OUTLOOK FOR HORTICULTURAL PRODUCTS

WINE GRAPES AND WINE

INTRODUCTION

The South African wine industry faces the same dichotomy as the global industry as a whole: physically shrinking as per capita wine consumption declines, but gaining in value as consumers migrate to higher-priced premium wines. The rate at which different wine-producing countries are switching differs, but the overall trend is clear. Currently, South Africa's wine industry contributes more than R56.5 billion to the country's GDP (up by 57% in real terms since 2013) and employs 270 364 people across the value chain, of whom 85 962 work on farms and in cellars (SA Wine, 2024). At the same time, the industry has been contracting. In 2023, for the third time in five years, South Africa's domestic and international wine sales equated to less than 800 million litres. Domestically, consumption of wine was similar to 2022 levels, but exports dropped to the lowest level in the past 18 years, even below the Covid-19 protocol ridden 2020. Despite the reduction in recorded sales, stock levels, which increased sharply in 2020 and 2021, declined further to below 400 million litres in 2023 because of reduced wine grape production. In 2023, wine grape production dipped below the 1.2 million tonnes mark, compared to an annual average of 1.4 million tonnes over the last decade, which also included the severe 2014-17 drought in the Western Cape. Despite the drop in export volumes, South Africa managed to sustain the value of its total exports, aided by the depreciation of the Rand, lower domestic and global wine production and consequently lower stock levels. While this trend shows that the economic principles of supply and demand hold true, the shrinking production area remains an indication that the returns passed on through the value chain to the farm level do not sufficiently compensate grape producers for production costs and provisions for replacement.

INTERNATIONAL MARKET OVERVIEW

Amidst a confluence of adverse climatic events, one of the most significant year-on-year declines in global wine production was observed in 2023. With the lowest volumes since 1961, global wine production declined by around 9.6% to 23.7 billion litres. The decline more or less equates to three times South African total annual wine production. Widespread fungal diseases, such as powdery and downy mildew, early frost as well as heavy rainfall in some wine grape producing regions, coupled with droughts in other regions, affected production in both the Northern and the Southern Hemisphere. The biggest wine grape producing countries in the world – Italy and Spain – saw a season-on-season drop of over one fifth, while France and the USA showed an uptick in volumes (OIV, 2024).

From a supply perspective, global vine area (including wine, table grapes and raisins) has declined consistently, albeit at a modest rate of 0.2% per annum over the last 20 years. In 2023, total global area reached 7.2 million hectares – an approximately 35 000 hectare reduction year-on-year. Of these established vineyards, 45% are situated in the EU, with Spain, France and Italy featuring prominently. Collectively, the EU produced 61% of the world's wine grapes in 2023. For the first time since 2014, total area in the US did not decline, but stabilised at 392 000 hectares. The US remains in the 6th position in terms of area, with Argentina (in 7th place) recording 205 000 hectares. The US is the 4th largest wine producer world-wide. With the exception of Spain, which experienced a large season-on-season decline in volume, shares of production are greater than the share of area in the aforementioned regions, which is indicative of higher vine productivity, which could be related to cultivar choice and cultivation practices and/or ratios of vines for wine and vines for other grape production (OIV, 2024).

In terms of demand, the Northern Hemisphere wine producing countries feature at the top of the consumption tables: EU (48% of total global consumption), the US (15%), and the UK (6%). South Africans consume around 2% of the 22.1 billion litres estimated to have been consumed globally in 2023. What is apparent here is that the EU and South Africa consume less than they produce, whilst the US and the UK experience a net deficit, necessitating imports to meet demand. While comparison of production and consumption within a single year does not tell the full story, given the lags that can occur due to the aging of wine at cellar level, 2023 does mark the highest consumption to production ratio in recent years, with consumption equating to 93% of production, in comparison to the 87% average over the previous 5 years (OIV, 2024).

