South African Wine – An Industry in Ferment

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tralac Working Paper
No 8/2007
October 2007

This publication should be cited as: Ponte, Stefano and Ewert, Joachim. 2007.
South African Wine – An Industry in Ferment.
tralac Working Paper No. 8. [Online]. Available: www.tralac.org.

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Abstract

South Africa has gone through a true ‘revolution’ in wine quality in the last 10-15 years. In the 1980s, over 60 cooperative wineries supplied a large majority of wine to a small number of producer/wholesalers and marketers. A pool system in cooperatives and overall regulation gave incentives on the basis of volume, rather than price, with obvious implications for quality. With the end of apartheid and the re-opening of the export market, investment flowed in the industry, new farms and cellars were established, wine quality improved, cooperatives modernised themselves and export volumes increased dramatically. Major product and process upgrading took place. Demand-driven wine styles, volume and consistency have allowed the industry to grow in the basic quality segment of the industry, while the proliferation of higher quality wines has opened new niches. In short, South Africa in the space of a little over a decade went from a supplier-driven to a buyer-driven model of winemaking and marketing.

At the same time, the package of ‘basic quality’ that South African suppliers have to deliver to retailers is becoming increasingly demanding and sophisticated. While this has inevitably stimulated innovation, better managerial practices, and more systematized quality management, its financial rewards have been limited. Many of the improved processes and obtained certifications are part of what is now expected as ‘a given’ by retailers, and do not provide a competitive advantage, just potential entry into a market or maintenance of an acquired position. The extras (promotional support) that need to be delivered to obtain or maintain a listing are expensive, and margins remain extremely low in the UK retail market. Furthermore, the industry is still far from a visible presence in the more lucrative US market and the domestic market is under-developed. Labour conditions are still an issue, especially for casual workers, and the industry has made only partial moves towards meaningful ‘Black Economic Empowerment’.

This paper examines these dynamics and challenges in detail and offers some suggestions for future strategic direction. It provides a general and descriptive profile of the industry, its past and present geographic and input-output configurations, institutional framework, salient trends, and a short analysis of future challenges seen from the

perspective of ‘upgrading’. A separate paper, published at the same time, provides a theoretical and analytical approach to understanding the South African wine industry through Global Value Chain (GVC) analysis. It examines individual links in the chain, contractual relations among actors, definitions and negotiations of ‘quality’, and broader processes of value chain governance.

Acknowledgements

The authors would like to thank all the interviewees for their availability and generosity with their time, and SAWIS for providing essential statistical data. The fieldwork upon which this paper is based was funded by the Danish Social Science Research Council. During fieldwork, Stefano Ponte was affiliated at PLAAS, University of the Western Cape and the Trade Law Centre for Southern Africa (tralac). He is grateful to both institutions for their support. This paper is one of the outputs of a research and capacity building programme entitled ‘Standards and Agro-food Exports: Identifying Challenges and Outcomes for Developing Countries’ (SAFE). More information on this programme can be found at: www.diis.dk/safe

Introduction

In international wine circles, South Africa is classified as a 'New World' producer, along with Australia, New Zealand, Chile, Argentina and the US. South Africa is also seen as a new player in international wine markets, due to the recent opening of its export markets and the end of sanctions with the transition to the post-apartheid regime of the early 1990s. This is misleading, as South Africa started to produce wine in the seventeenth century and exported substantial quantities of wine in the last quarter of the eighteenth century and the first three quarters of the nineteenth century, much of it to Britain. The signing of a free-trade agreement between Britain and France in 1862, and the arrival of phylloxera in the 1880s (which devastated much of the Cape vineyards), however, signalled the start of a long period of decline. It was only in the 1990s with the end of sanctions, the (relative) novelty of South African wine's availability in international market, and a weak Rand, that a veritable renaissance of the wine industry took place. Investment flowed in (but not generally from abroad), new farms and cellars were established, wine quality improved, cooperatives modernised themselves (both infrastructurally and managerially), and export volumes increased dramatically. These processes continued in the early 2000s on the back of a particularly weak Rand, but by 2005, with the Rand strengthening and the start of a red wine 'glut' in the global market, the outlook had started to change. In 2006, the industry witnessed decreasing exports (for the first time since 1994), some bankruptcies, and a general decrease in profitability and competitiveness. At the time of writing, although the Rand had started weakening again, much soul-searching was taking place in industry publications and fora. This study aims at contributing to this process of reflection by highlighting key issues in the actual functioning of this industry – in the context of long-term processes and of broad international trends. It also uses the case study of South African wine to further a better understanding of the processes of globalization and restructuring that are taking place in agro-food industries.

This study is articulated in two working papers (which will be followed by other publications more specifically targeted at the *global* value chain for wine). This first working paper (WP1) provides a general and descriptive profile of the industry, its past and present geographic and input-output configurations, institutional framework, salient trends, and a

short analysis of future challenges seen from the perspective of ‘upgrading’. It is meant for an industry audience, and for those who have a general but informed interest in South African wine. With some exceptions, this paper does not engage with the academic debates on the wine industry in South Africa, nor with related theoretical issues. The second paper (WP2) is more academically oriented and provides a theoretical and analytical approach to understanding the South African wine industry through Global Value Chain (GVC) analysis. It examines individual links in the chain, contractual relations among actors, definitions and negotiations of ‘quality’, and broader processes of value chain governance. Some of the conclusions reached in this paper, however, are partially based on analysis carried out in WP2.

Both papers are based on fieldwork carried out in South Africa from June to November 2005. WP1 is based mostly on secondary source material, while WP2 draws extensively on fieldwork interviews and includes a methodological section. The wine sector in South Africa is defined and analysed as an ‘industry’ in the first paper to draw attention to its formal regulatory and organizational features, its general configuration, and to remain in line with the sector’s own characterization of itself (these aspects are the equivalent of the input-output structure and the institutional framework aspects of a value chain). The second paper highlights how conditions of participation, business practices and quality conventions in the global value chain for wine translate into specific contractual relationships, procurement systems, and definitions and (re)negotiations of quality at each node of exchange and/or transformation of the product within South Africa. WP2 also engages in academic debates on value chain governance.

The wine industry is an important contributor to the economy of the Western Cape region of South Africa (thereafter, ‘Cape’). Perhaps even more important than the direct economic impact of employment and foreign exchange generation is the unique position of wine (and to some extent wine tourism) in generating images of South Africa abroad. It is therefore surprising that this industry has been the subject of a relatively limited academic literature. Much of this literature has been generated by sociologists (and a few geographers) examining how the restructuring of the wine and fruit industries has impacted on labour practices at the farm level (Du Toit and Ewert 2002; Ewert and Hamman 1999; Ewert and

Du Toit 2005; Kritzinger et al. 2004). A sub-component of this literature explicitly examines the impact of ethical trade initiatives and other 'empowerment' processes on both the actual conditions of labour on the farms and the space for manoeuvre for more radical policy options (Bek et al. 2007; Du Toit 2002; McEwan and Bek 2006; Nelson et al. 2005). Others have tackled the process of 'Black Economic Empowerment' in the wine industry and its actual and potential impact on the industry as a whole, and not only at the farm level (Kruger et al. 2006; Williams 2005).

To the authors' knowledge, there has been no published attempt to examine the political economy of the wine value chain as a whole in South Africa and in connection to the dynamics of wine markets globally. While Shaw (2001) laid out some analytical pointers and provided a basic architecture for such a project, this has not been followed up, with the partial exception of Vink et al. (2004). Scattered efforts have focused on: the specific problems of wine cooperatives (Ewert 2003; Ewert et al. 2002; Martin 2001); broad innovation patterns in a small number of industry players (Wood and Kaplan 2005); the significance of geographic indications in the EU-South Africa bilateral trade agreement on wine (Craven and Mather 2001); descriptive characterizations of wine tourists in South Africa (Tassiopoulos et al. 2004); and econometric analyses for identifying the relation between price and 'value' in South African red wine (Van Rensburg and Priilaid 2004).

The only overviews of the industry are included in strategic documents that are linked to the implementation of Vision 2020[1] (Loubser 2001; SAWB 2003; SAWB 2005), in analyses of the macroeconomic impact of the industry in the Western Cape (Conningarth Economists 2004), and in a study of the impact of deregulation on the wine industry (NAMC 2004). While useful as sources of basic information, and of knowledge of where 'the industry wants to be', these technical and strategic documents provide only limited (and mostly acritical) insights of the actual operations of the industry, its discoursive and

[1] *Vision 2020* was published in 1999 by Winetech, the technical business unit of the South African Wine and Brandy Company (SAWB; the representative body of the wine industry). From 2006, SAWB was restructured into SAWIC, the South African Wine Industry Council (see definitions and profiles in Table 12). *Vision 2020* laid down a process of research and consultation for building an 'innovation driven, market directed, globally competitive and highly profitable industry'. It announced the end of the 'productionist' era (of guaranteed sales and protected prices) and called for the industry to become more market-driven (see Kruger et al. 2006).

metaphorical shifts, and its broad links to the global value chain for wine (with the partial exception of Rabobank 2004). This study attempts to partially fill these gaps.

The next section of this paper lays out the general geographical traits of the wine industry and a brief historical background. Section 3 is an analysis of the current characteristics of the industry and recent trends in production and export. Section 4 examines the institutional framework of the wine industry in South Africa, focusing on domestic and EU regulations, voluntary standards and formal institutions and organizations. Section 5 provides a picture of the 'quality infrastructure' in the industry, followed in Section 6 by a descriptive configuration of its export- and domestic-oriented strands (which, to a large extent, overlap). Section 7 examines trends in investment and competitiveness, and discusses issues of strategic positioning. The last section, through the lens of 'upgrading', provides a reflection on the current status of the wine industry in South Africa, the main challenges it faces, and some suggestions for strategic direction.

The South African wine industry: general traits and historical background

General traits

In South Africa, viticulture takes place mainly at a latitude of 34° south in an area with a mild Mediterranean climate. The wine industry is overwhelmingly based in the province of the Western Cape, with some production taking place in the Northern Cape and (very little) in Kwa-Zulu Natal. The Western Cape enjoys a cooler climate than its latitude might suggest, with good conditions for growing a wide range of grape varieties for winemaking. The traditional winegrowing areas along the coastal zone benefit from its cooling breezes that moderate the summer temperatures, especially the cold Benguela current that flows northwards in the Atlantic from Antarctica (WOSA 2004). The Cape mountain ranges form a backdrop to what is internationally recognized as one of the most beautiful wine-producing areas of the world. The vineyards lie on valley sides and mountain foothills in some areas, and in flatter plains in others. The diversity of topography and mesoclimatic conditions results in a wide range of wine characters (see wine areas in Maps 1 to 4). One of the potential competitive advantages of the Cape winelands is the great variety of soils,

something which could be exploited if there was a stronger orientation towards terroir (see below).

The wine industry in the Western Cape (excluding tourism) supports almost 200,000 jobs. In 2003, it contributed to 1.5% of the GDP of South Africa. Including tourism, it contributed to 8.2% of the Gross-Geographic Product of the Western Cape. Total turnover in 2003 was R10.7 bn (or US$1.4 bn at the 2003 average exchange rate) from wine activities and R4.2 bn (or $0.5 bn) from wine tourism. Turnover growth in 1993-2003 has been 11% per year on average (Conningarth Economists 2004).

The current structure of the wine industry in South Africa needs to be understood on the background of three factors: (1) its history before the end of apartheid, and the racial and labour relations underpinning it; (2) the twin processes of deregulation of wine production/marketing and the re-regulation of labour relations; and (3) the current process of 'Black Economic Empowerment' (BEE). We tackle these issues in turn in the next three sub-sections.

The wine industry before 1994

South Africa is not a new player in global wine trade. The first vineyards were planted in the Cape peninsula by Dutch settlers as early as 1655. Constantia wine was very popular in Europe at a time, and apparently a favourite of Napoleon. At the beginning of the 19th century, wine represented almost 90% of exports from the Colony (Vink et al. 2004: 229). But by the end of the century exports had almost collapsed. In 1861, the UK – the main importer of South African wine at that time and still currently – and France signed a trade agreement that made French wines cheaper to import. The spread of phylloxera in the late 19th century destroyed most of the vineyard in the Cape (Ewert et al. 2005). In the early 20th century, the new giant co-operative, the 'Ko-öperatieve Wijnbouwers Vereniging van Zuid-Afrika' (KWV) was granted the statutory powers to regulate the industry. KWV controlled sales and stabilized prices, and later on managed a quota system regulating new plantings, varietal choices and vine material imports. This period was characterized by a focus on high yields and volume over quality, and an overall orientation to brandy and

fortified wine production. This continuing orientation, and the imposition of international trade sanctions in the 1980s, later brought the industry almost to a halt (Ewert et al. 2005; Williams 2005).[2] Between 1964 and 1989, official exports fell by two-thirds, and the industry survived through exports of low-quality wine to Eastern Europe and domestic consumption (Vink et al. 2004: 236).

Throughout much of the twentieth century, the wine industry was centred around co-operative wine cellars, which were responsible for a large proportion of total wine production, supplied bulk wine of low quality, and whose farmers were dependent on cheap black labour. As mentioned above, much of the academic interest on the wine industry in South Africa has been dedicated to concerns with farm worker conditions, so the history of labour relations in the wine industry will not be repeated in detail here. Suffice it to say that current forms of labour relations in wine farms in the Western Cape cannot be understood without acknowledging their historical roots in slavery, early colonial settlement and, later on, paternalism and neo-paternalism (du Toit 2002; du Toit and Ewert 2002; Ewert and du Toit 2005; Ewert and Hamman 1999). Labour arrangements on wine farms after the end of slavery in the 1830s and up to the 1980s have been described in this literature as 'authentic, undiluted paternalism' (Ewert and Hamman 1999: 208) – a mixture of punishment and rewards, where workers received social dividends (housing, water, electricity) in exchange for low wages, no unionization, the part-payment of wages in alcohol (the infamous 'tot' system) and generally appalling working conditions (MacEwan and Bek 2006). In the 1980s, initiatives for 'social upliftment' of farm workers aimed at reducing social costs and improving productivity and the poor image of the industry, but did not succeed in ending sanctions. Rather than transforming labour relations, they created a kind of 'neo-paternalism' – a combination of 'modern' and 'paternalist' farm management (Ewert and du Toit 2005).

Deregulation of markets, re-regulation of labour

The political transition of the 1990s brought about a wave of change in the political and economic position of the white Afrikaner elite that had benefited from National Party

[2] For a much more detailed exposition of the history of the wine industry in South Africa, see Williams and Vink (1999) and Vink et al. (2004).

patronage. With the new democratically-elected ANC government in power, labour and employment legislation was brought to a minimum ILO level and beyond to ensure that basic human and social rights were afforded to all workers under the law. The extension of the Labour Relations Act of 1995 and the free movement of unions in the sector led to bursts of union activity in agriculture. The extension of basic human, social and economic rights to farm workers resulted, *inter alia*, in increased levels of casualization and externalization – which were carried out to mitigate the consequences of increased labour costs and the costs of complying with labour legislation (Kruger et al. 2006).

This did not take place overnight. Ewert and Hamman (1999) found that, by the mid-1990s, farmers had adopted new technologies as a result of industry restructuring (deregulation, opening of the export market), but that labour practices had remained unchanged. They also found that employment had grown in wine farms (due to the major new plantings that took place in the 1990s) and that there was no apparent decrease in the size of the permanent labour force, despite the passing of new labour regulation. At that time, wine farms were said to be still stuck in a low productivity and low wage model, with no formal contracts between farm workers and owners, no middle management (except in larger farms), and very low levels of unionization. However, the first signs of labour restructuring had emerged in some farms, where owners had cut down their permanent workforce, adopted technologies that minimized the need for such a workforce, and were restricting the security of occupation on farms by hiring younger workers (Ewert and Hamman 1999). These practices were to become the norm of labour management in wine farms in the following decade – as documented by Ewert and du Toit (2005). In the mid-2000s, they characterized the changes in the wine industry resulting from deregulation, opening of export markets, and regulation of labour as a ‘double divide’. The first divide entails winners and losers among cellars and farmers, depending on how positioned they are to make use of global export opportunities. The second divide is among the workers that remain in the permanent workforce (usually skilled ones) and those who have been casualized and externalized, and are now hired through labour contractors.

This movement towards the minimization of a permanent labour force and the casualisation of unskilled and low-skilled labour is not confined to the wine industry, but is part of a wider process taking place in the Western Cape and elsewhere in South Africa, especially in labour-intensive farms (Du Toit and Ewert 2002; Kritzinger et al. 2004; Mather and Greensberg 2003). These casual workers are excluded from the basic entitlements that permanent workers have now gained. Despite reporting wages that may not be lower than permanent workers, casual workers face higher livelihood vulnerability and insecurity (Barrientos and Kritzinger 2004; Kritzinger et al. 2004).

The 'transformation' of the industry

In the early 1990s, the promise of democratic transformation posed a powerful challenge to the elites, in particular the KWV, which had previously controlled the wine industry, and seemed to hold significant promise to black workers. In order to protect the economic assets it had built up since 1924, the KWV needed to mitigate the risks of government intervention and transformation of the industry. The opportunity had been created by the Amendment to the Cooperative Act in 1993 to convert itself to a private company and therefore pre-empt transformation by distancing itself from the control of government. In 1997, the chairman of the KWV Lourens Jonker announced that the KWV would be applying to the Supreme Court to convert to a public company. But the then Minister of Agriculture and Land Affairs resisted a mere financial conversion from a cooperative to a company. The Minister argued that the assets built up by the KWV while exercising its statutory duties should be considered in the public domain and would need to benefit the entire industry (Kruger et al. 2006; Williams 2005). The dispute was settled out of court in September 1997, with the agreement that the KWV would fund an industry trust to provide services to the industry as a whole and to support industry transformation.

