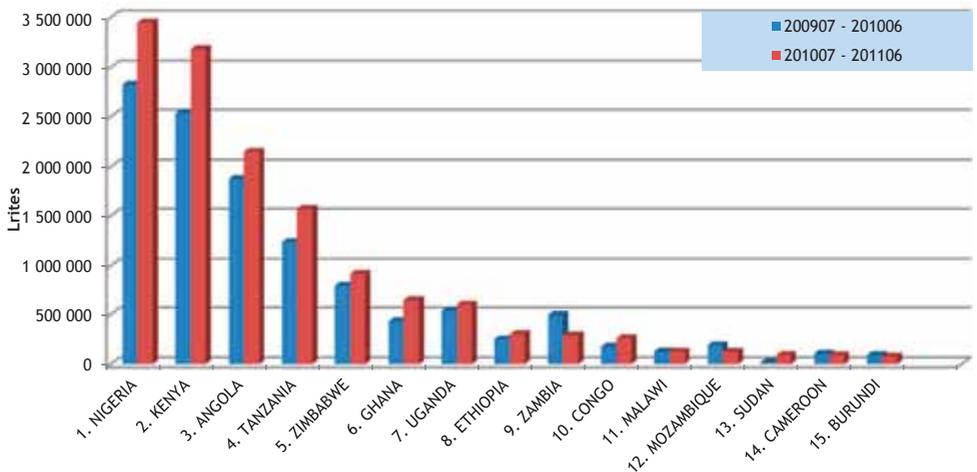
P=Packaged B=Bulk

Source: Department of Agriculture, Forestry and Fisheries, Directorate Food safety and Quality Assurance



In terms of packaged natural wine, the most important Africa destinations for South Africa wines (white, red and blanc de noir / rosé for the period July 2010 to June 2011) are Nigeria (3.45 million litres), Kenya (3.18 million litres), Angola (2.1 million litres) and Tanzania (1.6 million litres) (see figure 3). South Africa also exports a little wine to Senegal, Guinea, Eritrea, Burkina Faso, Djibouti, Chad, Mali, Sierra Leone, Gabon, Togo, Côte d'Ivoire, the Gambia, Rwanda and Liberia. The only country that imports mentionable quantities of bulk wine from South Africa is Angola with 442 984 litres of white wine in the period July 2010 to June 2011.

Figure 3: Top 15 South African natural wine export destinations in Africa: Packaged and Bulk (White, Red, Blanc de Noir / Rosé): July 2009 – June 2010 and July 2010 to June 2011

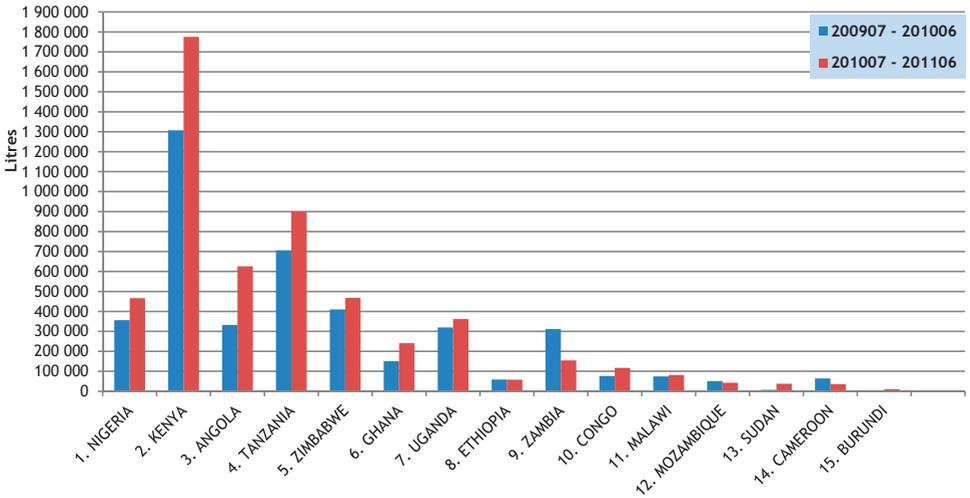


Source: SAWIS, 2011

For packaged and bulk white wine exports, Kenya is the leading market followed by Tanzania, Angola and Nigeria. There has also been growth in these particular exports compared to the previous year (see figure 4).