TRADE

The 6.3% reduction in global trade volumes in 2023 was attributed to three major factors, namely low production volumes in the preceding Southern Hemisphere season, and high average export prices coupled with weakened international demand. Global trade (in Euro terms) decreased by 4.7% on the back of a smaller traded volume, as average global wine export prices reached €3.62/litre – a record in nominal terms. Although the order of magnitude and absolute levels differ, the global wine trade performance is mirrored in the South Africa figures too, as South Africa recorded record unit value levels in Rand terms (R32.60/litre). Interestingly, that translates to a weighted average €1.63/litre for 2023 exports of bulk, packaged[9] and sparkling wine, which is marginally below the 2004 weighted average in Euro-terms of €1.65/litre, although the latter translated to R13.11/litre back then. In addition to the lower traded volumes, and despite the weakening of international demand, the higher international prices are compensating somewhat for the sharp rise in costs incurred by producers, importers, and distributors, which is a direct outflow of inflationary pressures observed globally. South African wine exporters further benefited from the depreciation of the Rand by 12.7% year-on-year.

Within this global environment, South Africa was the 6th biggest exporter of wine (3.5% of global traded volumes), and the 3rd biggest from the Southern Hemisphere, with Chile and Australia exporting higher volumes at higher unit values. Considering value instead of volume, South Africa is the 5th biggest in the Southern Hemisphere, with both New Zealand and Argentina netting higher returns. These major exporters from the Southern Hemisphere all recorded year-on-year declines in absolute volumes for both packaged and bulk. The continuation of post Covid-19 corrective action to stabilise stock levels, combined with lower production, resulted in an improvement in the relative share of bottled wine exports from South Africa and Argentina, whereas the inverse is observed for Chile and Australia (ITC, 2024; OIV, 2024).

South Africa's wine exports decreased year-on-year by 63 million litres to 306 million litres in 2023 (-17%), while value remained stable at R10.0 billion. Within these totals, bulk wine comprised 189 million litres (62%) and R2.3 billion in value (23%), compared to the 117 million litres (38%) for packaged wine exports at a value of

[9] Wine exported in containers of 10 litres and smaller.

R7.7 billion (77%) (SAWIS, 2024). The average return for shipped South African bulk and packaged wine was R 12.23/litre and R 65.46/litre respectively, which is well below the global average, indicating that South African exports trade well below global average prices, as the industry struggles to 'premiumise' its export offering.

Table 10 highlights the absolute shift in total bulk and packaged exports by volume and value to major importers from 2022 to 2023. The value of exports, indicated in million Rand in FOB terms, relative to the volume, indicated in million litre, is indicative of the relative shifts and the unit value of the traded product by market. While total bulk wine exports contracted by 17%, South Africa increased supply to one of its top ten markets, namely Belgium. Total value increase by country is observed for Great Britain, Belgium and Denmark, as total value of bulk exports only decreased by 1% over all markets. In unit value (R/litre), bulk wine exports increased between 12% and 35% for the top 8[10] importers, with a slight decrease in the price per unit to Finland (R12.50/litre) and growth of only 7% year-on-year in prices for exports to China (R11.83/litre in 2023). Overall, prices for bulk exports were between R9.70-R12.96/litre for the top 10, with Denmark an outlier at R19.98/litre. Interestingly, despite dropping out of the top 10 in 2022, and a year-on-year decrease in total bulk exports to China in 2023, the country is back in the top 10, which is indicative of a smaller decline in bulk exports to China than the total decline in bulk exports observed for 2023.

Packaged exports can be analysed in a similar manner. In total, packaged wine export volumes decreased by 17%, with total value of exports increasing marginally by 1% year-on-year, resulting in Rand based prices increasing by more than 20%. The global and domestic stock situation together with a weaker Rand is considered to be the biggest drivers in the price increases. Despite increases in the prices of packaged exports of 11-30% year-on-year to the biggest trading partners, total value of packaged wine exports declined for the Netherlands (-3%), Germany (-9%), Canada (-7%) and Kenya (-8%), which reflects the total decline in export volumes. Per unit, packaged exports ranged from R46-R54/litre (Kenya, Sweden and UAE) to R73-R87/litre (Canada, Belgium, Germany and USA).