In February 1999, the South African Wine Industry Trust (SAWIT) was established and a board of trustees appointed by the Minister of Agriculture and Land Affairs and by the KWV. The main purpose of the trust was to be the custodian of the funds paid by KWV. The functions of the trust were separated into two not-for-profit companies: Busco (shorthand for Wine Industry Business Support Company) and Devco (Wine Industry

Development Company). The objective of Busco was to support research, development and competitiveness in the industry. For that purpose, it was allocated 54.6% of SAWIT's funds, which were used to finance the following: Winetech, the research institution to support human resource development and the transfer of technology; the South African Wine Industry Information System (SAWIS), and Wines of South Africa (WOSA), a generic marketing organization (see Table 12 for a summary of the main organizations operating in the wine industry in South Africa). Busco was also used to fund the provision of services that had previously been provided by the KWV. The objective of Devco, on the other hand, was in equal measure the development and support of new entrants to the industry, and the support and upliftment of farm workers and their communities. A part of its budget was also related to the marketing of wine products and access to related extension services. In reality, it did little to support new entrants into the industry in comparison to the support provided to established industry through Busco (for a detailed discussion of Devco's performance, see Kruger et al. 2006; Williams 2005).

In 1999, Winetech developed the Vision 2020 document, which laid down a process of research and consultation for building an 'innovation driven, market directed, globally competitive and highly profitable industry' (Winetech 1999). While it announced the end of the 'productionist' era and announced the need for the industry to become more market-oriented, it did not offer much in the way of guidance as to how the industry could achieve this. With elegant circularity, the report pointed out that in order to succeed in the market, producers had to produce quality … while also stating that quality was whatever the market wanted. Vision 2020 played a vital role in attempting to establish a framework in terms of which changes in the industry had to be debated and legitimised. These terms were technical and neo-liberal, and rigorously eschewed any real engagement with the burning *political* questions facing the industry. There was no mention of a change of ownership or redistribution of productive resources in the industry, nor any specific mention of 'black empowerment' (Kruger et al. 2006).

A prerequisite for the implementation of Vision 2020 was an industry structure and leadership that represented all stakeholders in the wine industry. Thus, in 2002, the two main producer-wholesalers in the industry (KWV and Distell) moved to form the South

African Wine and Brandy Company (SAWB) as the 'inclusive and representative' body of the wine industry. The rationale behind the chamber structure that was adopted was that the various industry sectors would enjoy equal 'representation' and 'equal ownership'. The SAWB's four chambers represented producers, cellars, trade and labour.[3] SAWB became purportedly the forum where both old and new economic and political interest groups could stake out their claims in the transformation process of the wine industry. But the solution of a 'representative' institution was inherently unstable because the now established discourse of BEE (see Ponte et al. 2006) opened space for new demands which could not be met by old habits. White interests still maintained 99% of ownership and control over the assets of the wine industry. Thus, the structure of SAWB was still basically 75% white and 25% black (black interests were only represented in the labour chamber).[4]

The SAWB adopted the task of articulating what transformation in the industry should be, but by 2003 had not concretely embarked on any projects towards its achievement and had been inwardly focused on itself as the representative industry institution. The enactment of the Broad-Based BEE Act interrupted this complacency with a new national objective and a framework within which it could be achieved. It also provided a new language of 'empowerment' that could be used by a 'representative' stakeholder institution to formulate *the* transformation agenda in the wine industry. SAWB's Wine Industry Plan (WIP), presented in October 2003 at the Black Economic Empowerment Consultative Conference, aimed at creating a 'harmonious, prosperous non-racial agricultural sector' (SAWB 2003). In 2003, the first BEE corporate deal took place when Anglo American Farms (Amfarms) sold the Boschendal wine farm to a consortium of investors including an empowerment group. This was followed by KWV's BEE deal in 2004 (for a detailed review of this deal, see Williams 2005), Distell's in 2005, and a raft of other BEE transactions in

[3] On issues of 'representativeness' in SAWB and the labour chamber, see Kruger et al. (2006) and Williams (2005).

[4] SAWB was restructured in July 2006, when it became the South African Wine Industry Council (SAWIC). Johan van Rooyen maintained his position as CEO of the organization. In October 2006, Kader Asmal, a former ANC government minister, became its chairperson. SAWIC is structured in four business units: the already existing SAWIS, Winetech, and WOSA (now working to promote domestic consumption and wine tourism as well as exports), plus the newly-created Development and Transformation Unit that will take care, *inter alia*, of the Wine-BEE Charter. An Advisory Forum was also created, to provide SAWIC with advice on strategic issues. The Forum includes representatives from BAWSI, NAFU, VinPro, Wine Cellars of South Africa, SAWIT and the Rural Development Network.

the wine industry (see Kruger et al 2006).[5] At the same time, SAWB (now SAWIC) has been working towards the creation of a 'BEE charter' (or a 'BEE code', this has not been decided yet). The process of formulating a charter was held up by two fators: one, the Department of Trade and Industry's (DTI) continuously changing its mind on codes and charters in general; two, adapting DTI's template to agriculture in order to make it practical. A number of 'black-empowered' wine labels (such as Thandi and Lindiwe) and social labelling initiatives (fair trade wine, WIETA – Wine Industry Ethical Trade Initiative) have also emerged. While this is not the place for a thorough critique (see Kruger et al. 2006), it should be noted that BEE in the wine industry is still unconvincing and lags far behind other sectors in South Africa.

Current wine industry characteristics

South Africa in the global wine market

South Africa is not a major player in the international wine market, although it is important as a source of imports in selected countries (it is the 5th exporter to the UK with a market share of 9% and is expected to become the top exporter to Sweden in 2007). In 2003, it accounted for under 2% of the world surface area under vines, and for 3.3% of the world production of wine (see Table 1). This makes South Africa the 9th world producer, far behind France, Italy, and Spain, which have shares of 16-18% each. In terms of varieties, South Africa has a far higher proportion of whites than other New World countries such as Australia, Chile and the USA (see Table 2), but a more even distribution of noble varieties – in other words, it is less dependent on any of these varieties for survival. South Africa's lower dependence on reds (until recently seen as a problem) has paradoxically helped during the current 'red wine glut'.

[5] BEE transactions have been carried out not only in private cellars, but also in cooperative (or ex-cooperative) cellars. Orange River Wine Cellars has transferred 380 hectares to previously disadvantaged communities for winemaking; 10% of shares of the cellars have also channeled to these communities. Porterville Cellars has made available 90 ha on a 99-year lease. At Riebeek Cellar, 81 ha were bought by a BEE consortium that will bottle under its own brand. Robertson Winery (with other cellars in the Robertson valley) purchased 32 ha for a BEE project, with a goal to plant 70 ha and establish joint brand and bottling company. At Wamakersvallei Winery, an employees' trust has 90% interest in a new company for the long-term rental of wine tanks (*WineLand*, June 2006: p. 36).

Table 1: WORLD AREA UNDER VINES AND WINE PRODUCTION (2003)

COUNTRY	AREA UNDER VINES (WINE AND TABLE GRAPES)			WINE PRODUCTION (litres)		
	HECTARES	% OF TOTAL WORLD SURFACE AREA	RANK	WINE PRODUCTION	% OF TOTAL WORLD PRODUCTION	RANK
Spain	1 207 000	15.2	1	4 280 200 000	16.0	3
France	887 000	11.2	2	4 636 000 000	17.4	1
Italy	868 000	11.0	3	4 408 600 000	16.5	2
USA	415 000	5.2	6	2 077 000 000	7.8	4
Argentina	211 000	2.7	10	1 322 500 000	4.9	5
Chile	185 000	2.3	11	668 200 000	2.5	11
Australia	157 000	2.0	12	1 019 400 000	3.8	6
South Africa	132 000	1.7	15	885 300 000	3.3	9

Source: OIV statistics (2003)

Table 2: AREA UNDER VINES IN SELECTED NEW WORLD COUNTRIES (WHITE, RED AND SELECTED VARIETIES)

VARIETY	2004			
	% OF TOTAL SURFACE AREA			
	AUSTRALIA	CHILE *	USA	SOUTH AFRICA*
Chardonnay	17.0	6.9	20.7	7.3
Sauvignon blanc	2.1	6.9	3.3	6.9
Other white	21.0	9.9	14.9	39.8
Total white varieties	**40.1**	**23.7**	**38.9**	**54.0**
Cabernet Sauvignon	17.9	35.8	16.0	13.5
Merlot	6.6	11.5	11.5	7.0
Pinotage	-	-	-	6.7
Shiraz	23.9	2.5	3.8	9.4
Other red	11.5	26.5	29.8	9.4
Total red varieties	**59.9**	**76.3**	**61.1**	**46.0**
Total	**100.0**	**100.0**	**100.0**	**100.0**

* Wine grape varieties only

Source: SAWIS (2006)

Production

The official definition of ‘wine industry’ in South Africa comprises more than the growing of grapes for wine and winemaking. Brandy and its building blocks (rebate wine and distilling wine) have historically been an important element of the industry. In recent years, the production of grape juice and grape juice concentrate for use in non-alcoholic beverages have also emerged (SAWIS 2006). For the purposes of this study, however, the focus will be overwhelmingly on a narrower definition of ‘wine’ that *includes* natural, fortified and

sparkling wine[6] (although much of the analysis will be in practice on natural wine), but *excludes* rebate wine, distilling wine, brandy and other spirits produced from distilling wine, and grape juice and grape juice concentrate used in the preparation of non-alcoholic beverages.[7]

Table 3: General characteristics of the South African wine industry

	1996	2003	2004	2005	2005
GRAPES CRUSHED	**TONS**	**TONS**	**TONS**	**TONS**	**% of total**
White varieties	986 795	832 243	861 339	728 666	62
Red varieties	118 433	325 748	367 058	367 845	31
Table grapes	42 917	75 698	83 787	75 121	6
Total	1 148 145	1 233 689	1 312 184	1 171 632	100

PRODUCTION	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**% of total**
Wine	679.738	712.661	696.788	628.483	69
White		*483.897*	*444.551*	*384.003*	*61*
Red		*228.764*	*252.237*	*244.479*	*39*
Rebate wine	271.334	50.453	85.357	82.928	9
Distilling wine	(incl. in rebate)	122.209	145.775	129.239	14
Non-alcoholic	61.540	70.692	87.777	64.577	7
Total	1 012.612	956.015	1 015.697	905.227	100

DOMESTIC SALES (WINE)	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**% of total**
Natural wine *	359.748	308.197	308.707	301.093	83
Fortified wine	38.035	33.000	34.551	35.500	10
Sparkling wine	7.929	7.500	7.688	8.431	2
Brandy @ absolute alcohol	23.879	18.072	18.710	19.651	5
Total	429.591	366.769	369.656	364.675	100

* Includes wine used in grape-based liquor and alcoholic fruit beverages.

EXPORTS (WINE)	**MILLION L (1995)**	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**% of total**
Natural wine	71.207	237.212	265.762	279.871	99
White		*119.063*	*127.102*	*129.912*	*46*
Red		*110.717*	*127.436*	*136.697*	*49*
Blanc de Noir / Rosé		*7.432*	*11.224*	*13.262*	*5*
Fortified wine	0.793	0.531	0.413	0.407	
Sparkling wine	0.806	1.630	1.553	1.537	1
Total	72.806	239.373	267.728	281.815	100

Domestic sales over total sales of natural wine (% of total volume)	83	57	54	52
Export sales over total sales of natural wine (% of total volume)	17	43	46	48

STOCK (as on 31 December)	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**	**MILLION ℓ**
Total		336.764	363.747	339.394

Source: Elaboration from SAWIS (2006, Tables 2.1 and 2.2; and 1998, Table 1)

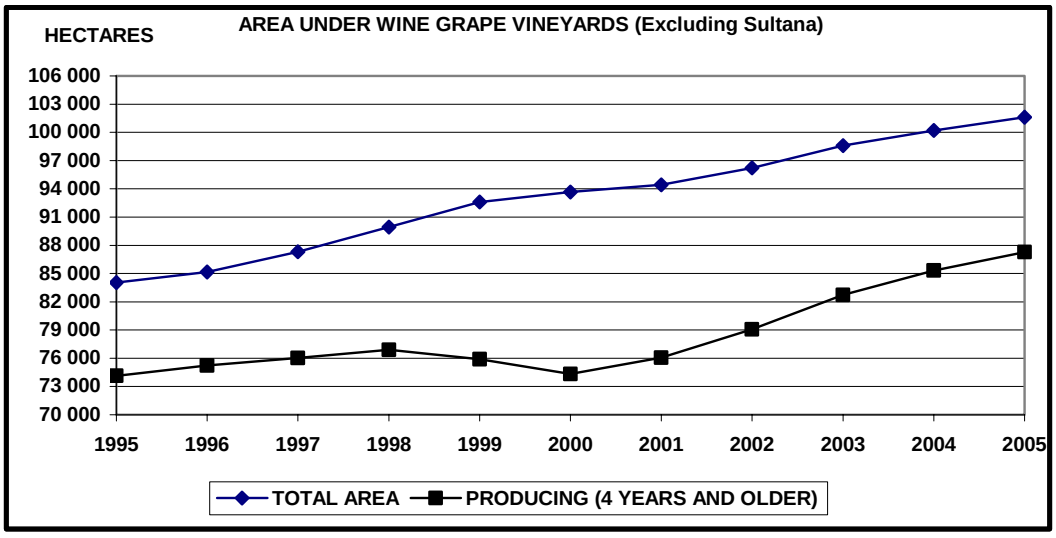
[6] *Natural* wine is non-fortified and non-sparkling wine, including any grape juice or must used in the sweetening of natural wine. *Fortified* wine is non-sparkling wine which has been fortified with wine spirit, including the volume of wine spirit used in the fortification process. *Sparkling* wine is wine carbonated (either by fermentation or by impregnation with carbon dioxide) to the extent that the pressure in the container in which it is sold is more than 300 kPa, including any grape juice or must used in its sweetening (SAWIS 2006).

[7] *Rebate* wine is wine prepared for brandy-making through double distillation in a pot still. *Distilling* wine is wine prepared for distillation to spirits used in brandy or other spirits, for fortification of wine or for industrial purposes. *Non-alcoholic* refers to unfermented, undiluted or concentrated juice from grapes destined for use in non-alcoholic products such as fruit juices (SAWIS 2006).

As Table 3 shows, in 2005, out of a total production of 1.2 million tons of grapes, 62% were white varieties, 31% red varieties and 6% table grapes. Total crushed production is slightly over 900 million litres, of which 69% is 'wine' and the rest distilling wine, rebate wine and non-alcoholic production. Within wine production, 61% of the volume is white wine and 39% red wine. Exports represent 48% of the total sales of natural wine by volume. Natural wine sales are the vast majority of sales in both the domestic market (83% of total volume) and in the export market (99%). Reds make up almost 50% of exports, even though they account for only 39% of production. Fortified wines and sparkling wines are relatively small niches and sell almost exclusively on the domestic market. Stocks are approximately 50% of total wine production.

By comparison, the industry in 1996 exhibited similar levels of grape production (but with a higher proportion of white varieties) and a similar make-up in terms of production of wine, rebate/distilling wine and non-alcoholic. However, natural wine exports represented only 17% of total sales (by volume) as the industry had just started to gear up for the international wine markets following the end of sanctions.

Figure 1: Area under wine grape vineyards (1995-2005)



Source: SAWIS (2006)

The total area planted under wine grape vineyards has expanded dramatically in the last decade, from 84 000 ha to over 100,000 ha (see Figure 1), of which approximately 87% are at production stage (four years old and above). Geographically, the area of wine grape vineyards is fairly evenly distributed in five wine regions (Worcester 19%, Paarl 18%, Stellenbosch 17%, Malmesbury 15% and Robertson 13%; see Table 4), covering 82% of total planted area. Of these, Worcester and Robertson are dominated by vineyards owned by farmers that are members of cooperatives (or shareholders of companies that are ex-cooperatives); Paarl and Malmesbury have both independent and cooperative grape growers and cellars; the wine industry in Stellenbosch is overwhelmingly operated by independent growers and cellars.

Table 4: GEOGRAPHIC DISTRIBUTION OF SOUTH AFRICAN WINE GRAPE VINEYARDS PER WINE REGION DURING 2005 (Excluding Sultana)

Wine regions	Number of vines	% of total vines	Area hectares	% of total hectares
Worcester	65 281 122	21.21	19 560	19.25
Paarl	55 723 856	18.10	18 029	17.74
Stellenbosch	54 203 586	17.61	17 524	17.25
Malmesbury	38 950 028	12.66	15 329	15.09
Robertson	46 258 782	15.03	13 374	13.16
Olifants River	27 668 155	8.99	9 878	9.72
Orange River	10 416 392	3.38	4 947	4.87
Little Karoo	9 281 753	3.02	2 966	2.92
Total	**307 783 674**	**100.00**	**101 607**	**100.00**

Source: SAWIS (2006; Table 5.1)

Varietal composition and alcohol levels

Another major shift has occurred in the composition of grape varieties (see Table 5). In 1998, 75% of vineyard area was planted with white varieties and 25% with red. By 2005, the split was almost 50-50 following increased demand and better prices for reds (but from 2004/05, a global red wine glut followed, thus prices decreased). Within the two categories, the proportion of so-called ‘noble varieties’ of higher quality has increased. In 1998, almost 30% of total area was planted with Chenin Blanc, a white variety that has been for a long time the ‘workhorse’ of the industry – appreciated for its resilience to stress and its adaptability for production of different styles of wine (for distillation, dry, semi-

sweet, sweet, and sparkling). The second largest planting was Colombard (13% of total area), a white grape mostly used for cheap blends and for distillation. 'Noble' varieties such as Cabernet Sauvignon, Chardonnay, Sauvignon Blanc, Pinotage,[8] Shiraz and Merlot represented only 2-6% of total planted area each, for a total of 31% of the total planted area (see also Figure 2). In 2005, the picture looks remarkably different: Chenin Blanc is still the most widely planted variety, but represents only 19% of the total – with some observers arguing that it may hold the key to South Africa's competitive hedge in whites (it is used in some of the most expensive white wines in the Cape). Cabernet Sauvignon follows suit with 13%, Shiraz has a 9% share, and Chardonnay and Sauvignon Blanc approach the 8% mark. All together, noble varieties make up 54% of the total planted area.

Cooperatives and ex-cooperatives still crush 79% of all grapes used for winemaking in the country (see Table 6). Along with a few producing wholesalers, they are the ones that can provide economies of scale, competitive pricing and large volumes. These are essential requirements for supermarket chains to place wines on the shelf (together with impeccable logistics). That cooperatives focus on run-of-the mill wines is an open secret, although it is perhaps insufficiently remarked in industry publications how much they have improved in the last decade in terms of quality – the result of technical improvements both in winemaking and in viticulture. Their quality profile is mirrored in the data provided in Table 6. Cooperatives crush a much higher proportion of white varieties than red, and a much lower proportion of their average share of highly sought varieties such as Sauvignon Blanc, Cabernet Sauvignon and Shiraz. Yet, they are still responsible for crushing over half of the production of each of these varieties, with the exception of Sauvignon Blanc (this is due to climatic reasons as well, as many cooperative farmers are located in warmer areas that are not friendly to this grape variety). The opposite picture applies to private cellars and producing wholesalers.