Figure 4: Top 15 South African white wine export destinations in Africa: Packaged and bulk wine: July 2009 – June 2010 and July 2010 to June 2011



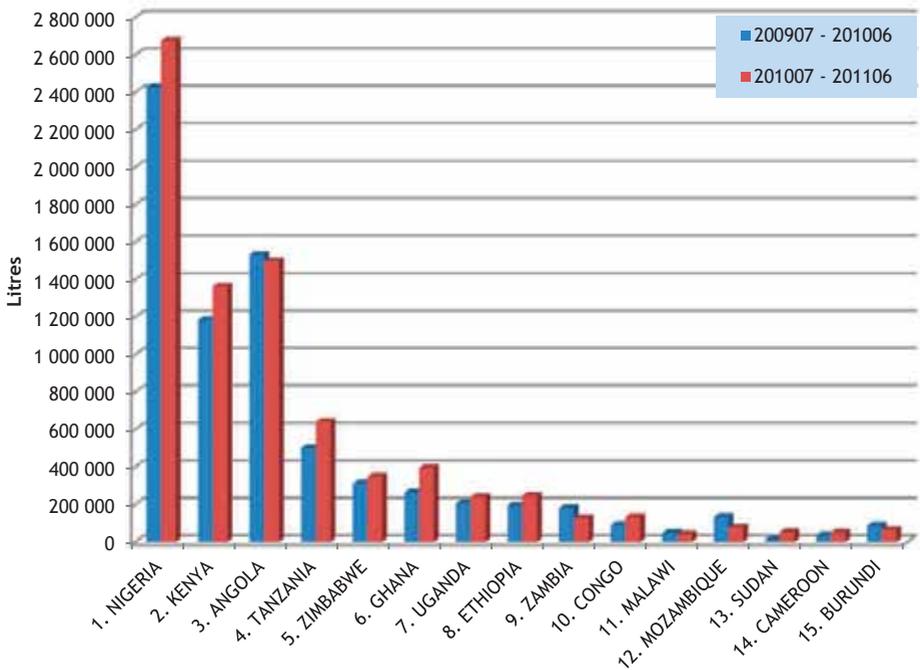
Source: SAWIS, 2011

For packaged and bulk red wine export, Nigeria is the dominant market by far followed by Angola and Kenya. There has also in general been growth in these particular exports compared to the previous year (see figure 5) except for Kenya that saw a decline in these particular exports.





Figure 5: Top 15 South African red wine export destinations in Africa: Packaged and bulk wine: July 2009 – June 2010 and July 2010 to June 2011



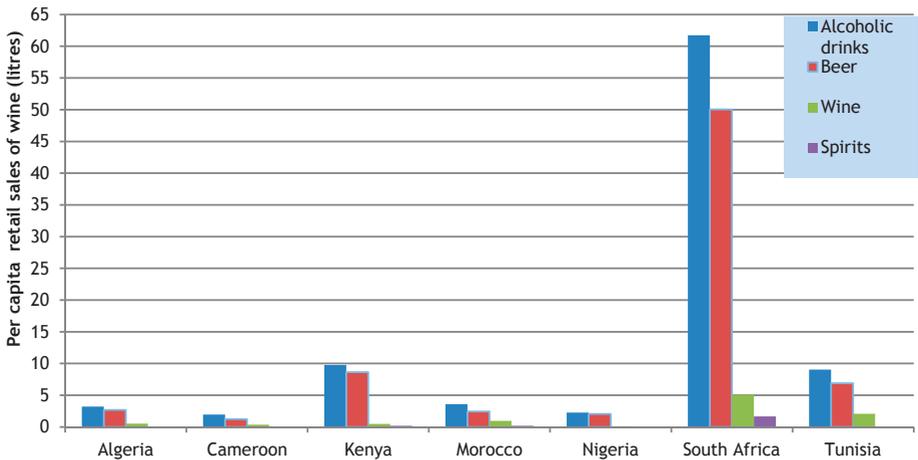
Source: SAWIS, 2011

Peeking at select Africa wine consumer markets

Market data published by Euromonitor (2010) indicate that besides South Africa with 5.0 litres per capita retail sales of wine in 2010, Tunisia had the highest per capita retail sales of wine in 2010 with 2.07 litres, followed by Morocco, Kenya, Cameroon, Algeria and Nigeria. Angola does not feature among the top eight places (see figure 6). Beer is far more popular in all the markets while spirits consumption is the lowest of the alcoholic drinks. Being a generally price sensitive market might explain the popularity of beer amongst all alcoholic drinks.