Looking ahead, export volumes are projected to remain constrained, with an average annual decline of 1.3% from 2023 to 2033. Compared to the 3.4% average annual decline over the past 10 years, the projection hints that the tempo of decline is slowing down, but it is also from a lower base. Over the course of the projected period, trade with Europe – the UK, the EU and non-EU countries in Europe – is likely to decline as

Table 10: Bulk and packaged wine exports from South Africa to selected destinations in 2022-2023

Bulk wine								Packaged wine						
Top 10	Value (R m)		Value (m litre)		Unit value (R/litre)			Top 10	Value (R m)		Value (m litre)		Unit value (R/litre)	
	2022	2023	2022	2023	2022	2023			2022	2023	2022	2023	2022	2023
GBR	689	836	65.7	64.5	10.47	12.96		GBR	1 691	1 976	31.1	28.6	54.37	69.15
GER	463	439	52.2	42.6	8.88	10.30		NLD	745	720	15.0	11.6	49.68	61.89
FRA	209	176	22.0	16.5	9.51	10.65		SWE	387	392	9.0	7.9	42.93	49.44
BEL	100	159	9.8	13.8	10.20	11.47		USA	632	655	8.7	7.5	72.51	87.16
DNK	229	266	13.4	13.3	17.09	19.98		GER	558	510	9.3	6.8	59.90	74.98
CAN	171	109	20.3	11.2	8.46	9.70		CAN	430	400	6.5	5.5	65.94	73.15
SWE	38	49	5.0	4.8	7.54	10.16		CHN	310	319	6.1	4.9	50.68	65.66
USA	166	52	16.8	4.6	9.88	11.25		UAE	231	234	4.9	4.3	46.68	54.41
FIN	39	28	3.0	2.2	12.72	12.50		BEL	248	315	3.9	4.3	63.74	73.91
CHN	27	26	2.4	2.2	11.05	11.83		KEN	143	132	3.6	2.9	40.14	45.99

Source: SAWIS, 2024 (industrial wine included)

10 The top 8 importers in terms of volumes imported from SA

production volumes are projected to contract, with an upward price tendency, on average. Together with the weakening of the Rand, lower stock levels, and stable domestic consumption levels in the lower price band, a smaller component is projected to be exported, but at higher prices. Given this context, exports could reach 277 million litres by 2033. Selective marketing opportunities in North America and Africa could attract volume expansion in these regions, with the relative importance shifting away from other markets, although European markets would still remain the most important destination for South African wine. With smaller volumes available for export, the focus will be on extracting higher returns per unit of sales.

DOMESTIC CONSUMPTION

Muted economic growth amidst an intensification of loadshedding in 2023, combined with high inflation and high interest rates, exacerbated socio-economic challenges and constrained consumer spending power. These constraints were most severe amongst lower- and middle-income consumers and more affluent consumers were still able to increase spending on wine, as non-standard (premium, super premium and ultra-premium) wine sales volumes increased by 4.3% year-on-year. All other categories of domestic wine consumption contracted somewhat year-on-year in volume terms, with low and basic wine sales contracting by 3.6%, sparkling wine by 0.2%, fortified wines by 4.6%, and brandy by 6%. Although considerable, the year-on-year reduction is smaller than observed for imported hard liquors. Although South Africa produces a variety of hard liquors, imported whiskies, liqueurs, vodkas and gins showed strong year-on-year increases in price. In 2023, compared to 2022, import volumes dropped considerably for whiskies (-30%), liqueurs (-45%), vodkas (-35%) and gins (-54%) as imports arrived in South Africa in 2023 at prices 42%, 30%, 10% and 11%, respectively, higher than in 2022.

From a price perspective, wine and brandy prices increased between 4-5% from 2021 to 2022, and between 6-8% from 2022 to 2023, which is well below the food and non-alcoholic beverages inflation of 8.5% of 2023 on top of the 12.4% in 2022. In comparison to a basket of food and non-alcoholic beverages, wine and brandy became cheaper. However, as consumers were under pressure, the weakening of buying power, had a negative impact on demand.

Considering supply and demand dynamics, the Figure 59 highlights historic consumption per category and projects South African consumer demand over a ten-year outlook period. In the short run, as consumers remain under pressure, consumer demand for wine is expected to contract, before improved economic conditions domestically over the medium to longer term, along with persistent population growth, creates some demand pull. Most wine sold domestically falls within the cheaper price segments, a phenomenon that is not expected to change soon. Both consumer demand and production play a role here, as high quality wine is typically marketed at higher price points. For illustration, while packaging typically costs less per litre of wine when sold as a bag-in-box in comparison to glass, it is also indicative of the potential price bracket. To this point, only 34% of still wine sold domestically in 2023 was sold in a glass bottle, with 49% sold as a bag-in-box, and the complement in other formats. Of the 34% in glass, less than two thirds was in a 750ml glass bottle. By comparison, 42% of still wine consumption between 2017-2022 was sold in glass bottles (SAWIS, 2024).