[8] There is disagreement among observers on whether the local variety Pinotage qualifies as a 'noble' variety, since it is a cross of a noble variety (Pinot Noir) and a 'not-noble' variety (Cinsaut). For the purposes of statistical analyisis, SAWIS labels Pinotage as a noble variety. It should be noted, however, that the definition of 'noble' is an arbitrary one.

Table 5: AREA DISTRIBUTION OF WINE GRAPE VARIETIES

Wine grape varieties as % of total area

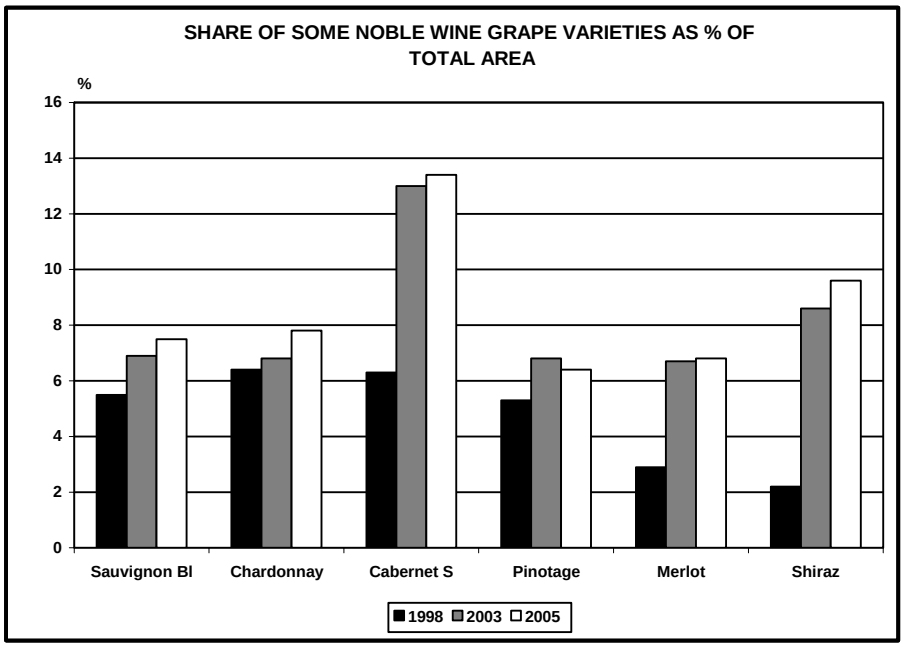
VARIETY	1998	1999	2000	2001	2002	2003	2004	2005
Chenin blanc	28.7	26.8	24.1	22.3	20.6	19.6	19.1	18.8
Colombar(d)	12.5	12.6	12.2	11.8	11.4	11.2	11.2	11.3
Chardonnay	6.4	6.4	6.4	6.3	6.4	6.8	7.3	7.8
Sauvignon blanc	5.5	5.7	5.7	6.1	6.7	6.9	6.9	7.5
Hanepoot *	5.5	4.8	4.3	3.8	3.4	3.1	2.8	2.6
Cape Riesling	3.5	3.0	2.3	1.9	1.6	1.4	1.2	1.1
Sémillon	1.1	1.1	1.1	1.0	1.0	1.0	1.0	1.1
Weisser Riesling	0.8	0.7	0.6	0.4	0.4	0.3	0.3	0.3
Other white varieties	11.3	9.5	7.1	5.5	4.7	4.3	4.1	3.9
Total white varieties	**75.3**	**70.7**	**63.8**	**59.4**	**56.2**	**54.6**	**54.0**	**54.3**
Cabernet Sauvignon	6.3	7.5	9.5	11.0	12.4	13.0	13.5	13.4
Shiraz	2.2	3.7	6.0	7.5	8.4	8.6	9.4	9.6
Merlot	2.9	4.1	5.2	6.0	6.6	6.7	7.0	6.8
Pinotage	5.3	6.2	7.0	7.3	7.2	6.8	6.7	6.4
Cinsaut noir	4.4	4.1	3.7	3.6	3.3	3.1	3.0	2.8
Ruby Cabernet	1.3	1.7	2.1	2.4	2.5	2.5	2.6	2.6
Cabernet franc	0.3	0.3	0.6	0.6	0.8	0.9	0.9	1.0
Pinot noir	0.4	0.5	0.6	0.5	0.6	0.5	0.5	0.5
Other red varieties	1.5	1.5	1.5	1.7	2.0	3.2	2.4	2.6
Total red varieties	**24.7**	**29.5**	**36.1**	**40.6**	**43.7**	**45.3**	**46.0**	**45.7**
Total 'noble varieties'	*31.3*	*36.2*	*42.6*	*46.9*	*50.3*	*51.6*	*53.4*	*54.4*
Total white and red	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total hectares	**89 935**	**92 601**	**93 656**	**94 412**	**96 233**	**98 605**	**100 207**	**101 607**
Sultana * (Hectares)	**11 044**	**11 578**	**11 910**	**11 919**	**11 765**	**11 595**	**11 392**	**10 983**

* Also utilised for raisins and as table grapes.

Noble varieties in italics; there are disagreements on whether the local variety Pinotage qualifies as such, but SAWIS labels it so

Source: Elaboration from SAWIS (2006; Table 5.6)

Figure 2: Proportion of area planted with some noble wine grape varieties (1998, 2003, 2005)



Source: SAWIS (2006)

Table 6: VARIETIES UTILISED FOR WINE MAKING PURPOSES BY TYPE OF CELLAR (2005)

		% OF VARIETY CRUSHED BY		
VARIETY	**TOTAL TONS**	**PRIVATE WINE CELLARS**	**PRODUCER CELLARS**	**PRODUCING WHOLESALERS**
Chenin blanc	227770	6.7	89.9	3.4
Colombar(d)	236344	4.2	95.4	0.4
Hanepoot	40608	5.6	93.8	0.7
Sauvignon blanc	55192	32.4	49.0	18.5
Cape Riesling	11309	13.3	77.7	9.0
Chardonnay	57473	22.3	65.6	12.1
Weisser Riesling	1675	48.5	40.8	10.7
Sémillon	11772	20.4	70.8	8.8
Other white varieties	86522	12.5	86.0	1.5
Table grapes	52861	6.7	93.3	-
Total white varieties	**781526**	**9.9**	**86.3**	**3.8**
Cabernet Sauvignon	82371	24.9	50.8	24.3
Cinsaut noir	25329	9.9	80.9	9.3
Pinotage	67573	15.5	70.4	14.1
Merlot	58985	26.2	52.7	21.1
Shiraz	78255	21.9	59.8	18.4
Ruby Cabernet	31857	7.2	89.2	3.7
Cabernet franc	4907	43.6	32.3	24.1
Pinot noir	3390	57.3	3.6	39.2
Other red varieties	15177	42.4	46.5	11.2
Table grapes	22261	0.7	99.3	-
Total red varieties	**390106**	**20.3**	**63.3**	**16.4**
Total white and red	**1171632**	**13.3**	**78.7**	**8.0**

Source: SAWIS (2006; Table 6.3)

An area where precise statistical information is lacking is the alcohol content of the average South African wine. Yet, many in the industry agree that the average level has increased visibly in the last decade, from 12.5-13% to 14% to over 15% especially for reds (Lloyd 2005a). More powerful yeasts and better vine material are part of the reason (in relation to the latter, better photosynthesis enables grapes to reach higher sugar levels). But part of the story is a change taking place in winemaking styles, and the search for riper, more concentrated wines with higher alcohols to appease, depending on the wine segment, wine judges (such as the influential Robert Parker) or the perceived fruit-forward preference of Anglo-Saxon consumers. The latter, converted to wine in the last few decades, were traditionally consumers of beers and spirits with a higher per capita consumption of sugar than in Southern Europe. One theory is that New World wineries

quickly adapted to these ‘new palates’ and increased the focus on primary fruit and sweetness, rather than tannin (Matthews 2004).

Geographic origin

The quantity and proportion of ‘certified wines’ that are examined by the Wine and Spirits Board (WSB) (see below for details) has also increased dramatically, from 25% of total wine production in 1999 to over 50% in 2005 (see Table 7). This reflects the increase in exports, for which certification is mandatory. However, of the 333 million litres certified in 2005, a large majority (69%) specified only the broad geographical unit. Other, and more specific, origins under the Wine of Origin scheme applied to 29% of total certified wine, while estate wine accounted for only 2% of total certifications. The volume of estate wine has actually decreased by 35% between 2000 and 2005 for reasons that will be explained below. Finally, the proportion of certified bulk exports has remained in the range of 25-30% of total certified volume between 1999 and 2005.

Table 7: CERTIFIED WINE PER PRODUCER GROUP
(Quantity final certified wine irrespective of vintage)

	LITRES						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
PRODUCER CELLARS							
Estate wine	-	-	-	-	-	-	-
Wine of origin	29 370 845	37 983 871	32 886 964	37 470 813	30 888 044	36 628 361	36 030 851
Geographical unit wine	6 316 694	10 667 208	15 300 005	15 883 680	20 308 705	22 515 627	26 408 328
Sub total	**35 687 539**	**48 651 079**	**48 186 969**	**53 354 493**	**51 196 749**	**59 143 988**	**62 439 179**
WHOLESALERS							
Estate wine	-	-	-	-	-	-	-
Wine of origin	24 328 625	25 999 088	34 237 499	31 697 811	26 488 154	23 627 119	28 549 082
Geographical unit wine	44 465 807	58 766 906	87 096 334	121 610 537	148 215 602	176 290 814	187 701 549
Sub total	**68 794 432**	**84 765 994**	**121 333 833**	**153 308 348**	**174 703 756**	**199 917 933**	**216 250 631**
OTHER							
Estate wine	11 036 178	12 261 021	11 745 992	11 446 085	10 237 928	9 750 728	7 909 603
Wine of origin	20 081 022	21 762 157	23 092 827	23 430 068	25 109 115	28 006 868	30 977 130
Geographical unit wine	10 716 199	13 476 900	3 190 871	5 858 452	9 752 347	10 603 202	14 942 426
Sub total	**41 833 399**	**47 500 078**	**38 029 690**	**40 734 605**	**45 099 390**	**48 360 798**	**53 829 159**
TOTAL CERTIFIED WINE							
Estate wine	11 036 178	12 261 021	11 745 992	11 446 085	10 237 928	9 750 728	7 909 603
Wine of origin	73 780 492	85 745 116	90 217 290	92 598 692	82 485 313	88 262 348	95 557 063
Geographical unit wine	61 498 700	82 911 014	105 587 210	143 352 669	178 276 654	209 409 643	229 052 303
GRAND TOTAL	**146 315 370**	**180 917 151**	**207 550 492**	**247 397 446**	**270 999 895**	**307 422 719**	**332 518 969**
Certified bulk exports (Included in above figures)	38 577 447	50 062 249	60 802 285	65 897 210	65 325 574	76 303 525	100 187 008
Proportion of bulk exports over total certified wine (%)	26	28	29	27	24	25	30
Total wine production (litres)	595 907 559	540 233 265	530 399 518	567 239 847	712 660 742	696 788 280	628 482 614
Proportion of certified wine over total wine production (%)	25	33	39	44	38	44	53

Source: Elaboration of SAWIS (2006; Table 6.6)

In terms of types of players, wholesalers account for about two thirds of all certified wine, since they buy much of the wine produced by cooperatives for blending, branding and export. Much of the growth in certifications of 'geographic unit wine' comes from wholesalers. This is an indirect indicator of the large and increasing coverage of the national territory in their sourcing and blending activities. Table 7 presents a mixed picture in relation to the importance of geographical origin (below the country of provenance) as a selling point for wines. It suggests that the growth of 'wines of origin' has been relatively satisfactory (from 74 million litres in 1999 to 96 million in 2005) but not stellar, given the increase in exports (see Table 8). Much of this growth has come from private cellars, while wholesalers and cooperatives have contributed much less. This is probably because the main buyers of their wine (supermarket chains in the UK and Holland) do not place importance on origin beyond the generic South Africa appellation.

Exports

South Africa exported only 25 million litres of wine in 1993 (6% of total production), doubling to 51 million in 1994 at the start of democratic rule. A decade later, exports have increased ten-fold to over 281 million litres (or 45% of total production) (see Table 8). Of total exports, 68% are bottled wine, and 32% are bulk wine (see Table 9). The varieties with the highest bottled-to-bulk export ratio are, not surprisingly, noble varieties such as Shiraz, Cabernet Sauvignon, Sauvignon Blanc and Chardonnay. The highest proportion of bulk exports is under 'other whites'. Natural wine as a category makes up over 99% of exports, with the rest accounted by sparkling wine (1.5 m litres) and fortified wine (only 406,000 litres). Given the small size of exports of fortified wine, it is curious that the EU forcefully insisted that South Africa drop the use of the names 'port' and 'sherry' from exported products, and almost brought down the negotiations with South Africa on a bilateral trade agreement (TDCA) (see below).

Over one-third of total volume of wine exports from South Africa goes to the UK, three-quarters of which is in bottles and the rest in bulk (see Table 10). The Netherlands is the second destination with 17% of total exports (60% of which bottled), followed by Germany with 13% (56% of which in bulk) and Sweden with 7% (all packaged, much of it in 'Bag-in-box', the rest in bottle). Together, these four destinations account for over three-quarters of the volume of wine exports, although the USA is growing quickly and is a potentially important destination for higher quality wine. Interestingly, over 10 million litres of bulk wine (or 4% of exports) end up in Australia and France for blending with local wines. In 1995, South Africa was even more reliant on the UK for its exports (44% of the total at that time). The Netherlands, Germany and Scandinavian countries accounted for around 7-8% of exports each. In terms of imports, South Africa in 2005 imported nearly 18 million litres of bulk white wine (SAWIS 2006) to address a local shortage.

Table 8: TOTAL QUANTITY OF WINE EXPORTED

YEAR	NATURAL WINE	FORTIFIED WINE	SPARKLING WINE	TOTAL LITRES	EXPORT AS % OF WINE PRODUCTION
1991	21 779 607	993 321	317 124	23 090 052	5.8
1992	20 719 619	900 692	375 471	21 995 782	5.2
1993	23 249 930	772 278	574 749	24 596 957	6.2
1994	48 446 024	1 284 187	961 597	50 691 808	12.0
1995	71 207 264	793 035	806 708	72 807 007	14.6
1996	-	-	-	99 900 000	17.3
1997	108 489 119	1 265 310	805 064	110 559 493	20.2
1998	116 766 480	1 116 781	524 687	118 407 948	21.8
1999	127 636 278	695 380	809 625	129 141 283	21.7
2000	139 800 203	471 538	685 248	140 956 989	26.1
2001	175 986 098	548 397	779 312	177 313 807	33.4
2002	215 759 308	523 169	1 401 483	217 683 960	38.4
2003	237 212 282	530 699	1 630 481	239 373 462	33.6
2004	265 761 884	413 393	1 552 885	267 728 162	38.4
2005	279 870 505	406 982	1 537 164	281 814 651	44.8

Source: SAWIS (2006; Table 8.1)

Table 9: TYPES OF EXPORTED WINE AND OTHER LIQUOR PRODUCTS (2005) - LITRES

TYPES OF WINE AND SPIRITS	BOTTLED		BULK		TOTAL LITRES
	LITRES	AS % OF TOTAL PER VARIETY	LITRES	AS % OF TOTAL PER VARIETY	2005
Chardonnay	13 286 242	77.12	3 942 388	22.88	17 228 630
Sauvignon blanc	12 642 420	83.00	2 588 531	17.00	15 230 951
Chenin blanc	18 808 844	53.93	16 064 470	46.07	34 873 314
Other white wine	40 417 005	64.59	22 161 361	35.41	62 578 366
Blanc de Noir and Rosé	7 671 051	57.84	5 591 297	42.16	13 262 348
Cabernet Sauvignon	11 384 196	82.36	2 437 985	17.64	13 822 181
Shiraz	9 682 549	89.20	1 172 873	10.80	10 855 422
Pinotage	10 239 472	64.00	5 758 733	36.00	15 998 205
Merlot	5 608 669	73.66	2 005 348	26.34	7 614 017
Other red wine	59 673 350	67.50	28 733 721	32.50	88 407 071
Subtotal natural wine	**189 413 798**	**67.68**	**90 456 707**	**32.32**	**279 870 505**
Fortified wine	325 967	80.09	81 015	19.91	406 982
Sparkling wine	1 537 164	100.00	-	-	1 537 164
Total wine	**191 276 929**	**67.87**	**90 537 722**	**32.13**	**281 814 651**

Source: Department of Agriculture, Directorate of Food Safety and Quality Assurance

Table 10: BOTTLED AND BULK NATURAL WINE EXPORTS PER COUNTRY - LITRES (2005)