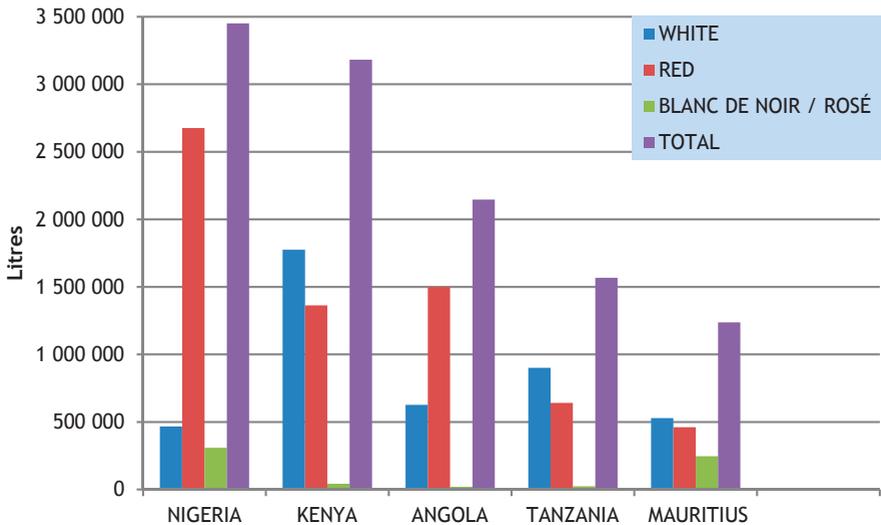


Figure 6: Alcoholic drinks: Top per capita retail sales 2010: Off-trade



Source: Euromonitor International from industry sources and national statistics

Figure 7: Top South African wine export markets in Africa (litres) per wine type: Packaged and bulk natural wine exports: July 2010 – June 2011



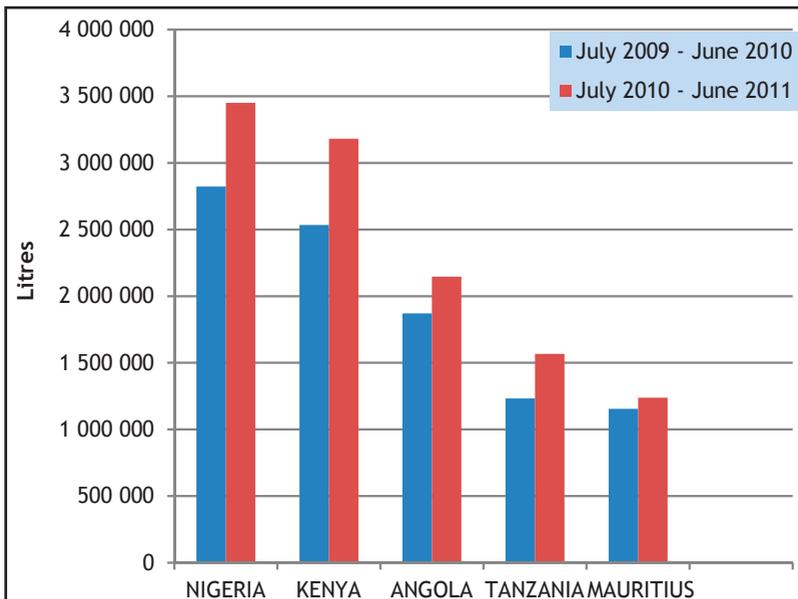
Source: SAWIS, 2011



In terms of the largest markets for South African wine exports to Africa destinations, the statistics indicate that in most of these markets, the preference for white or red wine varies. Whereas red wine is more popular in Nigeria and Angola, white wine is still the most popular in Kenya, Tanzania and Mauritius (see figure 7). Data also indicates a steady growth, albeit from a low base, in wines sales into these markets for white, red and blanc de noir wine.