Looking ahead, the projection is that domestic wine sales will continue to be dominated by low and basic priced wines, but there is some migration into higher value categories. In absolute terms, low and basic priced wine consumption in 2033 is projected to be marginally below the levels observed in 2023. By contrast, a 14 million litres increase is projected in the sales of premium priced wines (premium, super premium and ultra-premium), but this only equates to a 2.9% increase by 2033 relative to 2023. As such, by 2033, the low and basic priced categories equate to around 342 million litres, compared to 86 million litres of premium wine products. The growth in the premium categories signifies an important positive trend in terms of the willingness to pay for wine in the domestic market. Compared to the 17% of wine categorised as premium priced wine in 2023, 20% of domestic consumption is projected to fall in this category by 2033.

Furthermore, beyond domestic still wine consumption, Figure 59 shows the historical figures and projections for sparkling wine, fortified wine and brandy. Although sparkling wine has limited market attraction and should reach a market saturation point towards the end of the outlook period, total consumption is projected to increase by just below 1% per annum, on average, from 2023 to 2033. Domestic brandy consumption is

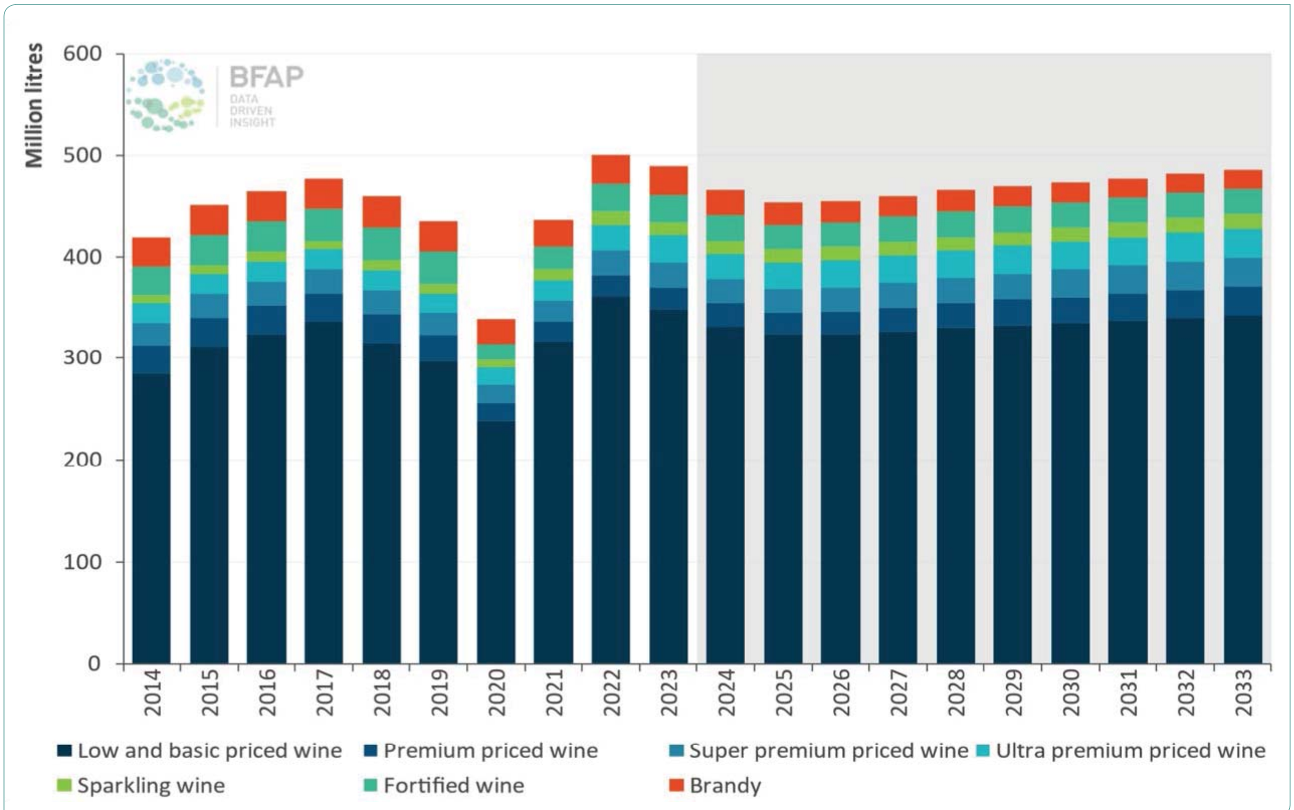

Figure 59: Wine and brandy consumption in South Africa: 2014-2033

Source: SAWIS, 2024 & BFAP Projections

projected to continue to decline to around 19 million litres per annum, compared to the 30 million litres per annum, on average, from 2014 until the Covid-19 pandemic. Production factors may also play a role in the brandy market going forward, as the availability of grapes for distilling may come under pressure, driving prices up, which ultimately results in a new price point at which brandy competes with other alcohol, and specifically other spirits, for the consumer's wallet.

PRODUCTION AND PRICES

In comparison to domestic bulk wine prices, which increased by 14% in nominal terms over the last two years, production cost per hectare increased by 21%. If one considers the cost per tonne of grapes harvested instead of per hectare, the cost increase is closer to 48% over a two-year period, from R2971/tonne in the 2021/22 production season to R4392/tonne in 2023/24 (Vinpro, 2022; Vinpro 2023; Vinpro, 2024). It is therefore no surprise that the net effect of uprooting and replanting resulted in a reduction in the total vine stand of more than 1 500 hectares in the last year alone, and over 4 000 hectares in total since 2019, with a high likelihood of more uprooting of non-viable vineyards to come. The recently concluded grape harvest (2024 season) was estimated at 1.1 million