COUNTRIES AND COUNTRY GROUPS	Total (bottled and bulk)					Bottled		Bulk		1995	
	WHITE	RED	BLANC DE NOIR / ROSé	TOTAL	% of total exports	Litres	% of bulk+bottled	Litres	% of bulk+bottled	Total bulk+ bottled(litres)	% of total exports
United Kingdom	57 991 458	41 543 372	2 678 962	102 213 792	36.5	78 325 656	77	23 888 136	23	31 477 874	44.2
The Netherlands	16 434 809	24 493 575	5 997 024	46 925 408	16.8	28 673 378	61	18 252 030	39	6 126 948	8.6
Germany	10 199 816	23 277 476	2 421 113	35 898 405	12.8	15 728 202	44	20 170 203	56	5 704 335	8.0
Sweden	9 572 245	10 431 471	5 769	20 009 485	7.1	20 009 485	100	0	0	5 269 304	7.4
Canada	6 126 667	6 414 850	48 623	12 590 140	4.5	6 518 657	52	6 071 483	48	3 545 762	5.0
United States of America	4 231 802	5 650 895	130 901	10 013 598	3.6	10 013 598	100	0	0	1 262 902	1.8
Denmark	2 450 167	7 262 075	2 957	9 715 199	3.5	6 557 789	68	3 157 410	32	**	
Belgium	4 110 227	3 611 076	465 357	8 186 660	2.9	4 548 071	56	3 638 589	44	1 761 451	2.5
Australasia	5 622 499	180 018	29 988	5 832 505	2.1	308 745	5	5 523 760	95	438 592	0.6
France	2 383 365	2 237 543	806 516	5 427 424	1.9	368 650	7	5 058 774	93	1 947 993	2.7
Finland	3 154 477	1 275 988	270	4 430 735	1.6	3 549 663	80	881 072	20	**	
Africa*	2 072 782	1 387 909	40 795	3 501 486	1.3	2 811 946	80	689 540	20	2 945 974	4.1
Switzerland	1 125 004	1 379 492	367 468	2 871 964	1.0	1 044 410	36	1 827 554	64	3 495 362	4.9
Eastern Europe	879 563	1 535 759	24 323	2 439 645	0.9	2 268 759	93	170 886	7	3 330 994	4.7
Norway	320 613	2 009 440	140	2 330 193	0.8	1 997 353	86	332 840	14	**	
Far East	967 199	1 265 356	28 868	2 261 423	0.8	2 189 563	97	71 860	3	2 542 138	3.6
Japan	538 874	853 265	2 007	1 394 146	0.5	1 229 146	88	165 000	12	0	0.0
Middle East	622 234	572 591	15 840	1 210 665	0.4	1 210 665	100	0	0	378 239	0.5
Africa Islands	318 021	346 805	179 227	844 053	0.3	428 823	51	415 230	49	485 586	0.7
Austria	160 065	253 626	351	414 042	0.1	414 042	100	0	0	86 013	0.1
Central America	219 074	157 505	10 049	386 628	0.1	386 628	100	0	0	52 469	0.1
Rest of Western Europe	226 756	109 385	1 440	337 581	0.1	195 241	58	142 340	42	253 439	0.4
South America	78 874	251 676	4 365	334 915	0.1	334 915	100	0	0	101 889	0.1
Iceland	104 672	195 750	0	300 422	0.1	300 422	100	0	0	**	
TOTAL	**129 911 263**	**136 696 898**	**13 262 353**	**279 870 514**	**100.0**	**189 413 807**	**68**	**90 456 707**	**32**	**71 207 264**	**100**

* Only countries for which export certificates are required. ** Sweden entry includes Norway, Finland, Denmark and Iceland

Source: elaboration from SAWIS (2006; Tables 8.3 to 8.5)

According to an analysis by *Drinks International* (May 2006), bulk exports from South Africa to Europe are increasing, which is hardly what local producers want to do to improve their image. This is due to high local bottling costs (the glass bottle industry is dominated by one player) and differential taxation in some countries (see also *Grape*, 24 May 2006). In 2006, due to a continued red wine glut, competition from Australia and Chile, and a strong Rand, exports contracted for the first time since 1994 (by approximately 4%). The fall was especially large in South Africa's main markets – the UK and the Netherlands (by 16 and 22% respectively), only partially compensated by increased exports to Germany, which has now overtaken the Netherlands as the second largest importer of South African wine (SAWIS data 2007). A 7% fall in packaged wine exports was partly compensated by an increase of exports in bulk (+3.5%) as the supply chain tried to cut costs. 2006 bulk exports represented 34.5% of total exports (Ibid.). A weakening of the Rand in 2007 and the smallest crop in Australia since 2000 was helping exports from South Africa to recover at the time of writing (second half of 2007).

The institutional framework of the South African wine industry: Regulation, standards and organizations

This section describes the main elements of the institutional framework of the wine industry in South Africa. First, it lays out the main domestic regulations; second, it

examines the rules of trade between South Africa and the EU, the main importer of South African wine; third, it discusses international and local rules on additives, processes and what is deemed to be ‘natural’ in wine; fourth, it examines the main voluntary standards that shape the wine trade; and fifth, it briefly examines the official institutions and organizations that make up the industry.

The Wine of Origin Scheme

The Wine of Origin (WO) scheme in South Africa is a set of regulations that guarantees the origin, cultivar, and vintage of wines. It was first introduced in 1973. Currently, all wines for export need to be certified under the WO scheme (NDA 2005), while wines for domestic consumption are only subject to these regulations if the producer wants to specify origin, cultivar and/or vintage on the label. The WO scheme is administered by the Wine and Spirits Board (WSB), which performs control functions and carries out sensory analysis of all batches of wine submitted for certification.

Origin

The principle behind certifying origin in wine is that the character and quality of a wine are determined more by natural factors (such as soil, climate and location) than by human intervention (cultivar choice, viticultural techniques, wine-making techniques). Such a claim is fiercely disputed in the wine world, with Old World winemaking countries (especially France, but also Italy and Spain) stating the ‘nature-deterministic case’, and New World countries (especially Australia) arguing that wines of specific character can be replicated almost anywhere in the world with the appropriate techniques. Accordingly, France has the oldest and most sophisticated ‘geographic appellation’ system in the world, with specific limitations on what cultivars can be planted within certain areas, which viticultural techniques can be used, when the harvest can take place, what the character of grapes needs to be for specific labels, and what wine-making techniques can be used. Cultivar names are rarely specified on wine and brand names tend to be not as important as in the New World (with the large-scale exception of Champagne). The bottle will

showcase the name of the individual producer and/or bottler.[9] Australia, on the other end of the spectrum, relies mostly on brands and cultivar names for consumer recognition, and is developing a basic wine of origin scheme delimiting areas in response to EU requirements. South Africa stands in the middle of this spectrum, but closer to the New World wine system as far as the WO system is concerned. This means that there are several 'layers' of geographical indications, from broad regions to individual vineyards, but that no specific limitations on cultivar, grape quality, and viticulture and winemaking techniques are imposed.

[9] It should be noted, however, that the wine industry is changing in France as well, with new consumer-friendly brands taking root and an increased use of cultivar names on bottles. The AOC system is going through reform to make it more flexible.

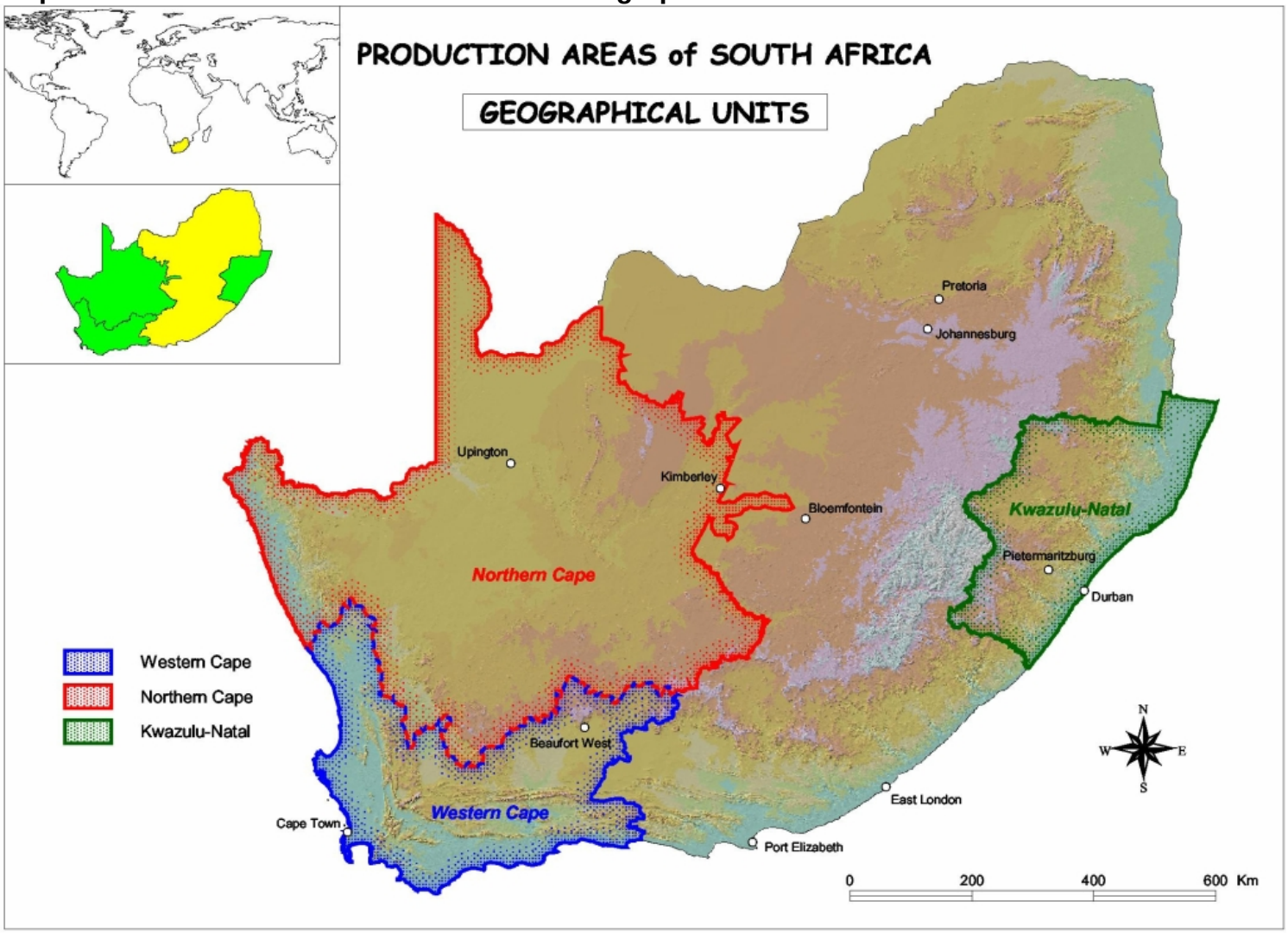
Table 11: SOUTH AFRICAN PRODUCTION AREAS DEFINED IN TERMS OF THE WINE OF ORIGIN SCHEME

REGION	DISTRICT	WARDS
BREEDE RIVER VALLEY	ROBERTSON	Agterkliphoogte
		Bonnievale
		Boesmansrivier
		Eilandia
		Hoopsrivier
		Klaasvoogds
		Le Chasseur
		McGregor
		Vinkrivier
	WORCESTER	Aan-de-Doorns
		Goudini
		Nuy
		Scherpenheuvel
		Slanghoek
	SWELLENDAM	Buffeljags
		Stormsvlei
KLEIN KAROO	-	Montagu
	-	Tradouw
	CALITZDORP	-
	-	Upper Langkloof
		Outeniqua
OLIFANTS RIVER	CITRUSDAL MOUNTAIN	Piekenierskloof
	-	Bamboes Bay
	CITRUSDAL VALLEY	-
	LUTZVILLE VALLEY	Koekenaap
	-	Spruitdrift
	-	Vredendal

REGION	DISTRICT	WARDS
COASTAL REGION	CAPE POINT	-
	-	Constantia
	DARLING	Groenekloof
	PAARL	Franschhoek Valley
		Wellington
		Simonsberg-Paarl
		Voor Paardeberg
	TYGERBERG	Durbanville
		Philadelphia
	STELLENBOSCH	Jonkershoek Valley
		Papegaaiberg
		Simonsberg-Stellenbosch
		Bottelary
		Devon Valley
		Banghoek
	SWARTLAND	Malmesbury
		Riebeekberg
	TULBAGH	-
No Region	OVERBERG	Elgin
		Klein River
No Region	CAPE AGULHAS	Elim
No Region	WALKER BAY	-
No Region	DOUGLAS	-
No Region	-	Cederberg
	-	Ceres
	-	Hartswater
	-	Herbertsdale
	-	Lower Orange
	-	Prince Albert Valley
	-	Rietrivier (FS)
	-	Ruiterbosch
	-	Swartberg

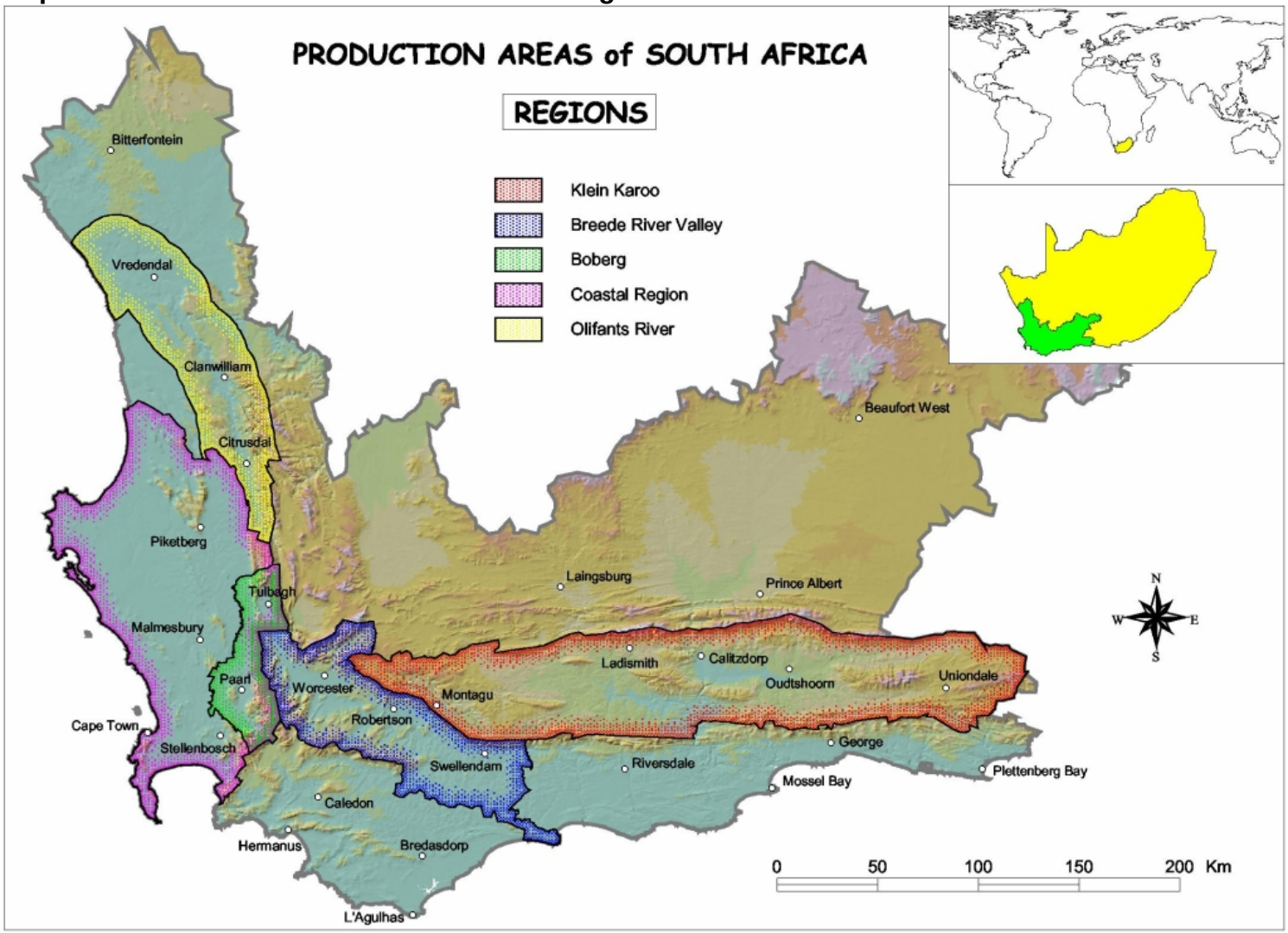
Source: SAWIS (2006)