For packaged and bulk natural wine, Nigeria is South Africa's top destination in Africa with 3.45 million litres followed by Kenya (3.18 million litres), Angola (1.70 million litres), Tanzania (1.56 million litres) and Zimbabwe (915 556 litres) (see figure 8). Mauritius and Angola are the top bulk natural wine export destinations with 625 020 litres and 442 984 litres respectively for the period July 2010 to June 2011. Bulk natural wine exports to Angola increased significantly on the previous year's volume of 50 000 litres.⁶

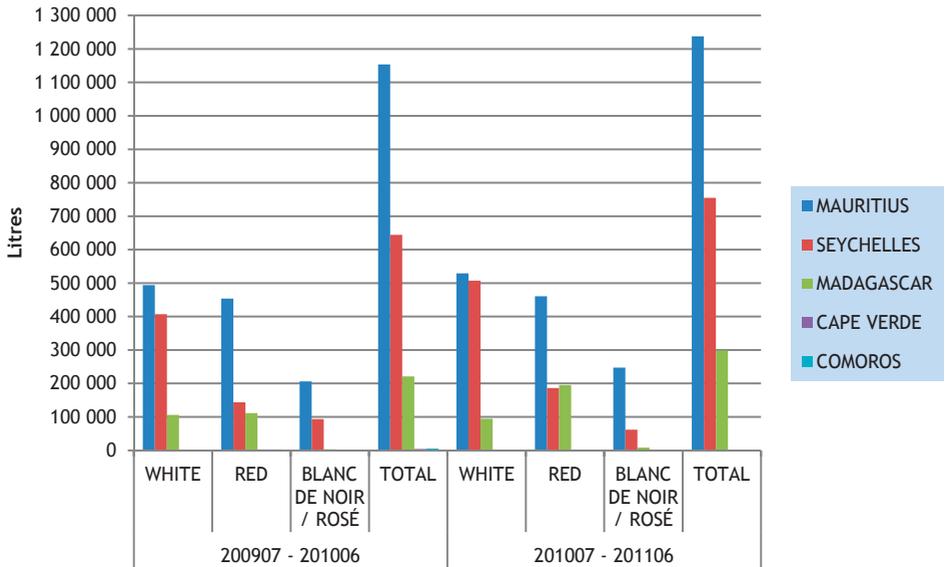
Figure 8: Top South African wine export markets in Africa (litres): Total packaged and bulk natural wine exports: July 2009 – June 2020 and July 2010 - June 2011



Source: SAWIS, 2011



Figure 9: South African packaged and bulk natural wine exports to Indian Ocean Islands (litres): July 2009 – June 2010 and July 2010 – June 2011



1) The islands listed are regarded as sovereign African states. Islands such as the Canary Islands en St Helena are not sovereign African states.

Source: SAWIS, 2011

The islands as potential growth market

Regarding South African wine exports to Africa's islands (both Indian Ocean and Central and North Africa), Mauritius leads in terms of packaged and bulk natural wine (see figure 9). South Africa wine exports to the Comoros are still very little. Overall, white wine leads the exports. The data suggests that white wine is more popular than red wine in Mauritius and the Seychelles, but in Madagascar, and the Comoros, red wine pips the post. Mauritius is clearly the leading export market among the island states followed by the Seychelles.

In terms of packaged natural wines, the Seychelles is the leading export market while white wine leads over red wine followed by Mauritius and Madagascar. Mauritius is the leading export market among the Indian Ocean Island states for South African bulk natural wine. Since July 2010, the Seychelles has started importing South African red bulk natural wine, but none of the other island states import any bulk wine from South Africa. Looking at the most popular varietals, it is clear from the data that among the white wines, packaged Chardonnay and Sauvignon Blanc lead the field while Chenin Blanc in both packaged and bulk format is exported. Packaged white wine leads by far over bulk white wine. Among the red wine varietals, no bulk Shiraz is exported (see table 1)



Table 1: South African wine exports to Indian Ocean Islands (litres) per varietal: July 2009 – June 2010 and July 2010 – June 2011