tonnes, compared to the 1.18 million tonnes in 2023 and 1.38 million tonnes in 2022. While total area declined by an average -1.3% per annum over the past decade, this area decline is projected to bottom out by 2025, as prices respond to reduced volumes in the market. In addition, while the recovery of wine prices should stimulate the reinvestment in new vineyards, producers may be more cautious to react to price stimuli given the number of serious challenges they have faced in quick succession in recent years on the back of more structural challenges over the past two decades. Uncertainty around policy, e.g., excise tax increases on legal alcohol sales, scheduled power cuts, e.g., loadshedding, and the global climate commitments, e.g., mirror clauses that would be imposed by the EU Green Deal, are just some examples of factors that producers and other role players in the wine value chain need to consider in the strategic decisions on area, cultivars and cultivation practices.

Figure 60 presents the total wine grape production volume and area under white and red wine grapes. While grape production is expected to continue to decline in the next season under baseline conditions, current projections reflect a slowdown in the rate of decline. BFAP's projection model on the biological potential takes historical area, cultivar, region, age of vineyards and yields into consideration. Aligned with real wine price projections that are expected to recover earlier for white wine than for red wine, a change in the trajectory of wine area is projected midway through the outlook period. Establishment of new vineyards will have a marginal impact on total production in the short to medium term. Consequently, under business-as-usual conditions, wine grape harvests of around 1.1 million tonnes per season are projected from 2024 to 2033.

Amidst a challenging period of logistical crises and limited access to markets under Covid-19 protocols, the increase in stock levels had a distinct impact on price levels. In Figure 61, the real domestic bulk wine price (average cellar door price) and the year-on-year change in bulk wine prices (right axis) clearly show the decline after 2019 as well as the subsequent recovery. Consecutively small wine grape crops, combined with a sharp decline in stock levels, is expected to drive wholesale wine prices up further over the next 2-3 years. While this will put prices on a longer-term upwards trajectory, the post-2019 decline is undeniably one of the drivers of over 7 000 hectares of vineyards already uprooted, or projected to be uprooted, over the next two seasons. With these increases in real terms, white wine prices are expected to recover to the 2019-level by 2025, with red wine prices only recovering over the second half of the outlook period.