Map 1: Production Areas of South Africa – Geographical Units



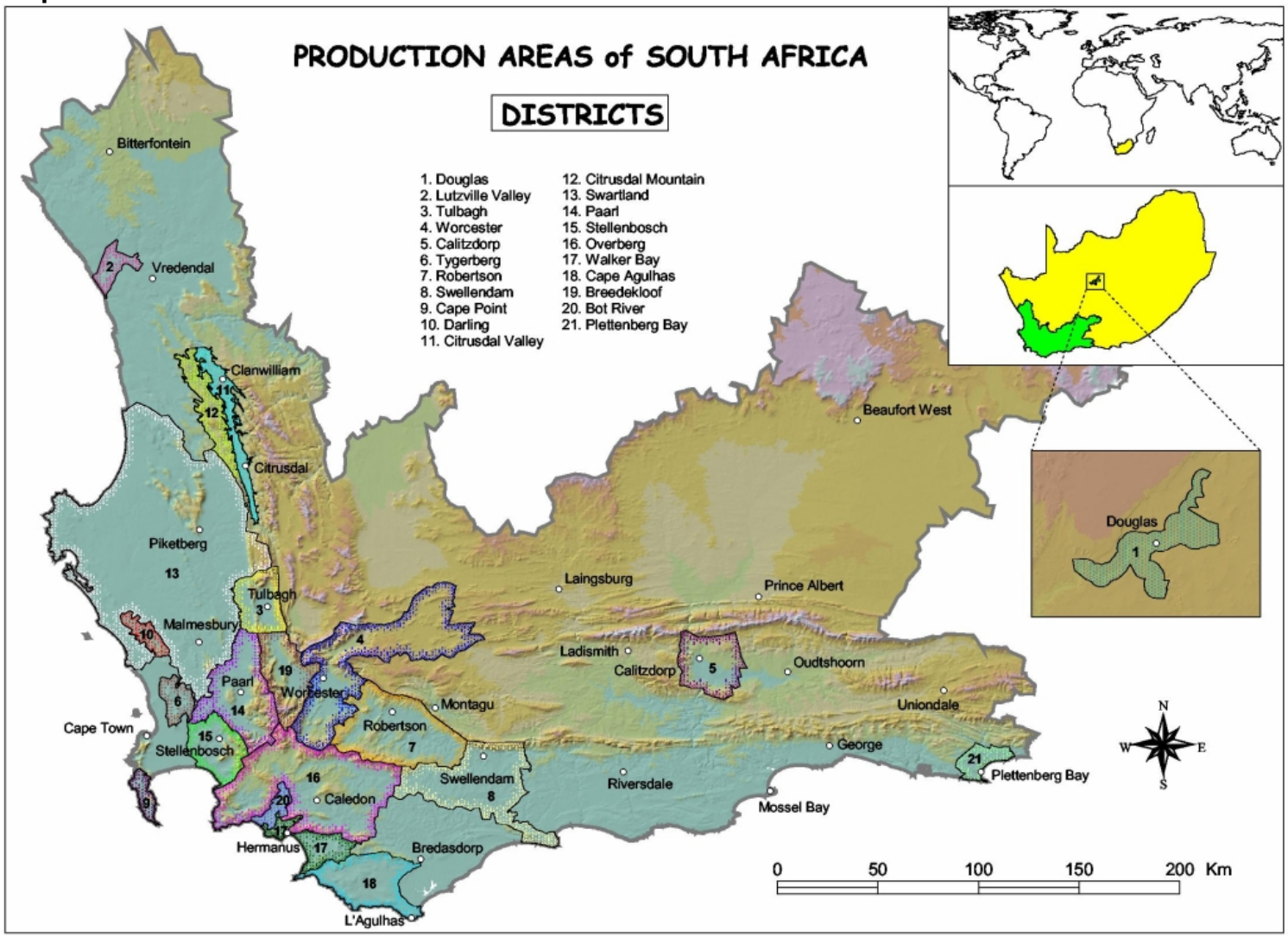
Source: SAWIS

Map 2: Production Areas of South Africa – Regions



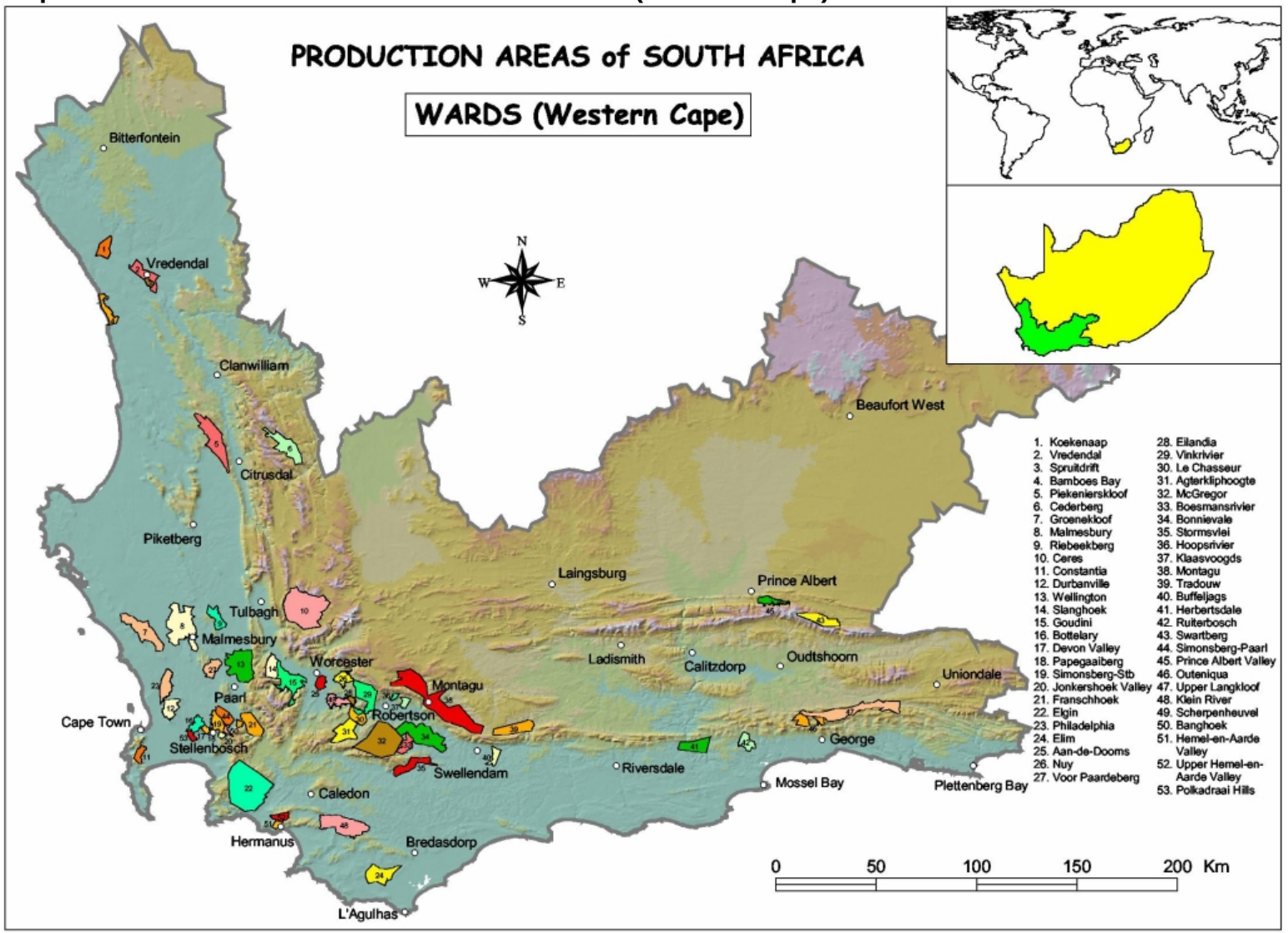
Source: SAWIS

Map 3: Production Areas of South Africa - Districts



Source: SAWIS

Map 4: Production Areas of South Africa – Wards (Western Cape)



Source: SAWIS

In South Africa, the broadest *geographical units*, below the generic 'Wine of South Africa' indication, are 'Western Cape', 'Northern Cape' and the new addition 'Kwa-Zulu Natal' (see Map 1). Most of the wine of high quality is produced in the Western Cape, while the drier Northern Cape produces bulk wines of basic quality and wine for distillation. Kwa-Zulu Natal produces a minuscule quantity. However, within Western Cape there is a large diversity of geography, climate and soils – thus these indications are of only very general character. The next layer in the WO system are the *regions* (such as Coastal Region), which are a combination of several districts, portions of districts and other smaller origins. They are usually built around a common broad geographic trait, such as a river or a plateau (see Table 11 and Map 2). *Districts* are also built around macro characteristics such as mountain ranges and rivers, but with a more specific character than regions. They still encompass a variety of soil types (see Map 3). Stellenbosch is probably the most recognized district internationally. *Wards* are where soil, climate and ecological factors start to have a distinctive and more easily recognizable impact on the character of wine (or they should, anyway) (WSB 2005). Wards such as Constantia and Franschhoek enjoy a good reputation for high quality wines, but also emerging areas such as Elim and Elgin for 'cool climate' varieties such as Sauvignon Blanc.

Estate wine is wine made of grapes grown within the borders of one or more bordering farms, as long as they are farmed as a unit and made into wine on a cellar placed within this unit (WSB 2005). The regulations on estate wine have been changed several times and are subject to some debate. Previously, grapes for estate wine could be sourced from non-contiguous farms provided that they were farmed as a unit (this, however, was applied only in a very few, 'historically justified' cases). This provision was eliminated to conform with a more 'purist' approach to estate wine. At the same time, changes were made on the use of names. While in the past the name of the estate could only be used for its 'estate wine' (i.e. the name of the farm 'Sun valley estate wine' could only be used together with the 'estate wine' indication on the bottle, but other wine produced by the same farm and not sold as 'estate wine' had to use a different name, e.g. 'Flower valley'), subsequent changes allowed estates to sell non-estate wines with the same name ('Sun valley'). The

most recent changes entail that ‘estates’ are no longer recognized by the WO scheme – only ‘estate wines’ and units registered for the production of estate wine.[10]

The smallest production unit that can be certified under the WO scheme is *single vineyard* wine, made with grapes coming from a single cultivar and a single vineyard not exceeding five hectares. This is a new system (the first wines were certified in 2005) and it is still unclear whether it will have many takers among high-quality producers. It is specifically inspired from the French idea of the ‘clos’ (a specific vineyard with unique characteristics that was enclosed by a wall). But in the South African system, differently from the French, there is no requirement that the soil characteristics and structure in the vineyard be uniform. WSB is also considering the development of a certification system for so-called *Terroir Specific Wines* (TSW). These wines would have to show identifiable and homogeneous characteristics with respect of topographical, climatic, soil and geological patterns (as in the French definition of *terroir*) (*Wineland*, May 2005: 8). This would be a further step in South Africa towards the demarcation of geographic origin according to the European model, but it is unlikely to be backed up by strict rules on quality, cultivar choice and specific viticultural techniques. Finally, recent changes in legislation allow for blending wines and grapes from different Wine of Origin areas, and for indicating all the areas on the label (e.g. Wine of Origin Stellenbosch and Paarl; previously, it would have been labeled as ‘Coastal’, a larger unit) (*Grape*, 7 September 2006).

Cultivar

Cultivars impart distinctive characteristics on the wine made from them. The quality and reputation of, say, Sauvignon Blanc and Colombard are very different even though large quality differences may occur within each cultivar due to differences in climate, soils, topography, viticultural and winemaking techniques. Therefore, truth-in-labelling regulations are set to protect consumers from mis-representation of cultivar content. Differently from Old World wine of origin schemes, there are no limitations on which cultivars can be used in specific areas under the South African WO scheme. The only limitation is that farmers have to use a cultivar from an approved list, but the list is very

[10] We owe this observation, and many others, to Tim James.

long (75 varieties are approved). In terms of labelling, if a wine producer decides to place the name of the cultivar on the label, 85% of the content of the wine must originate from that cultivar. If more than one cultivar is indicated, they appear in descending order of blend proportion on the label. Also, a percentage needs to be specified for cultivars that make up less than 20% of the blend (SAWIS 2004a).

Vintage

The wine world abounds with consumer manuals indicating estimates of the quality of vintages in specific areas. Rainfall patterns, temperature changes, and other weather-related events can impart significant changes to the quality and characteristics of a wine. In addition to this, bottled wine evolves in time. Some cultivars and blends are made for ageing, others needs to be drunk young and fresh. Therefore, regulations set the rules on the indication of vintage on the wine label. A large majority of bottled wine (with the exception of sparkling wine) is sold with an indication of vintage. In South Africa, a bottle specifying the vintage needs to contain at least 85% of the wine made in that year (WSB 2005).

The certification system

The seal that accompanies a WO certification in South Africa is a guarantee to the public that the claims made on the container (including bulk wine) are correct, and that the wine was of good basic quality when it was evaluated for certification (WSB 2005). The certification system is based mainly on paperwork management for 'truth in labelling' purposes. From harvesting of grapes to certification, operators need to provide WSB and SAWIS with a number of notices – the process can require the filling of up to 30 documents. As for the basic quality certification, wine is evaluated by tasting panels of the WSB. Additionally, the Department of Agriculture carries out chemical testing for each wine batch to verify that the wine meets legal requirements in terms of maximum levels of sulphur dioxide (SO_2), volatile acidity and that the alcohol level declared on the bottle is

correct (within a 0.5% error margin).[11] In 2005, WSB certified 333 million litres of wine, or 53% of a total production of 626 million litres of 'good' wine (excludes rebate wine, distilling wine and non-alcoholic wine production) (see Table 7). Wine for the local market that is not certified is spot-sampled from retail bottles and analysed by the Department of Agriculture for the purpose of food safety.

The whole certification system is fully computerized and available on-line to producers. It provides full traceability of wine – each seal (placed on a bottle or other packaging material) has its own ID number. Sensorial evaluation is carried out by a panel of WSB tasters with a part-blind procedure (vintage and variety are known, but not the producer). It provides a minimum guarantee of quality for South African wine and is focused on detecting some basic unacceptable characteristics, such as: lack of clarity, excessive sediment, faulty colour, insufficient or undesirable flavours/odours, and lack of distinctive varietal character (SAWIS 2004b). If a wine is exported to the EU, certification is also needed from the Department of Agriculture in relation to substances that can and can not be added to wine – according to a table included in the Liquors Act. According to the Department, however, it is nearly impossible to detect many of these substances chemically. The few cases that have been discovered came to the fore via intra-industry accusations and hearsay. The most infamous of these was the proven addition of a flavourant (pyrazine) to Sauvignon Blanc (see below). Twenty inspectors monitor the WO system – in 2004, this resulted in over 15 000 cellar visits and 645 special investigations (up from only three the year before) in relation to the flavourant scandal (Lloyd 2005b).

The EU-South Africa wine agreement and its implications

Many of the South African regulations highlighted above are built to ensure local compliance with a plethora of regulations that are applied on imports into the EU, US and other countries. Because the EU is by far the main export market for South Africa, we

[11] The Department of Agriculture is the EU-recognized 'Competent Authority' for food safety purposes. In addition to mandated tests, it carries out a 'normal' analysis of parameters that provide a 'fingerprint' of the wine that allows full traceability in the event of further submission to testing (following, for example, failure to pass one or more sensorial or chemical tests) to check whether the producer has added substances that are not allowed to modify the profile of a wine. These indicators can also be used by producers to provide more information on the wine to the trade, wine journalists or tasters. They normally include: alcohol content, density, residual sugar levels, pH, total acidity, volatile acidity and SO_2 levels (Interview SAW6).

briefly examine its regulations in more detail here. Wine trade between the EU and South Africa is regulated by the 2002 'Agreement on trade in wine', and is part of the overall 'Trade, Development and Cooperation Agreement' (TDCA) between the two countries, which was finalized in 1999/2000. Much of the genesis and politics of the wine agreement has been covered extensively elsewhere (Craven and Mather 2001). What is important to highlight here is that discussions on the use of geographic origin names (such as 'port' and 'sherry') almost derailed the whole TDCA. Only by signing separate agreements on wine and spirits was South African able to conclude the TDCA.[12]

During the TDCA negotiation process, the EU (under pressure from Spain and Portugal) made the case that South African producers should stop using the names 'port' and 'sherry' for wines of these styles that are produced locally. In order to conclude a draft TDCA agreement, South Africa agreed to phase these names out over a period of five years in export markets and 12 years in the domestic market. In exchange, the EU committed to provide a duty-free quota of 32 million litres of wine and a grant of €15 million to assist South African producers in designing new names for their products. But the controversy re-surfaced again in late 1999 when the TDCA was been finalized. At that point, Greece and Italy also objected to the use of the names 'grappa' and 'ouzo'. It is worth remembering that exports of port and sherry from South Africa are minimal, and that local production of grappa and ouzo is minuscule, with basically no exports.

While the TDCA went into force, these specific issues were only resolved in 2002 with the signing of the wine agreement. The agreement provides for the reciprocal protection of geographic names and defines a list of acceptable oenological practices, descriptions and presentations of wine. It includes clauses for the elimination of the use of the names sherry and port, but also grappa and ouzo. The EU eventually agreed to provide South Africa with a duty-free tariff quota for 35.3 million litres of wine, with an additional 6.72 million litres added to the basic allocation each year from 2002 to 2011. Under the agreement, South African exports are required to comply with sanitary, phytosanitary and

[12] The wine and spirits agreements are two of four additional agreements attached to the TDCA (the others being an agreement on scientific cooperation signed already in 1996, and a fisheries access agreement that has never been finalized). The 2002 wine agreement replaces a provisional agreement that was included in an annex of the original TDCA.

other technical requirements and the rules of origin stipulated by the TDCA. 80% of the first allocation of permits was divided up in proportion of historical market share of exporters, and the rest allocated to SMMEs.

But even the 2002 agreement did not end controversies. The EU later insisted that South Africa gives up the right to trademark names that include geographic locations, such as Nederburg and Roodeberg – two well-known brands in South Africa that are also exported. Interestingly, these names are not in the 78-page list of EU geographical indications of wine to be protected (as in the 2002 wine agreement); no wine is made in these two places located in the Netherlands and Belgium. Furthermore, the EU started raising problems with the use of descriptors such as ‘ruby’ and ‘tawny’ in port-style wines (which are sold without the name ‘port’), and descriptors such as ‘claret’ or ‘ripasso’ in wine. This was a consequence of the application of new EU regulations on geographical indications that were supposed to ‘relax’ wine labeling rules for non-EU producers – this itself was the result of a successful case brought by the US against the EU in front of the WTO Dispute Settlement Board for breaching the TRIPs and GATT Agreements. These regulations allow some ‘traditional’ expressions such as ‘classico’ or ‘amarone’ to be used in non-member countries provided that: (1) the term has been used in the country for at least ten years; (2) is recognized and governed by rules which apply to wine producers; (3) is specific; and (4) is distinctive and/or enjoys a reputation in the country. If the expression is in a language other than the official language of the country, the continual use has to be proven for 25 years.

As a result of continuing disagreements between the EU and South Africa, the wine agreement has actually never been ratified, and the €15 million compensation fund has not been disbursed. The tariff quota system, on the other hand, has been put in operation. Interestingly, tariff quotas have been utilized mainly for exports to the UK. When the tariff quota was first applied, retailers in Europe refused to pass on the import tariff cut to exporters and instead pocketed the difference. Subsequently, under pressure from WOSA, UK retailers agreed to deposit tariff quota savings into a WOSA fund for the generic promotion of South African wine in the UK. Retailers in the Netherlands refused to do so,

and thus exporters in practice have used licences for tariff quota exports primarily destined to the UK.

Rules on additives, processes and what is 'natural' in wine

The International Organisation of Vine and Vine (OIV) is the international industry body in charge of approving the permitted substances and technical processes to be used in wine production. It is an inter-governmental body, based in Paris, whose resolutions are voluntary. The EU, however, has embedded the OIV list in its own regulations, so all wine exported to the EU needs to conform to the OIV list (Lloyd 2004a). In practice, given the importance of the EU market for New World wine exports, OIV has a quasi-regulatory status. In South Africa, the regulatory power in relation to these additives and processes is vested in the Wine and Spirits Board and the Department of Agriculture. Any cellar can apply to have processes or additives registered, as long as they are 'safe', not 'wine foreign', do not leave undesirable residue, and that the process does not alter the substance of wine (Lloyd 2004a; and Interview SAW4).

Rules and related discussions around 'what is natural' in wine are complex and disputed around the world. South Africa has also been at the centre of attention in recent years due to the so-called 'flavourant scandal', the addition of pyrazine to Sauvignon Blanc to impart an extra 'green pepper' profile that is highly regarded among influential wine writers and judges. Sauvignon Blanc is a newcomer to the Cape peninsula – plantings started only in the 1970s but major expansion is as recent as the late 1990s, when it became a fashionable variety in white wine markets, supplanting Chardonnay. The Cape peninsula has areas that are ideal for growing Sauvignon Blanc, including Constantia, Walker Bay and Elim, where it exhibits zesty, herbaceous and green pepper profiles. Warmer climates, such as in Robertson, can also yield some impressive Sauvignon Blancs, but generally with more tropical notes, and a gooseberry and passionfruit 'nose'. Yet, for years in the early 2000s, these warmer climate wines had expressed levels of 'green pepper' aromas that were out of the ordinary.