PRODUCT		JUNE		6 MONTHS		12 MONTHS	
		2010	2011	JAN '10 - JUN '10	JAN '11 - JUN '11	JUL '09 - JUN '10	JUL '10 - JUN '11
Chardonnay	P	10 202	5 130	41 925	40 118	91 426	96 380
	B	0	24 000	40 600	29 000	66 660	67 000
Sauvignon blanc	P	9 999	10 287	57 853	54 702	123 592	130 718
	B	0	0	1 250	2 000	8 000	23 100
Chenin blanc	P	8 196	4 190	34 174	24 182	69 679	56 852
	B	10 000	0	20 000	0	20 000	20 000
Other White	P	83 002	68 631	375 866	295 949	878 586	823 081
	B	0	0	70 350	62 010	100 200	121 860
TOTALS WHITE WINE	P	111 399	88 238	509 818	414 951	1 163 283	1 107 031
	B	10 000	24 000	132 200	93 010	194 860	231 960
	P+B	121 399	112 238	642 018	507 961	1 358 143	1 338 991
Cabernet Sauvignon	P	5 828	7 628	31 089	29 868	75 153	78 141
	B	0	10 000	20 000	30 000	25 625	63 880
Shiraz	P	2 831	2 025	18 469	12 303	35 249	34 866
	B	0	0	0	0	0	0
Pinotage	P	1 076	1 823	17 119	19 292	40 735	44 991
	B	0	0	2 250	0	4 250	0
Merlot	P	1 761	2 027	18 495	16 331	38 448	48 663
	B	0	0	20 000	11 880	31 950	47 900
Other Red	P	31 536	32 975	182 688	178 547	431 714	530 724
	B	0	0	119 250	67 280	182 890	181 280
TOTALS RED WINE	P	43 032	46 478	267 860	256 341	621 299	737 385
	B	0	10 000	161 500	109 160	244 715	293 060
	P+B	43 032	56 478	429 360	365 501	866 014	1 030 445
Blanc de Noir + Rosé	P	29 461	17 201	150 592	90 421	281 201	259 720
	B	10 000	10 000	100 000	60 000	105 625	140 000
	P+B	39 461	27 201	250 592	150 421	386 826	399 720
TOTALS NATURAL WINE	P	183 892	151 917	928 270	761 713	2 065 783	2 104 136
	B	20 000	44 000	393 700	262 170	545 200	665 020
	P+B	203 892	195 917	1 321 970	1 023 883	2 610 983	2 769 156
Fortified Wine	P	450	329	9 027	5 976	19 555	16 679
	B	0	0	0	0	0	0
	P+B	450	329	9 027	5 976	19 555	16 679
Sparkling wine	P	18 882	57 173	117 440	163 850	277 422	343 994
ALL WINE	P	203 224	209 419	1 054 737	931 539	2 362 760	2 464 809
	B	20 000	44 000	393 700	262 170	545 200	665 020
	P+B	223 224	253 419	1 448 437	1 193 709	2 907 960	3 129 829

P=Packaged B=Bulk

Source: Department of Agriculture, Forestry and Fisheries, Directorate Food safety and Quality Assurance



marketing activities of leading players and the good quality of most brands available. Another factor that has boosted growth is the entry of new drinks and players into the market. According to Euromonitor, increased marketing activities by manufacturers and importers of wine brands have also stimulated demand for wine in Nigeria. Events such as the Nigeria Wine and Spirits Festival, organised in June 2010 by Spronks Boisson Palais, was a platform for buyers and suppliers to meet and discover new brands from around the world. This emerging wine industry is expected to increase further interest in the future. Wine is expected to post a CAGR of 6% in total volume terms over the forecast period. This growth demonstrates the increasing popularity of wine based on the current level of marketing activities, which is expected to increase and bear more fruit over time.

Kenya

	Population	41,070,934 (July 2011 est)
	Age structure	0-14 years: 42.2% (male 8,730,845/female 8,603,270) 15-64 years: 55.1% (male 11,373,997/female 11,260,402) 65 years and over: 2.7% (male 497,389/female 605,031) (2011 est)
	GDP - per capita	\$1,600 (2010 est)
	GDP - real growth rate	4% (2010 est)

Source: 2011 CIA World Factbook

Although the regional hub for trade and finance in East Africa, Kenya has been hampered by corruption and by reliance upon several primary goods whose prices have remained low. In December 2002, Daniel Arap Moi's 24-year-old reign ended, and a new opposition government took on the economic problems facing the nation. After some early progress in rooting out corruption and encouraging donor support, the Kibaki government was rocked by high-level graft scandals in 2005 and 2006. Stabilisation of the political environment thereafter and return to economic growth has begun to show in the reduction of inflation and upward growth for 2010. Moreover, the football World Cup bonanza of 2010 kept people in pubs and bars longer than they usually stay and fuelled demand for alcohol.