As stock levels are projected to drop below historic longer-term averages, the increase in nominal prices, together with the elevated risk levels in some of the perishable fresh fruit value chains, could instigate a selective swing back towards wine grapes.

Figure 62 shows the production of wine together with domestic consumption and exports, with exports split into bulk and packaged. While packaged exports as a share of total exports recovered marginally in 2023, total export volumes declined by 17%. Going forward, and barring more crises, the projected stabilisation of wine production volume at a new norm below the historic average aligns with a decline in wine grape production on the back of continued uprooting (Figure 60). Higher

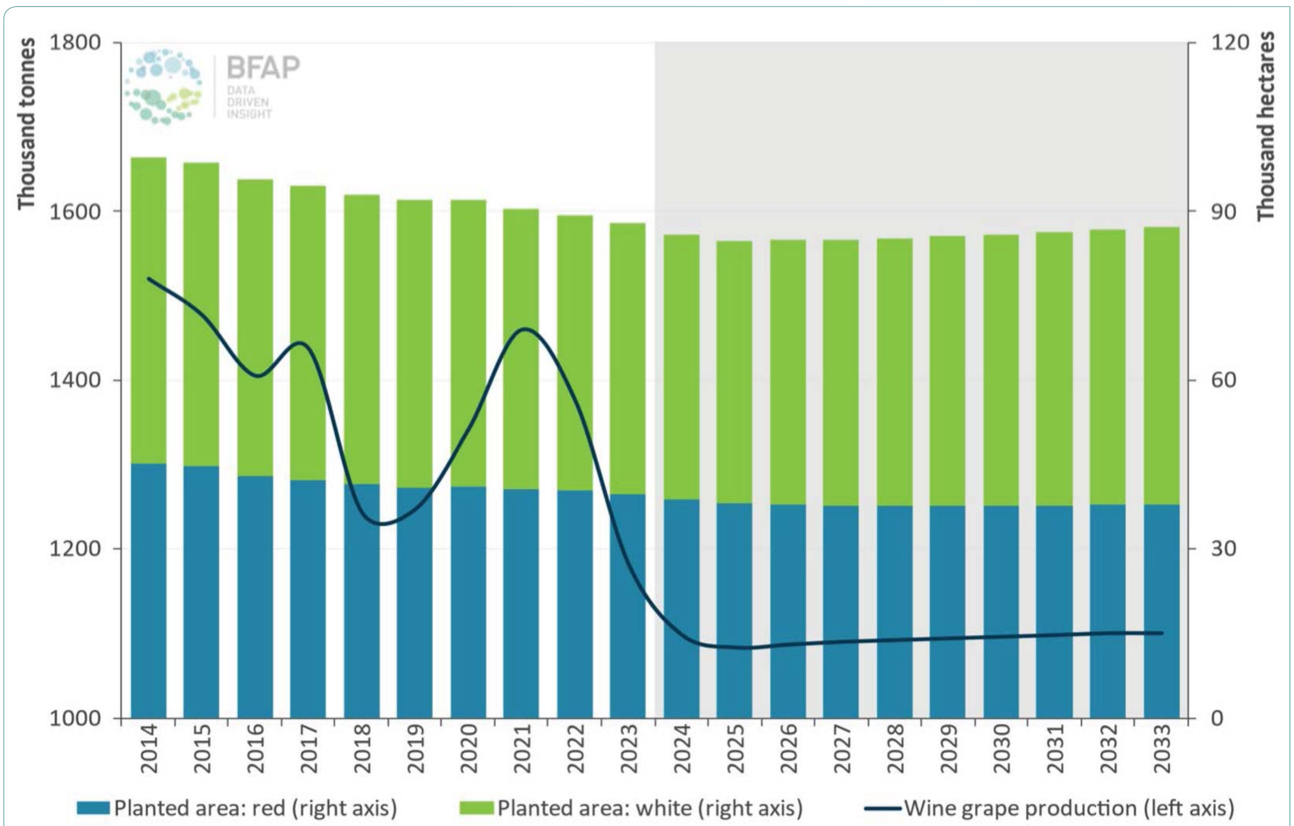

Figure 60: South African wine grape production: 2014-2033

Source: SAWIS, 2024 & BFAP Projections

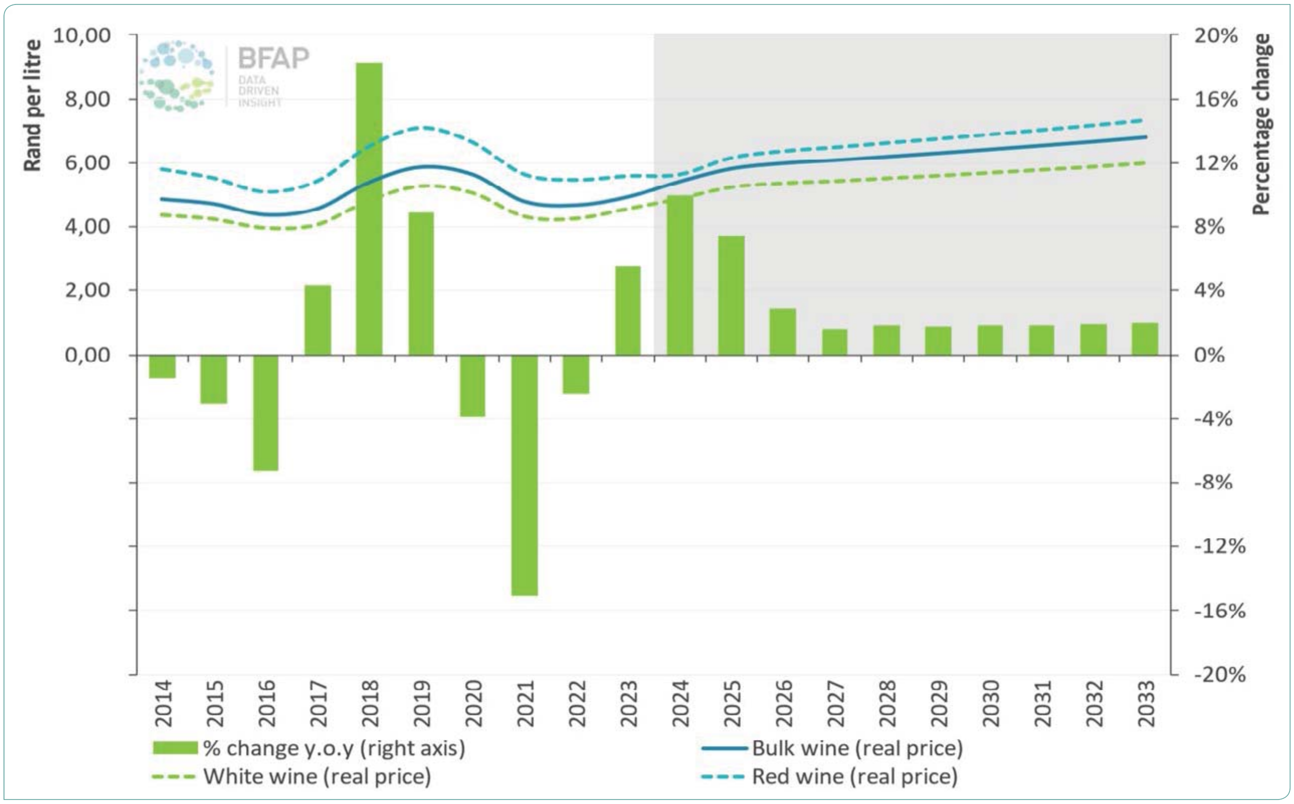

Figure 61: Historic and projected South African wine prices in real terms: 2014-2033