It took a whistle-blower, one of the most respected and influential wine writers and judges in South Africa, Michael Fridjhon, to bring this issue to the attention of the public in late 2003. A furious debate ensued in South Africa, including insinuations that WSB was aware of the problem for years, and had started to profile 'anomalous' wines from warmer areas, but did nothing to stop the practice of adding flavourant to these wines (Fridjhon 2004a). Eventually, two leading winemakers at KWV were identified as responsible – apparently without the consent of the company.[13] In reality, the practice is likely to have been much more widespread in the industry (Lawrence 2004) and was probably linked to the necessity to have 'blockbuster' wines to win competitions and thus showcase a company's wines. KWV had to dump 67 000 litres of Laborie Sauvignon Blanc (which, by the way, had won the 2004 South Africa Young Wine Show) valued at R1 million (*Business Report* 13/04/2005). The fact that 'some of SA's best-known winery supply companies openly offer for sale ranges of fake flavourants' (Fridjon, quoted in *Grape* 2004, No. 21) would suggest that the practice is not only more widespread than it appears, but that may also affect other grape varieties.

Technically, it is possible to manipulate wine in many different ways. The French have been legally adding sugar to their wines to increase alcohol level for centuries (and in certain circumstances, also acid), yet appellation rules in some areas prohibit the use of irrigation. It is possible to remove excess alcohol from wine through reverse osmosis (a practice legally sanctioned in Australia and now also in South Africa, but so far only for wine not destined to the EU). Concentration of must is in use in most First-Growth Bordeaux estates (and in many other places) to reduce the effect of dilution in rainy vintages (by using reverse osmosis or vacuum evaporators). In Australia, it is possible to extract flavour from grapes through spinning-cone technology and add this essence back to the final product.

Vegetarians and/or vegans would probably recoil at knowing what agents are used for fining wine (to clarify and stabilize it) – among others, dried blood, eggwhite, fish bladder

[13] This was challenged by James (2005), who argued that the chief winemaker must have known, or if he had not known, should have been brought to bear responsibility for lack of control. James also points out that the financial loss for KWV was fairly limited, as well as the apparent loss of image. KWV was also at the centre of another scandal in the early 1990s for apparently supplying local sparkling wine as Champagne (James 2005).

and milk – but they may approve of bentonite clay (James 2000). While adding sugar is not necessary in South Africa (as a matter of fact, reducing alcohol is), acidification is frequently done and tannin addition increasingly so. All in all, 46 different substances are permitted as additives in winemaking in South Africa (not pyrazine, though) (James 2000).

The key issues in this debate are: What is the level of manipulation that is acceptable for wine? In what historical/local context (and regulation)? Linked to these are issues of 'authenticity' and 'disclosure' (the acceptance or not of flavour-enhanced or -added labelling) and issues of where one draws the boundaries. Some observers have argued that 'flavour-enhanced' labelling should be adopted for wines that have been tampered with, for example with wood chips and staves, reverse osmosis and concentration devices, and that 'flavourants added' labelling should be used when a nature-equivalent flavourant is used (Fridjhon 2004b; Lloyd 2004b).

A related aspect is one of logistics – one way of looking at the use of wood chips and staves to simulate barrel ageing is to consider the wine as needing to be 'ready' to be drunk immediately after purchase (overwhelmingly the case if the wine is purchased in supermarkets) in relation to the production costs of maturing wine for longish periods of time in oak barrels. In other words, wines need to be enjoyable at the moment of purchase nowadays, and thus manipulation is carried out at the expense of longevity (Motteux 2003). But even in relation to more 'traditional' techniques, like oak barrel maturation, some observers dissent on how much wooding is really needed – too much wood is said to 'dumb down' a wine, providing a simple, powerful flavouring that the new wine drinker can readily identify (especially if American wood is used, which imparts a clear vanilla character) (James 2002).

While the 'flavourant scandal' was helpful in terms of opening a debate in South Africa on what is 'natural' in wine, it is not clear yet if it has made any impact on practices. At least pyrazine is not a dangerous additive, differently from the Austrian and Italian scandals of the mid-1980s – where a chemical component of antifreeze and methanol (respectively) were added to wine and a number of people lost their lives. Interestingly, Austria

particularly used the scandals to overhaul its quality profile. Whether South Africa can follow the same trajectory is still unclear.

Voluntary standards

In addition to the regulations outlined so far, the wine trade is also shaped by voluntary standards. These standards cover a wide array of aspects of labour conditions, production, processing, food safety, and quality management more generally. Some of the standards that are increasingly applied in the industry are the following: (1) the ISO 9000 and ISO 14000 series of standards on quality management and environmental management, respectively; (2) Hazard Analysis and Critical Control Point (HACCP) systems for food safety; (3) the WIETA code of conduct, based on South African labour legislation; (4) Fair Trade certification, which aims at guaranteeing fair conditions in production and trade (Kruger and Du Toit 2007); and (5) organic and biodynamic certifications.

Until recently, only a few cellars had been certified against the ISO 9000 series of standards and HACCP systems. When done, the stimulus had started from South African wine industry actors themselves in the quest of improving quality management and therefore reputation with their buyers. HACCP compliance, however, is becoming more important (and driven from outside), as HACCP has been embedded in the BRC Food standard that is increasingly required by European, especially UK, retailers (see below). Only four cellars had been certified against ISO 14000 at the time of fieldwork. WIETA came into existence as a result of the insistence of ETI-aligned British supermarkets (Bek et al. 2007; Nelson et al, 2005). Originally, it was almost an identical copy of the ETI code, which was based on ILO conventions. Following amended, it currently exceeds South African labour legislation. What kind of ‘attention’ it is attracting from European retailers is not yet clear. It is struggling to sign up farms/cellars/firms – so much that it has moved into the fruit industry in order to remain viable. Fair Trade certification on wine was actually designed and implemented for the first time in South Africa and includes a few successful brands (Thandi being the most successful Fairtrade wine brand in the UK). Production of wine made from organic grapes is small but growing in South Africa, with emerging

pockets of biodynamic production as well. But by far the two most talked about standards in the industry are the British Retailer Consortium (BRC) Food standard and the Integrated Production of Wine (IPW) Scheme, which we now examine in some detail.

The British Retailer Consortium (BRC) Global Standard -- Food

The most important standards for high volume wine exports to EU destinations are the British Retailer Consortium – Global Food Standard (BRC) and its German equivalent – International Food Standard (IFS). These are a combination of standards on food safety (especially HACCP), Good Manufacturing Practices (GMP) and quality management (see Box 1 on BRC).

Box 1: BRC Global Standard –Food

Under the terms of the UK Food Safety Act 1990, retailers, need to take reasonable precautions and exercise due diligence to avoid 'failures' in the development, manufacture, distribution, advertising or sale of food products to the consumer. This involves, among other things, the verification of technical performance at food production sites. In much of the 1990s, each UK retailer undertook these activities separately and verified performance against its individual and internally developed standards. In most instances, verification was undertaken by in-house technologists; in other instances, by third-party inspection bodies.

In 1998, the British Retail Consortium (BRC) developed the BRC Food Technical Standard (now called 'Global Standard – Food'). Initially, this was used mainly for the supply of retailers' own private label products, but in recent years also for food service and ingredients manufacture. It has also been used outside the UK. Since the first issue of the standard in 1998, it has been revised on three occasions. Issue 4 was published in January 2005, and Issue 5 is expected in January 2008. Third-party bodies carrying out assessments must gain accreditation to ISO/IEC Guide 65.

Main requirements:

- implementation of Hazard Analysis and Critical Control Point (HACCP)
- a documented and effective quality management system
- the control of factory environment standards, products, processes and personnel.

Source: 'BRC Global Standard: Food; Issue 4', January 2005

The Integrated Production of Wine (IPW) Scheme

The Integrated Production of Wine (IPW) scheme is a semi-regulatory system that was introduced in South Africa in 1998. It provides guidelines for 'Good Agricultural Practices' for farms and 'Good Manufacturing Practices' for cellars to produce wines that are 'healthy, clean and environmentally friendly' (IPW 2004). The scheme is officially 'voluntary', but registered IPW actors represent 97% of harvested grapes in the country (IPW 2004). This may be the case if one calculates registration with the system, but the proportion of actually audited farms and cellars is much smaller – the system is still mainly regulated via self-monitoring. Compliance can be achieved by scoring a minimum 50% of the total score, a fairly low threshold by international standards. To the authors' knowledge, however, the IPW scheme is unique of its kind in the wine producing world.

At the time of fieldwork (2005), very few IPW external audits had taken place, and only 50 grape samples a year were being tested for the presence of pesticide residues.[14] Cellar audits were slated to increase from 50 to 110 so that all IPW cellars would be visited/audited within a 5-year period. Farm-level visits, however, were to remain at 36 per year, a very small proportion of wine farms (Tromp 2005). In the future IPW system, certificates were to be sent to cellars only if they paid their dues and had actually filled the self-evaluation forms, and conformity certificates were to be issued only if an external audit has been passed.

IPW, together with other stakeholders in the industry, is also promoting a wider initiative to develop a 'super standard' (SANS64) that aims at covering quality, food safety, social and worker safety, environmental protection, traceability and Good Agricultural Practices all in one place. The idea is that SANS64, together with the provisions embedded in the Liquor Products Act of 1998 (Republic of South Africa 1998), would match the provisions of all other international standards covering these aspects – including ISO 9000, ISO 14000, HACCP, SA8000, EUREP-GAP, BRC, and IFS (Interview SAW5). According to another stakeholder, however, SANS64 is unlikely to be recognized by the other standards initiatives it is trying to integrate; it is also duplicating parts of an international effort to

[14] IPW claims that 2500 samples of wine are analysed annually for minimum residue levels (MRLs) of pesticides, heavy metals and other harmful substances (IPW 2004).

develop the future ISO 22000 standard, which aims at integrating food safety and quality management systems (Interview SAW38).

Formal institutions and organisations

The main characteristics of the official institutions and organisations that make up the South African wine industry are summarized in Table 12. Some of these are funded through statutory levies, which in 2005/06 amounted to R42.6 million. In addition to this funding, there is also a voluntary fund to help nurture responsible drinking (R1.4 million), and a fund (negotiated by WOSA with UK retailers) that collects duty-free savings for a quota of exports to carry out generic promotion of South African wine in the UK. The statutory levies are allocated as follows: R20.7 million to WOSA (plus R4 million that WOSA receives from SAWIT), R13.5 million to Winetech, R6.5 million to SAWIS, and R1.9 million to DTU (development and transformation unit) (Kirby 2006). The executive office of SAWIC is partly funded by these levies, but also by members of institutions and organizations that have members on the board of directors.

Table 12: FORMAL INSTITUTIONS AND ORGANISATIONS IN THE SOUTH AFRICAN WINE INDUSTRY

Institution	Acronym	Established	Members	Mission	Functions and positions
Industry Association for Reponsible Alcohol Use	ARA	1981 with a different name	SAB, VinPro, Wine cellars SA, members of SALBA, and 50 associate members	promotion of respnsible use of beverage alcohol	representative authority and policy-making body on the social ascpects of alcohol consumption; supports stringent age limits on consumption (age 18), moderation in consumption as a quality of life factor, medical advise on consumption during pregnancy
Black Association of the Wine and Spirits Industry	BAWSI	1998	100 black-owned businesses, 48 NGOs under RUDNET (Rural Development Network), 16 labour unions, farmworker co-ordinating council, other organizations and 'emerging farmers and taverners'	transforming the wine industry to make it representative of South African society	mobilise individuals and interested parties from historically-disadvanteged backgrounds for social upliftment of people on farms, implement fair labour practices, and empowerment of members
Biodiversity & Wine Initiative	BWI	2004	4 champions, 4 coops, 70 private wineries and conservation partners	conserving the biodiversity of the Cape Floral Kingdom	prevent further loss of biodiversity in threatened habitat in crtitical sites in wine areas ; set aside areas as natural habitat; promote changes in farming practices that enhance the suitability of vineyards as habitats for biodiversity;
Cape Estate Wine Producers Association	CEWPA	1968	111 units that are registered for the production of estate wine	to maintain and promote the unique postion of the estate as the pinnacle of the Wine of Origin system, and to represent the interests of its members in industry forums	Management committee with 11 elected and 2 co-opted members; 4 committee meetings a year and two general meetings. Lobbied for the establishment of estate demarcations in the 1973 SA Wine of Origin system.
Cape Winemakers Guild	CWG	Started by eight founding members in 1982	approximately 40 members, by invitation only	to nurture and develop members' winemaking expertise; to serve as benchmark of South African winemaking through the showcasing of members' wines	For nomination, a winemaker must have been responsible for producing outstanding wines for five years minimum and continue doign so; only those nominated that are voted positively by 2/3 by the AGM can enter; the CWG Auction is its annual showcase
South African Black Vintners Alliance	SABVA	2005	12 black-owned wine companies	creating an enabling environment for emerging black-owned wine companies	linking wine enterprises to business resources; develop a business model to ease entry into the wine industry for prospective enterpreneurs
South African Society for Enology and Viticulture	SASEV	1979	1100 members	to optimise the quality of SA grapes, wines and related products by distributing scientific knowledge	includes viticulturists, enologists, laboratories, scientists; publishes a scientific journal, organises meetings and disseminates information
South African Wine and Brandy Company	SAWB	2002-2006	organizations representing wine industry constituencies	enchance the strategic enviroment for the benefit of the industry:	representative body of the wine industry; drew up the Wine Industry Strategy PLan (WIP); seeks to increase global competitiveness and profitability; generate quitable access and participation in the wine value chain; enable environmentally sustainable producction of wine
South Africa Wine Industry Council	SAWIC	2006	board of directors has members from: VinPro, WCSA, Salba, labour, civil society, and emerging farmers	not available	emerged from the restructuring of SAWB; includes four business units: Winetech, SAWIS, WOSA and DTU (the Development and Transformation Unit), focusing the development of a Wine-BEE Charter
South African Wine Industry Information and Systems	SAWIS	1999	part of SAWB/SAWIC	provides data and information to wine industry players and applies the wine of origin system	one of the business unit of SAWB (now SAWIC)
South African Wine Industry Trust	SAWIT	1999	trusteees appointed by the Minister of Agriculture	transformation of the SA wine industry for the benefit of the historically disdvantaged	created through agreement between KWV and the government to focus on the transformation of the wine industry in SA; includes 3 non-profit companies: BUSCO (Business Support Company); DEVCO (Development Support Company); and WIECO (Wine Industry Empowerment Company)
VinPro	VinPro	2003	5000 bona fide wine producers	wine farmers' service organization providing services and representation in wine industy bodies	formerly part of the service branch of KWV; provides services in viticulture, oenology, soil science, agro-economics and management
Vine Improvement Organisation	VIO	1986	KWV, Distell, TechnoGrow, VinPro, Nurserymen Association	plant improvement and certification	executing the Plant Improvement Scheme for wine grapes; official body concerning vine propagation material
Wine Cellars of South Africa	WCSA	2002	56 cellars and wine marketers	to establish an environment within which its members can optimally produce and market wine with consideration for other sectors of the industry	Members represent about 75% of all wine sold in South Africa -- mostly cooperatives or former cooperatives; majority of these used to be part of KWK (Co-operative Wine Cellars Committee) and WBA (Wine Marketing Association)
Wine and Agricultural Ethical Trade Association	WIETA	2002	128 grower and producer sites; 94 in wine industry (25 fully accredited)	improve the working conditions of employees in agriculture by promoting the adoption of and adherence to a code of good practice	measures how agricultural producers are responding to the rights and obligations established in the labour legislation introduced after 1994 and assists them in ensuring compliance
Wine Industry Network for Expertise and Technology	Winetech	1996, operational from 1999	part of SAWB/SAWIC	provide the industry with forefront technology and human resources to strenghten competitiveness and profitability	support the industry through expertise, training, education, technological innovation, scientific network
Wines of South Africa	WOSA	1999	350 SA wine exporters	generic marketing of South African wine abroad (from 2006, also promotion of wine domestically, and promotion of wine tourism)	generic marketing body falling under SAWB (now SAWIC); aims at building 'Brand South Africa' for wines; runs wine shows, keeps media informed, brings wine and lifestyle writers to the Cape
Wine and Spirit Board	WSB	1973	participants to the wine of origin and IPW schemes, Department of Agriculture, and Agricultural Research Council	administers the wine of origin system	runs tasting committees, administers the Integrated Production of Wine scheme, certfies wines and issues seals of certification; advises the Department of Agriculture on technical issues regarding wine and liquors
Independent vignerons		1974	45 independent grape growers	comminucate the interests of independent grape growers and represent them in industry bodies	initially, active in obtaining the right to sell grapes directly to wholesalers (before liberalisation); currently, mainly communicating with wholesalers on grape prices, contracts, strategies; provide market information to members;

Source: *Wineland* , various issues, and fieldwork interviews

Configuration of the industry

The official SAWIS picture

A point of departure in configuring the wine industry in South Africa is SAWIS' system of classification of actors. According to SAWIS, there are 4 360 primary producers of grapes for wine in South Africa, almost half of which produce under 100 tons and a further third between 100 and 500 tons. There are only three large-scale producers with an output of over 5 000 tons (see Table 13). At the primary production level, the picture is not substantially different from the one that was prevalent in 1996 (SAWIS 1998). Currently, SAWIS counts 581 wine cellars in the country: 495 private cellars, 65 producer cellars (cooperatives and ex-cooperatives) and 21 cellars owned by producer wholesalers (buying bulk wine from other cellars as well). In 1996, there were only 295 cellars, with approximately the same number of cooperatives (SAWIS 1998). Finally, there are 118 bulk wine buyers, of which 48 focus exclusively on exports. In 1996, there were only 56 wholesalers, of which 10 focused on exports. Thus, the winemaking structure of the industry has changed dramatically, with a fast growth in the number of private wine cellars and wholesalers/exporters.