The Alcoholic Drinks Control Act voted in by the Kenyan government in August 2010 will significantly change the rules in the industry and place more challenges in the way of manufacturers and retailers. This Act legalises, under certain conditions, the production and sale of Changa'a, the homemade spirit, in order to better control it and generate more excise tax from it. This will erode some share from other categories such as beer and spirits, thanks to lower prices. East African Breweries Ltd (EABL)





continued to dominate the landscape in 2010. The company owns an extended portfolio across beer, RTDs and spirits. Other important players are Viva Productline, Kenya Wine Agencies Limited (KWAL) and Wines of the World.

Bars are the largest distribution channel for on-trade. Consumers are price sensitive and choose to buy their alcohol in off-trade channels since they are cheaper than on-trade channels. There are only a few alcoholic drinks specialist retailers in Kenya, since wine consumption is still in its infancy. Euromonitor says the future is not so bright for the alcoholic drinks market although the forecast performance estimates are positive, volume growth will flatten off. This is reflected in South Africa export volumes to Kenya. The drought of 2009, inflation and the increasingly hostile tax regimen are raising the cost of production and eroding purchasing power and this will continue to have a short-to-medium-term effect. Although Kenya has been largely insulated from the global credit crisis, it is still likely to be influenced by the effects of the post-election violence of 2009. The market is also becoming more discerning and demanding, which should result in forecast period growth in the premium segment of the market.

Angola

	Population	13,338,541 (July 2011 est)
	Age structure	0-14 years: 43.2% (male 2,910,981/female 2,856,527) 15-64 years: 54.1% (male 3,663,400/female 3,549,896) 65 years and over: 2.7% (male 157,778/female 199,959) (2011 est)
	GDP - per capita	US\$8,700 (2010 est)
	GDP - real growth rate	5.9% (2010 est)

Source: 2011 CIA World Factbook

Since Angola emerged from a protracted civil war, it has become a lucrative albeit risk-prone business destination. In April 2002, the Angolan armed Forces and the rebel UNITA movement signed a peace agreement that ended the war that largely destroyed the Angolan economy. By the beginning of 2011 however, Angola has projected economic growth of between 2.5% (IMF) and 4.5% (Angolan President Jose Eduardo Dos Santos). During the civil war, Angola's wine imports were negligibly little but have grown markedly since 2002. Wines of South Africa (WOSA) says that it is selling wines to Angola while Wesgro, adds that Angola has



A pitcher with Catemba and a bottle of 1983 vintage wine.



imported significant quantities of wine in recent years on the back of increased demand among Angolans and increasing disposable incomes as a result of profits from the country's extractive sectors and is fast becoming the second biggest market for wine in Africa. Portugal is still the main international exporter of wine to Angola, supplying 64% of the Angolan wine market. The dominance given to Portuguese wine in Angola is largely due to the fact that Angola is a former Portuguese colony and the official language of Angola is Portuguese. South Africa's share of the Angolan wine market is small at just 4% suggesting significant potential. Along with cheap European and South African wines, bulk wines from Latin America are also entering the country on an increasingly frequent basis.

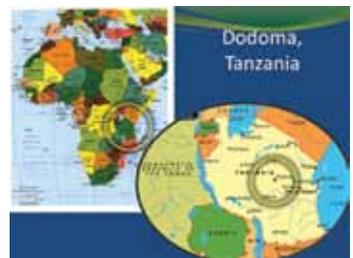
The price of wines in Angola range from US\$1.80 per litre to around US\$50 for a good quality bottle of red wine. Red wines are the most popular in Angola, with a wide range of reds available. These Red wines are priced from R30.86 to R154.32. More expensive niche wines from Portugal are also available and consumed by wealthier Angolans. Sparkling wine accounts for around 6% of the market. The majority of Angolans drink catemba, a popular mix of low quality bulk red wine and cola-flavoured soft drinks that retails for R7.71 per one litre bottle sold in outdoor markets in Angola. Demand for wine is set to expand further as the economic recovery following the end of the civil war in Angola continues to gather pace. Currently, the market for Portuguese wines has reached a degree of saturation following a period of rapid growth and is even showing a decline.