Source: SAWIS, 2024 & BFAP Projections

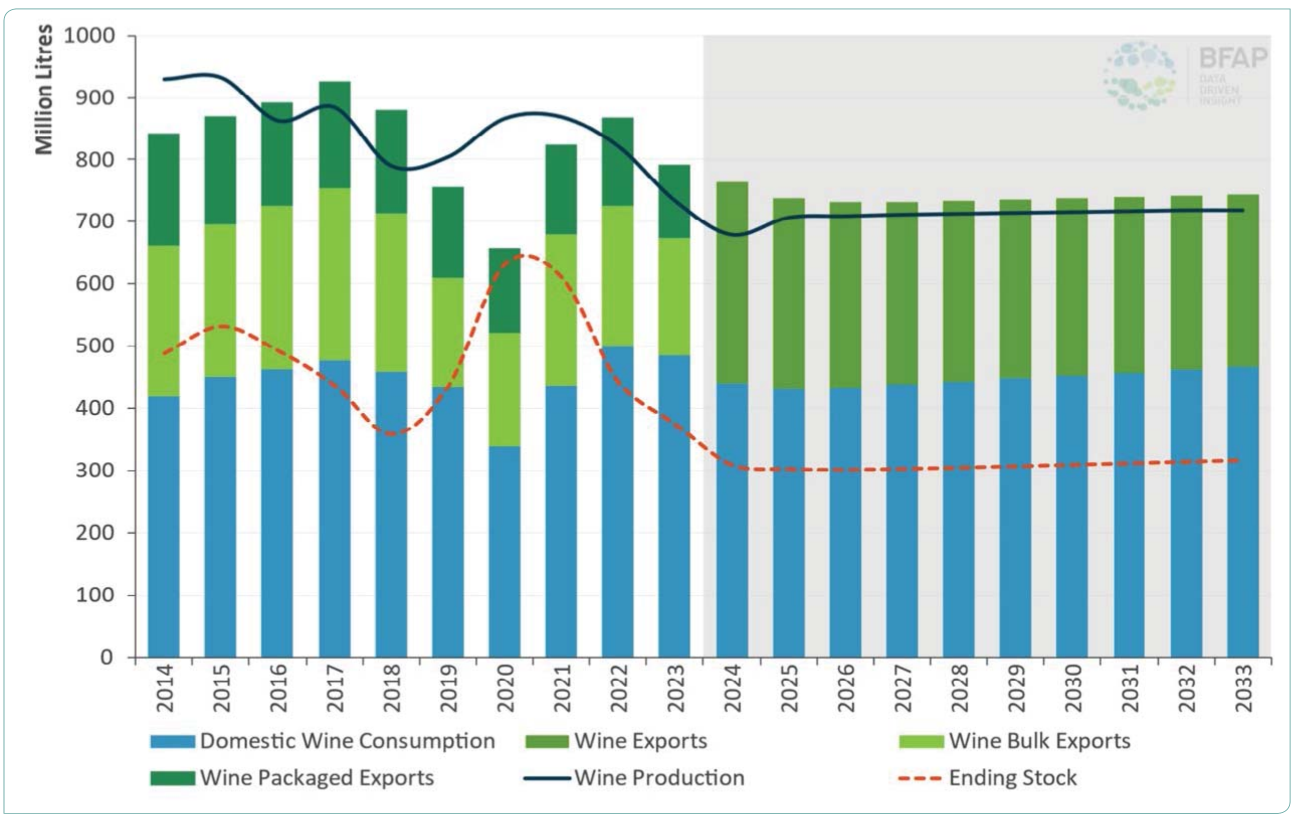

Figure 62: Production, consumption, trade and stock levels: 2014-2033

Source: SAWIS, 2024 & BFAP Projections

prices (Figure 61) and some, albeit slow improvement in domestic purchasing power results in a smaller export share over time.

CONCLUDING REMARKS

While the industry has weathered some challenging circumstances over the last couple of years, there are pockets of opportunity over the outlook for the industry, but this requires a more rapid shift to premium categories of wine for the domestic and the export market. BFAPs baseline projections show that 'business as usual' will result in stagnation unless more value can be unlocked from each tonne of grapes.

The wine value chain, particularly in the Western Cape, remains an important driver of job security and economic activity, both directly and via its integration with tourism. On both the domestic and the international front, opportunities to reposition South African wines to generate higher unit values, which transmit smoothly through the value chain to compensate growers and ensure long term sustainability at farm level, have to be explored. Feedback loops within the wine value chain should function efficiently to ensure the messaging on demand and supply and equilibrium prices informs collective strategic direction. Beyond the baseline, some risks and opportunities in the industry remain. Parastatal infrastructure failures and policies to discourage the consumption of alcohol such as a ban on advertising or proposals for excise tax increases on alcohol remain some of the key factors that should be considered in long term planning in the industry. However, collaboration between stakeholders - government, private sector, and wine value chain role-players can and should enable a bending of the curve to yield a more prosperous future in the South African wine sector.