Table 13: South African wine industry structure in 2005 (as per SAWIS)

NUMBER OF PRIMARY WINE PRODUCERS	PER PRODUCTION CATEGORY		
4 360	TONS		NUMBER OF PRODUCERS
	1 - 100		2 084
	> 100 - 500		1 582
	> 500 - 1000		453
	> 1000 - 5000		238
	> 5000 - 10000		3
			4 360
NUMBER OF WINE CELLARS	65	PRODUCER CELLARS	
581	495	PRIVATE WINE CELLARS	
	21	PRODUCING WHOLESALERS	
	581		
NUMBER OF BULK WINE BUYERS	70	WHOLESALERS (Including producing wholesalers)	
118	48	EXPORTERS (Buy wine for export only)	
	118		

Source: SAWIS (2006, Table 3.1)

Table 14: Number of wine cellars per production category

CATEGORIES (TONS OF GRAPES CRUSHED - 2005)				NUMBER OF WINE CELLARS (2005)				NUMBER OF WINE CELLARS (1996)			
				TOTAL	PRIVATE WINE CELLARS	PRODUCER CELLARS	PRODUCING WHOLESALERS	TOTAL	PRIVATE WINE CELLARS	CO-OPS	PRODUCING WHOLESALERS
	1	-	100	296	285	-	11	77	76	-	1
>	100	-	500	123	118	1	4	76	74	1	1
>	500	-	1000	50	50	-	-	32	30	1	1
>	1000	-	5000	59	40	17	2	52	38	13	1
>	5000	-	10000	20	2	17	1	19	-	19	-
>	10000			33	-	30	3	39	-	35	4
Total				**581**		**65**	**21**	**295**	**218**	**69**	**8**

Source: SAWIS (2006, Table 3.2; 1998, Table 2)

Table 14 examines the composition of wine cellars by capacity in 1996 and 2005. Almost all the additional 363 cellars that were established in 1996-2005 are private cellars. 208 of these are new cellars with crushing capacity of less than 100 tons of grapes and another 44 with capacity between 100 and 500 tons. There are only two private cellars (both newly established) and one producing wholesaler that have a capacity between 5 000 and 10 000 tons. Cooperative cellars still provide the bulk of large-scale wine production (with 30 facilities able to crush over 10 000 tons of grapes), together with three producing wholesalers. This picture suggests increased fragmentation in wine production, with private cellars dominating small to medium scale production and cooperatives and a few producing wholesalers dominating large-scale production. A new category has also emerged – wholesalers that have a small winery 'on the side'. This is important to showcase to the wine tourism industry that they are 'real' players.

The value chain for wine in South Africa

The overview provided in Tables 13 and 14 (which is one that is commonly used to describe the South African wine industry) is a partial one. It does not show the complex flows of grapes/wine among various players, and the ownership patterns. As a first step towards a more nuanced understanding of the working of the industry and as a precursor of a more explicit value chain analysis that will follow in WP2, Figures 3 and 4 provide a (simplified) configuration of the export-oriented and domestic segments of the value chain for wine in South Africa. The two segments have been separated only at the graphic level, as in practice the great majority of players operate in both segments simultaneously. What these two figures indicate are differences in the flow of products in the two segments, while the functional layout and ownership patters are almost overlapping.

Figure 3 delineates the export segment of the value chain for wine in South Africa. The right column defines the boundaries of various functions (grape growing, wine-making and marketing/export). The left column shows the variable inputs and services that are provided to ‘direct actors’ (those who handle grapes and/or wine directly) to make these functions operative. The central part of the figure shows product flows (solid arrows) and ownership patterns (patterns of prevalent ownership boundaries, and alternative configurations; this is done to reduce the graphic complexity that would entail representing each variation).

The bottom part of the figure represents a typology of grape growers: (1) growers that are part of a cooperative or a shareholding company (usually, an ex-cooperative); (2) independent grape growers that do not have wine-making facilities or are not members or shareholders of a cellar; and (3) vineyards that are owned by private cellars (which may also be part of a vertically-integrated producer-wholesaler configuration). The differentiation between coop and ex-coop cellars is in that members of coop cellars are supposed to deliver all their crop to their cellar; shareholder growers can (and do) also sell in the open market to private cellars. Independent grape growers sell to private cellars but also to ex-coop cellars.

At the level of wine-making, we also have three configurations: coop cellars, ex-coop cellars and private cellars. The latter can be fully independent, vertically integrated from vineyard to export, or partly-integrated from wine-making to export. At the level of marketing/export, coops and ex-coops until recently sold most of their wine output to producer-wholesalers or marketers/exporters; but the new trend in the last 5-6 years has been for these cellars to join forces between them and with marketers/exporters (sometimes directly with importers) to create dedicated marketing/exporting outfits (see details in WP2).

Figure 3: Configuration of value chain for wine in South Africa -- export segment

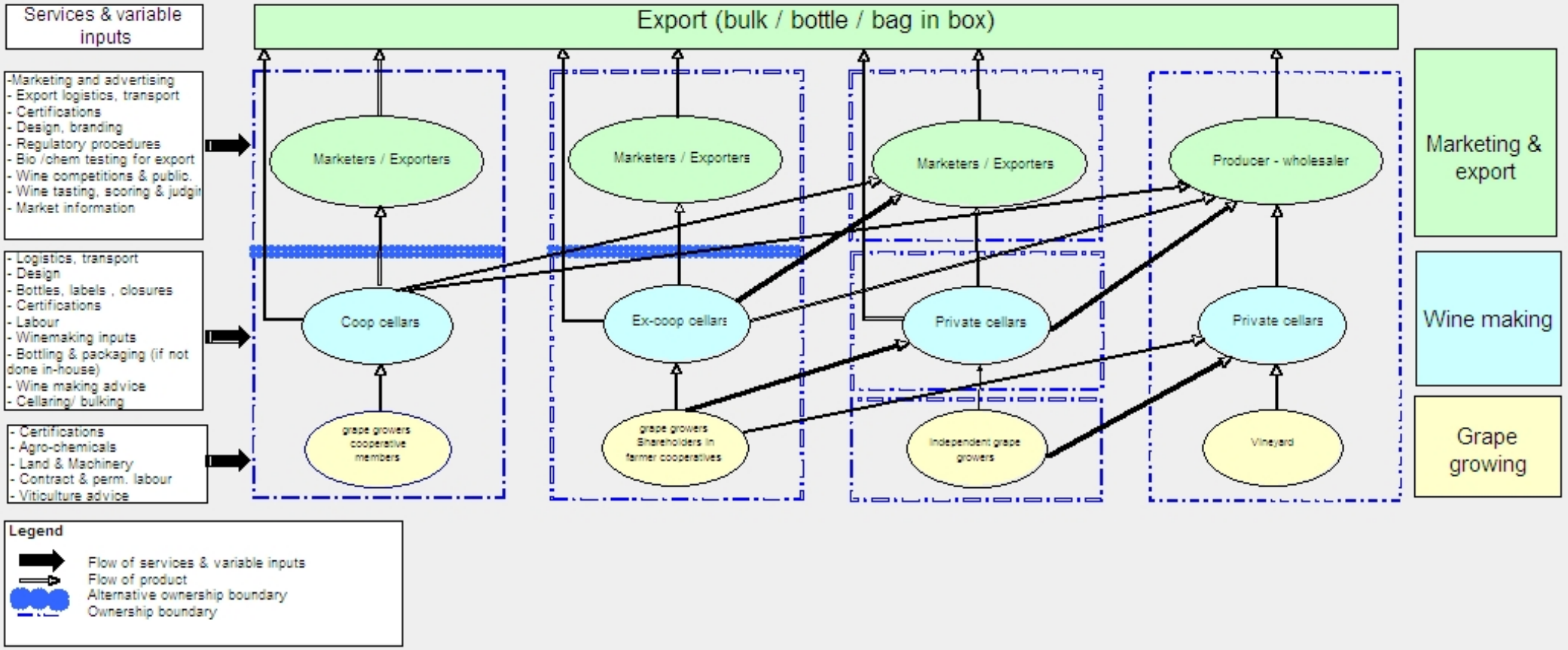
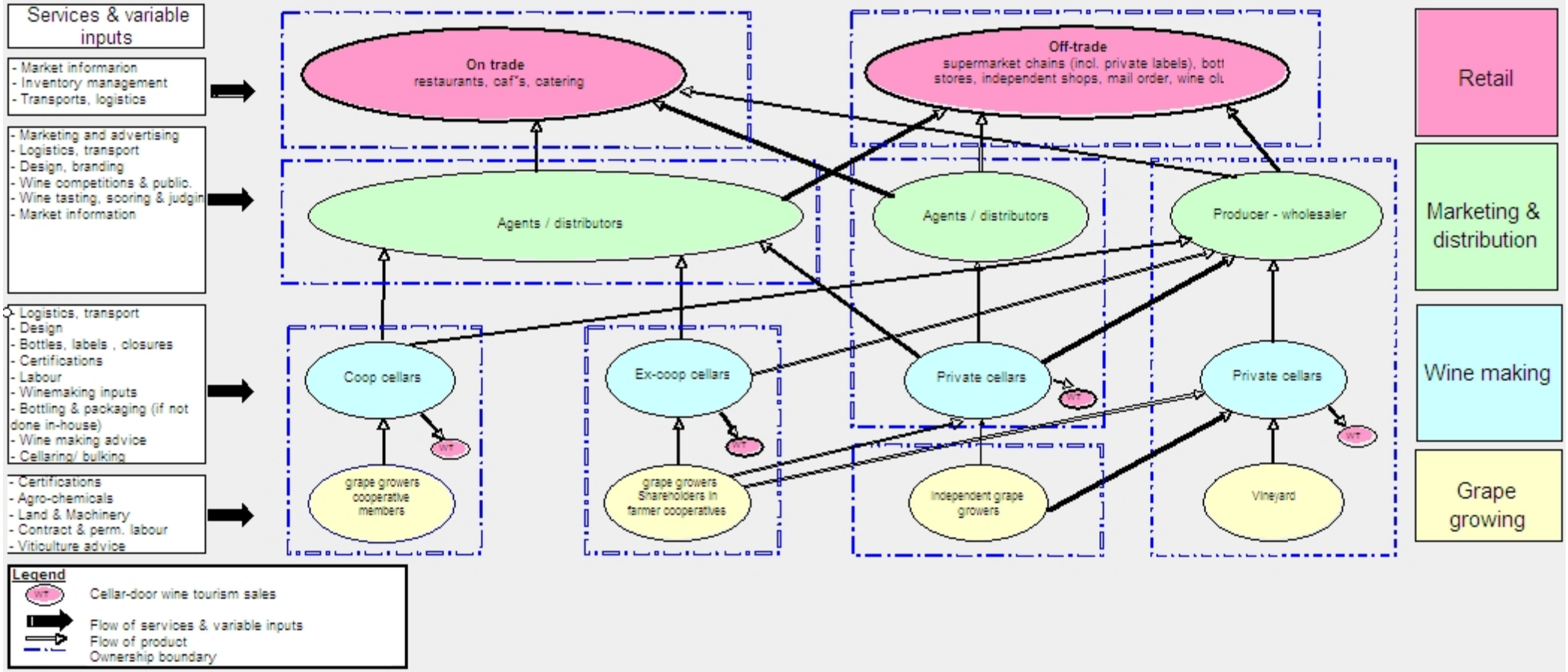


Figure 4: Configuration of value chain for wine in South Africa -- domestic segment



A brief profile of the domestic market

Figure 4 describes the configuration of the value chain for wine consumed domestically. It has the same overall structure as in Figure 3, but with the added function of 'retail'. Retailing can take place at the cellar level (wine tourism), in so-called on-trade facilities (restaurants, cafés, etc.), and in off-trade facilities (supermarkets, bottle stores, etc.). Domestic consumption, it must be remembered, represents more than half of total wine production by volume in South Africa.

Supermarkets handle about 35% of all wine sales by value in South Africa. These are dominated by four chains. About 37% of supermarket sales take place at Pick 'n Pay (2005 data from Interview SAW61), followed by Shoprite/Checkers, Spar and Woolworths (the last with 14% of supermarket sales). Woolworths is an upper-segment chain focusing on private-labels (following the model of Marks & Spencer in the UK). It is the only chain with a dedicated wine buyer who also holds a Cape Wine Master diploma. The other chains have category managers that buy wine but also other products, and are not trained wine tasters. Woolworths's bulk of wine business is based on its own private label – it currently holds 110 different wine lines. The wine category manager creates all the blends, which are produced exclusively for Woolworths. The retailer has control over the entire process and also decides on the design of the labels. The wine manager gives specifications to the winemakers at various cellars. The higher the price point, the more detailed are the specifications. Most volume is moved in the price bracket of R13-20 (2005 retail prices), with wines exhibiting fruity, easy, accessible, Australian-type styles. Woolworths' business model is to have only one wine for a specific bracket – e.g. only one Sauvignon Blanc at R30 – while the other chains might have up to ten on offer (it offers other brands as well, but most of the wine on sale is private label). The idea is that Woolworths does the selection, which entails less stress for the consumer and guidance especially for those who may not know much about wine (this is especially important outside of the Cape).

Woolworths works with 35 suppliers, 10 of which have been with them for 20 years. Since the late 1990s, they have started to have formal contracts with suppliers, with each product supplied under full specifications (bottle, cork, style, how it has to be made, sulphur dioxide and alcohol levels). Prices are re-negotiated every year. On promotion, Woolworths shares the reduction of the margin at the 50-50 level with the supplier. Wine

imports constitute only 6% of sales. The retailer's margins vary from 5% to 40% of selling price, depending on volume and quality. Woolworths has its own auditing system of suppliers, covering hygiene, staffing, labour practices, and technology. Suppliers are subjected to one audit a year paid by Woolworths (except for the first one). The chain does not ask suppliers to conform to other certifications (except for organics, which is carried out externally). Yet, many of Woolworths' suppliers also hold HACCP and ISO 9000 certifications because they operate in the export market; one of their suppliers is fair trade certified (Interview SAW25).

Pick 'n Pay, Shoprite/Checkers and Spar operate a very different system. These chains sell mainly branded wine. Food safety audits and production sites are only inspected where the suppliers provide wine for own-label wines, which is a small minority of their business. However, at the time of fieldwork, at least one of these chains was planning to audit all their suppliers against its own audit, HACCP and BRC within two years. As in the UK, wine promotions are used to sell volume and are planned in advance with selected suppliers. Many of the buying practices of South African retailers resemble closely those applied by UK retailers, so they will not be covered in detail here (see WP2). Stickers showing that the wine has won medals at wine competitions are very important for sales, especially for wines of mid-range prices (see also below).

With the exception of bottle store sales (the local name for liquor stores, which are organized in a few powerful chains, such as Picardi and Ultra), marketing in the rest of the off-trade sector (independent shops) and in the on-trade sector (restaurants, cafés, etc.) is done through a complex network of distributors and agents. Among the largest distributors, we find producer-wholesalers such as Distell and DGB. Finally, wine tourism is a well-developed industry in the Cape, with a number of organized wine routes. Cape Town is part of the Great Capitals of Wine network. A good proportion of cellars is open to the public and has tasting facilities on-site. Around forty properties also have restaurants. Scenic beauty and many flagship properties displaying Cape Dutch architecture (and some interesting contemporary architecture as well) add flavour to the 'Cape wine experience'. But while the wine tourism industry generated R4.2 bn (or US$0.5 bn) in 2003, the actual volume of wine sales through direct cellar-door sales is not likely to be very significant in absolute terms – with the exception of some flagship properties such as Vergelegen, Boschendal or Constantia-based cellars and farms.

The wine quality infrastructure

In the previous two sections, we have laid out the main elements of the institutional framework of the wine industry in South Africa. In this section, we examine the role of the 'quality infrastructure' of the industry (with some reference to international debates on wine quality) to offer a more nuanced understanding of how distinct segments of the industry operate. This will involve reference to the previously examined rules and regulations, but also to informal networks of quality definition, determination and assessment.

Terroir

According to the *Oxford Companion to Wine* (Robinson 1999: 700), terroir is 'the total natural environment of any viticultural site … Major components of terroir are soil … and local topography, together with their interactions with each other and with macroclimate to determine mesoclimate and vine microclimate. The holistic combinations of all these is held to give each site its own unique terroir, which is reflected in its wines more or less consistently from year to year, to some degree regardless of variations in methods of viticulture and wine-making'.

In the classic French tradition, the components of terroir are 'natural', and thus to a large degree they can not be influenced by human management – soil type and composition, slope, aspect, and microclimatic conditions. Terroir is often described as a distinctive character that emerges from a wine, vintage after vintage, irrespective of changes in the weather and/or winemaking techniques. In its strictest and quasi-religious interpretation, terroir means that 'the land speaks for itself'. As a result, the French would say, the established hierarchies of (French) appellation systems are justified by the fact that great terroir is behind the finest wines.

This position is hotly disputed, especially in New World wine producing countries, where references to terroir (when made at all, and usually in relation to icon wines) incorporate a much more active role for the viticulturist and the winemaker – in other words for human agency. So, while it is undisputed that certain areas are better suited to certain grape varieties, much of the debate on terroir in the New World is centered on the role of the human hand both in the vineyard and in the cellar. The traditional school outlined above focuses on how to restrain and sensitively use vineyard, harvesting and winemaking

techniques to let the 'terroir speak'. A common view in South Africa is that the viticulturist and the winemaker 'interpret and modulate the product of the land', and that growing a grape is not a spontaneous act, but rather the result of a myriad of choices that interpret (if not modify) the primary element of terroir (Rossouw 2005). In the wine cellar, the range of possible interventions is also wide: use of different kinds of commercial yeasts (as opposed of natural yeast fermentation), different kinds of barrels, micro-oxygenation techniques, and so on.