Tanzania

	Population	42,746,620 (July 2011 est)
	Age structure	0-14 years: 42% (male 9,003,152/female 8,949,061) 15-64 years: 55.1% (male 11,633,721/female 11,913,951) 65 years and over: 2.9% (male 538,290/female 708,445) (2011 est)
	GDP - per capita	\$1,500 (2010 est)
	GDP - real growth rate	6.4% (2010 est)

Source: 2011 CIA World Factbook

Tanzania is one of the world's poorest economies in terms of per capita income, but it averaged 7% GDP growth per year between 2000 and 2008 on strong gold production and tourism. The World Bank, the IMF, and bilateral donors have provided funds to rehabilitate Tanzania's aging economic infrastructure, including rail and port infrastructure that are important trade links for inland countries. Recent banking reforms have helped increase private-sector growth and investment. Continued donor assistance and solid





macroeconomic policies supported a strong growth rate, despite the world recession. GDP growth in 2009/2010 was a respectable 6% per year due to high gold prices and increased production.

Tanzania is Africa's second largest wine producer after South Africa. The Dodoma region has re-established the grapes agro-industry to become an important growing area in the country (150 hectares).⁹ Dodoma is the sole producer of grapes in Tanzania with a total of 1,000 tons per year. Some leading producers are Cetawico⁹ Tanganyika Vineyards Company, Dodoma Wine and Tanzania Distilleries (currently the dominant player in Tanzania's wine and spirits market) are producing wine, the latter using locally grown grapes to produce an international brand.¹⁰ The Dodoma hills are planted mostly with Makutopora (red and white) as well as Chenin Blanc, Shiraz and Cabernet Sauvignon grapes. Wine consumption is growing steadily and the outlook is positive for continued growth and re-exports opportunities.¹¹

Mauritius

	Population	1,303,717 (July 2011 est)
	Age structure	0-14 years: 21.8% (male 145,185/female 139,579) 15-64 years: 70.7% (male 457,743/female 463,875) 65 years and over: 7.5% (male 38,944/female 58,391) (2011 est)
	GDP - per capita	\$13,500 (2010 est)
	GDP - real growth rate	3.6% (2010 est)

Source: 2011 CIA World Factbook

Since independence in 1968, Mauritius has developed from a low-income, agriculturally based economy to a middle-income diversified economy with growing industrial, financial, and tourist sectors. For most of the period, annual growth has been in the order of 5% to 6%. This remarkable achievement has been reflected in more equitable income distribution, increased life expectancy, lowered infant mortality, and a much-improved infrastructure. Mauritius has attracted more than 32,000 offshore entities, many aimed at commerce in India, South Africa, and China. Mauritius' sound economic policies and prudent banking practices helped to mitigate negative effects from the global financial crisis in 2008-09. GDP grew 3.6% in 2010 and the country continues to expand its trade and investment outreach around the globe.

One of the interesting aspects of the wine consumer market in Mauritius is that the business is mainly at the exclusive top end hotels that attract in excess of 1 million people annually from all around the globe including France, Germany, the US, South Africa and an increasingly significant number of tourists from the East. Where these hotels served mainly old world European wine in the past, it is now shifting towards South Africa, which is offering good wine at the right price and more importantly, fits in with the African experience.¹² Per capita wine consumption in Mauritius was 1.4 litres in 2009, a decline of 9.1% on the per capita consumption registered in 2006.



Conclusion

In conclusion, it can be said that South African wines are growing in popularity in the African market and that there are pockets of significant opportunity in Africa from a South African wine exporter perspective. Although only five countries were briefly highlighted in this VinIntel edition, there are many other similar opportunities. Bypassing Burundi for the time being (where the population drank 73% less wine per capita in 2008 than 2004) there is still a number of poor or unstable African countries like Zimbabwe, Ghana, and Malawi that are posting significant gains in wine consumption. Emerging markets are, almost by definition, not easy to enter and are fraught with risk to the uninformed, particularly if they are recovering from war. Yet is it worthwhile to take a moment and dwell on a few that show particular promise, not neglecting others. On the contrary, with a little market intelligence and extending well-informed feelers, Africa could hold some lucrative diamonds for South Africa exporters.¹³



ENDNOTES

1. <http://export-hub.com/en/news-africa/138-southern-africa-south-africa/3361-exports-south-africa-global-wine-exports-pick-up>
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13. <http://export-hub.com/en/news-africa/138-southern-africa-south-africa/3361-exports-south-africa-global-wine-exports-pick-up>

*Enquiries & contributions to
Dr Marie-Luce Kuhn, IBIS Business and Information
Services (Pty) Ltd, PO Box 7048, Stellenbosch 7599
tel +27 21 8832855
e-mail mlm@ibis.co.za website www.ibis.co.za*

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