But because the French have been regulating both viticulture and winemaking techniques for a long time, these manipulations have been absorbed into the concept of terroir as constants (or less variable than they otherwise would be) and/or in ways that are least intrusive (but not always so). That can not be said of New World wine industries (which are not necessarily 'new', but are characterized by lower levels of regulation). This makes it more tricky for New World wineries, including South Africa's, to claim terroir (or whatever they mean by the word, which is more often than not just a simple claim to a place where the wine is made), but at the same time leaves them more space for innovation and experimentation. The current problems faced by the French wine industry, and the slow pace of reform of its AOC system may be a good indicator that 'tradition' may not translate in good sales as wine retailing has become in the course of a few decades much more concentrated in the supermarket sector, at least for basic quality and middle-range wines. These wines' raison d'étre is reproducible consistency – brand and style are their markers. Making such wines is indeed 'more akin to industrial beverage manufacturing than to traditional artisanal winemaking' (Easthope 2003). It also requires reductive winemaking techniques (keeping the must and wine from the influence of oxygen) so that the primary varietal character can come through. Conversely, a producer wanting to bring out terroir would be less protective on oxygen, but more conservative in the use of additives and the employment of intrusive techniques.[15]

[15] In industries, such as South Africa's, where the culture of terroir is less pronounced or has a more human intervention element, one finds a different kind of culture (and of mystification) – the 'winemaker as hero'. In South Africa, this is institutionalized by the Cape Winemakers Guild, sometimes characterized as an 'exclusive (white) boy's club'. The annual CWG auction is one of the most important wine sales in the Cape, together with the Nederburg Auction. But as James (2001) highlights, the focus on the winemaker puts the role of terroir and the viticulturist in the background, as if these winemakers were not working with the best grapes to begin with.

Varietal wines

Varieties function in the same way as brands in terms of consumer identification and expectations. They incorporate a specific set of quality profiles that can be communicated to consumers with some wine knowledge relatively easily. The massive entrance of New World wines has come with a winning of consumer confidence on 'varietalism' as a component of the marketed package (James 2004: 10-11). As a result, there are demands in France to allow the indication of varietal in AOC wines to reassure the consumer. But is varietalism a defeat for the principles of origin and terroir? New world producers/industry observers argue that variety simply provides basic information to consumers on the basis of which origin and terroir information can be added with no intrinsic contradiction. Even though they place much more importance on the winemaker and cellar operations than in the Old World, New World industry actors base their 'varietalist' approach on a basic nature-induced genetic hierarchy. Some varieties are simply better than others, and all are different from each other. The focus here is on the genetic material, while in terroir it is the matching of a variety with micro-climatic and soil conditions that counts. To Old World industry actors, on the other hand, the idea that a variety defines the character of wine wherever it is planted, and that winelovers should memorize and recognize such characters wherever the wine comes from and whenever the vintage was, is an oversimplificaton of taste (James 2004: 11). In this context, imagining the variety, rather than the place, in the pedagogies of wine tasting is seen as abhorrent. This New World/Old World opposition, however, is too reductive: variety is still important in much of the Old World even if it is embedded in terroir (appellation rules stipulate what varieties can be planted in what areas).

The quality pyramid

A discussion of 'quality' based exclusively on terroir, however, would be misplaced. In the basic quality range of wines – retailing under €7 or £5 per bottle in Europe and representing a large proportion of volume of sales (up to 65-70%) – intrinsic quality is defined in fairly simple and straightforward terms. Suppliers need to deliver clean wine, with no faults, and with homogeneous characteristics in time. This is a price-driven segment that requires large volumes and therefore economies of scale, or a large procurement network that delivers homogenous quality, and the capability of averaging discrepancies among suppliers (or batches) through skillful blending. With increased

oversupply, especially of red wine, the current tendency is to compete on packaging as well, and to over-deliver on intrinsic quality (Interview SAW13). The basic quality requirements of these wines are usually known to suppliers, so there is no need for specific and complex descriptions and sampling. The intrinsics are taken for granted for supermarket wines – and differentiation takes place via packaging, good distribution networks, and impeccable logistics.

For mid-range quality wines, intrinsics and brand recognition become more important (but there are substantial differences in individual markets, see WP2); packaging here is not as important as for lower quality wines, where you have to 'grab' the consumer. Origin (or more specific terroir) becomes more important, as does a production philosophy (the idea of a winemaker 'sculpting' the wine). The most successful approach in this segment is to have a pinnacle wine (for example Penfolds, retailing up to $100 in the US for top wines in its range) and then use a ladder approach to sell the brand all the way down to $8. 'Expert validation'– ratings by wine journalists and prizes in wine competitions –starts to be important.

For top quality wines, the quality ballgame is completely different – here the history of the property (or brand), the perception of scarcity and uniqueness, and ratings by the most influential wine critics are key factors. Some go as far as arguing that some icon wines, rather than being the expression of terroir as the French would have it, are sculpted to please specific wine critics, first and foremost Robert Parker. 'In no field of human activity … does one person have comparable power: his pronouncements can make or break a winery, even a whole wine-producing area … [H]is tendency to prefer big, ripe bold wines (and thus influence production everywhere) is fiercely criticized; but his ratings dictate purchases and tastes on an unprecedented scale' (James 2006). And there are risks involved in submitting wines to Parker – Fridjhon (2006d) quotes a New York retailer saying that 'Anything [scored] over 90 [points] I cannot find, anything under 90 I cannot sell'. Although Parker has tasted only a few South African wines, producers have nonetheless started producing 'Parker wines', which also tend to be showy, fruit-forward, and high alcohol, thus do well in big competitions. But when Parker did notice a South African wine, it made a big difference. When the maiden De Toren Fusion V was rated 90 points by Parker (the first maiden release to achieve such a feat), it made the winery emerge from the unknown to one of the most sought after in the Cape (*Wineland*, July 2005: 30).

One can interpret this multifaceted approach to quality in wine in terms of different sources of 'quality drivenness'. For basic wine, quality determinants are retailer-driven and strictly connected to price. For middle-range wines, producers have more leeway in driving certain styles and brands, and offer these from their side to retailers – thus a more producer-driven approach. But producers are also aware of consumer (and retailer) demands and expectations in this segment, and thus are self-correcting. They are also somewhat dependent on good ratings from critics and publications (such as *Wine Spectator* and *Decanter*, in addition to Parker scores). For icon wines, elite properties and an external 'expert' who has no direct involvement in the industry (Parker does not buy or sell wine, nor own property in the industry) drive quality.[16]

Quality dynamics in the South African wine industry

South Africa has gone through a true 'revolution' in wine quality in the last 10-15 years, driven to a large extent from external exposure to international markets. In the 1980s, over 60 cooperative wineries supplied a large majority of wine to a small number of producer/wholesalers and wholesalers. These buyers had developed their own brands and selected the best wine from cooperatives; whatever was not sold, KWV was obliged to purchase, mostly for distilling purposes. The pool system in cooperatives and the overall regulatory system gave incentives on the basis of volume, rather than price, with obvious implications for quality (Interview SAW69).

Following the political transition of 1994, there was a honeymoon period (1994-97) when the 'novelty' of South African wine in the international market was enough to deflect attention from the poor intrinsics of some of the wine that was been exported. This could not last long, however, and thereafter there have been major strides in quality management, both in the vineyards and in the cellars (Interview SAW30). These improvements have included: better styles; cleaner and more scientific winemaking; new technologies, such as micro-oxygenation and reductive handling; and management of vineyards increasingly on the basis of separate blocks, rather than on the basis of the whole vineyard. On the other hand, there has been perhaps too much focus on reducing yield, instead of achieving balance between vine vigour and yield; and a casual use of

[16] On the opposite side of Parker are some Japanese engineers, who are experimenting with a robot that uses an infrared spectroscopic technology to analyse the components of a wine sample – the absorbance spectrum can provide a sort of 'wine fingerprint'. If the owner programmes it properly, it can recommend new samples that resemble the owner's preferred taste profile (*Grape*, 8 September 2006).

‘terroir’, which has come to mean very little. Cellar-level materials and processes are seen as having only marginal space for further improvement, but vineyard management is seen as still having ‘a long way to go’, together with better understanding of new and old terroirs (Interview SAW40).

Furthermore, the majority of exports switched from bulk to bottle (although in recent years there has been a return to bulk exports to cut costs). Bottle exports entail better control of the supply chain. The success of brands such as Kumala and Namaqua in the UK (see WP2) has been instrumental in improving the quality of wine produced in cooperatives too. In the early 1990s, cooperatives were viewed negatively; the previous regulatory system had reduced much South African wine to a characterless product; the impression from outside was that small is beautiful, and thus a lot of attention was dedicated to private wineries. But cooperatives started to differentiate their production, to make separate wine from different blocks (some had already started to do so in the early 1990s) and to vinify in different batches (Interview SAW69). They started to employ full-time viticulturists (a novelty at that time) as a liaison between members and the cooperative – previously, the winemaker often doubled as viticulturist (Interview SAW30). Premiums on quality started to be paid – previously, a fixed price per volume was paid from the overall pool. In the late 1990s, some cooperatives started to turn into shareholder companies because of the bad perception of cooperatives internationally. These companies are still to some extent run with a cooperative system, but they are owned by shareholders. This allows better individual returns if the company is better run because of dividends, stricter relation between price and the quality of grapes delivered, pressure from outside shareholders to perform, and easier access to external capital (Interview SAW69).

Cooperatives and ex-cooperatives now produce clean, fresh, tasty wine that has varietal character more than ever before; intrinsics have improved dramatically, so now extrinsics play a more important role, such as packaging, branding and a ‘story’ behind the wine (Interview SAW32). Westcorp (a shareholder company that resulted from the merger of two cooperatives, recently renamed Namaqua) operates the biggest winery in South Africa. In the early 1990s, it had huge tanks of wine sitting the sun; wine was of poor quality (the result of over-irrigated vineyards); and it was producing cultivars that the market did not want. Now it picks grapes at night to avoid fermentation, has the right cultivars, but can still deliver large volumes of homogeneous wine, something that is critical for large retailers (Interview SAW69).

Despite the fact that wine magazines feature almost exclusively smaller, private cellars and their wines, a large proportion of South Africa wine production (and export) is still sourced from cooperatives, including all the top South African brands in the UK market (see WP2). Without cooperatives, brands such as Kumala, Arniston Bay, Goiya, and Namaqua would not feature in UK supermarket shelves.

The role of wine competitions, retail stickers and wine guides in South Africa

One of the most influential wine critics of South Africa has stated that 'much of what is unique about a wine industry is intangible: it resides in a group of individuals who collectively reflect the experience, the body of knowledge which makes up the measure of its evolution, its status quo' (Fridjhon 2005: 9). This is reflected in the significance (in South Africa, but also in other New World producing countries) of stickers placed on bottles to signal the award of a medal in a domestic or international wine competition, and of marketing information relating the star-rating of a wine in influential publications such as the *Platter Guide* and *Wine* magazine (see below). To the average consumer, stickers and related marketing material are a quick and easy shortcut to indicate not only 'quality', but also (and perhaps mainly) a public recognition of excellence provided by a panel of judges or 'experts'. Of course, as long as wine sensory evaluation is carried out by humans, an element of subjectivity remains – some actually say that it is all about subjectivity and the aesthetic expectation of specific judges or tasters. Therefore, it is not only the sticker that counts for marketing but also what kind of competition it represents – or so the wine pundits say. In reality, it seems that what counts for the consumer is the appearance of *any* sticker – or, as a matter of fact, even of a round sticker-like element embedded in a label. A number of South African wine producers make regular use of these elements on their labels, signifying anything from nature conservation to winning a competition several years previous to the vintage that is in the bottle (Minnaar 2005). While Australia has adopted a code of conduct on the display of awards on wine bottles, forbidding misleading use, no such effort had started in South Africa at the time of fieldwork.

But crafty cheating does not stop at the level of bottle stickers. The South African industry is rife with rumours of special barrel-selection samples that are entered for competitions, which differ substantially from the wine that is released commercially (Minnaar 2005). This is thought to happen in Australia as well (see Dale 2004) and elsewhere. Because stickers help selling the wine, the incentive to cut corners is strong. A related issue is that wines

made for competitions are actually arguably hard to drink – they exhibit 15 or 16 degrees of alcohol, relatively high residual sugar content, and 'enough new oak to deliver it anywhere in the world' (Dale 2004: 21), referring to the use of new oak barrels to impart secondary flavours to the wine.

Some critics actually argue that scoring well in competitions is down to luck, basically depending on when one's wine is tasted, and whether it can stand up to some of the 'blockbuster' wines that tend to dominate entries. Scoring will also depend on whether it has been tasted early or late – in the latter case the wine may be too warm. Some even question whether a judge can really make a serious assessment of more than 50 wines in a day (*Wineland*, July 2005: 30-32).

Until 10 years ago, there was basically only one wine show of relevance in South Africa, the Veritas competiton, which was known for awarding medals to 80% of the participating wines (at that time, about 1 000 entries, now about 1 700). Then, came a 'veritable flood' of shows and competitions. These are good business – with substantial sponsorship, entry fees of R500 or more, and R1 000 for the bigger shows, gross revenue can reach R0.5 million (Fridjhon 2006e). In South Africa, there are over 20 of these events currently.[17] Competitions are seen a 'necessary evil' by wineries, especially new ones. Since 2001, about 250 wineries have been launched in South Africa. Some flagship industry actors (see *Wineland*, August 2006) actually argue against these competitions (they are thought to damage the industry) and do not participate in them. One wine critic says that 'in competitions, judges are asked to review a wine blindly; it is like asking to write a film review on the basis of a two-minute clip. You need to know the wine, its history, the farm, to really understand it' (Interview SAW76).

Along with competitions and stickers, the *John Platter Guide to South African Wines* is the other main factor in the making and unmaking of reputations, and in guiding consumers. The 'Platter Guide', as it is known, is released once a year and is the second best-selling book in print in South Africa (after the bible). It is actually a true 'wine bible' for consumers and wine tourists alike. Information on all wineries is provided, and a large proportion of releases that are available in South Africa for sale is rated by individual judges on the

[17] Some wine competitions have a comprehensive character (the most renowned are the Trophy Wine Show and the Veritas Awards), while others are varietal-specific (such as the Chenin Blanc Challenge) or have a different focus ('value for money', or 'winemaker of the year'). South African wineries frequently enter three international competitions: the International Wine and Spirit Competition, the International Wine Challenge, and the Concours Mondial de Bruxelles.

basis of a 5-star system. A 5-star rating from the Platter Guide helps to sell an expensive wine significantly in South Africa. For commercial lines, 4 stars are sufficient. But at the bottom of the quality range, ‘all that counts is price’ (Interview SAW34).

Investment, competitiveness and strategic positioning

Investment

South Africa has failed to attract major FDIs in the wine industry so far. According to Rabobank (2004), this is because: (1) the industry is too fragmented; (2) South Africa does not have strong brands for mid-range quality wines sold over €7/£5 – the segment that is growing fastest and where margins are healthier; (3) South Africa’s strength in basic quality wines under €7/£5 does not allow large investments due to the small margins; conversely, investments in top quality wines, where the country is well represented, are relatively too small in scope for large foreign investors (although smaller FDIs have taken place, often in the form of joint-ventures); and (4) the perceived political and currency risks in the country.

The winelands of the Cape peninsula have been characterised ‘as much the playgrounds of the plutocrats as the scene of salt-of-the-earth labour’ (Schmitt 2006: 21). New investment in the wine industry since 1994 is estimated to have been in the range of R1-2 billion. It has come mostly from South African banking, mining, IT tycoons, and ‘all kinds of well-heeled characters’ (Ibid.). With the exception of business tycoon and former ANC political prisoner Tokyo Sexwale, very little substantial investment has come from black entrepreneurs. Investment from abroad has intensified in the last couple of years, but mostly from individuals. Large investments have not materialized, and local presence (Pernod Ricard South Africa, Kumala/Western Wines, Gallo/Swartland) has been based on marketing and branding agreements, not on developing or taking over land and cellars (Schmitt 2006). Interestingly, in the UK market, the South African brands with large or increasing sales were all conceived and marketed by UK agents (Schmitt 2006: 26). There is not yet enough volume in South Africa (and there are limits in expansion due to lack of suitable land and of water) to justify massive foreign investment; at the same time, no consolidation is likely to take place until external players come on board.

On the positive side, wine industry observers argue that South Africa, in the space of a little over a decade, went from a supply-driven to a buyer-driven approach to winemaking and marketing. It is seen as having the advantages of both Old and New World wine countries – its wines tend to be less overwhelmingly fruity than other New World wines such as Australia, and to have some of the structure and elegance of Old World wines (Rabobank 2004). South Africa also has the advantage of having a great variety of terroirs and of being a popular tourist destination.

Prices, profitability and competitiveness

No statistics are available on export prices of wine, but some indications can be drawn from the available information on local prices for bulk wine. Following the global red wine glut that started in 2004 and has continued in the following two years, prices for red varieties have plunged dramatically (by 30% between 2003 and 2005; see Table 15) – this is not surprising, as the industry has been urged to plant more reds continuously in the last decade (along with what was happening at a grander scale in Australia).[18] Conversely, prices for white varieties have been fairly constant, with some varieties, such as Sauvignon Blanc, actually gaining 5% between 2004 and 2005. Chenin Blanc in 2006 was trading at 60% over its price in 2001 (Fridjhon 2006a). The price for rebate wine for brandy production has almost doubled from 2000 to 2005, and the price of distilling wine increased by 50%. Prices for grapes delivered to cellars broadly reflect these trends (see Table 15). Some cooperative growers interviewed by the authors claimed that in 2005 they were profiting more from a hectare of vineyard that was being managed to produce distilling wine than from an hectare managed for table wine production. Bad quality can pay off sometimes.

According to a VinPro study (see *Wynboer Technical Yearbook* 2005/06, pp. 6-7), average profitability in 2002/03 was a low R12 236 (before income tax) per ha planted with wine grapes, *before* the current price crisis of reds kicked in. Another notable trend has been the decreasing cost of labour and the increasing cost of mechanization as well as provision for replacement of means of production. According to a Deloitte study featured in Krige (2005: 39), of all South African wineries with a revenue of less than R25 million, 36%

[18] Much of the red wine glut can be explained by three successive high-quality, big-volume vintages in Australia. In 1998, there were under 100 000 ha under vines in Australia – by 2006, the area had increased to 167,000 ha. In 2006, Australia left 100 000 tons of unharvested grapes in its vineyards, more than the equivalent of South Africa's domestic wine market (Fridjhon 2006a).

were making a loss, and of those with a revenue of R25-90 million, 25% were making a loss. The average profit in small wineries was reported at R13 per 9-litre case, against R20 in Australia. Investment in advertising was R15 per case in South Africa against R25 per case in Australia. According to the Deloitte study, lack of investment in marketing, and lower efficiency and cost control placed South African wineries in a worse position than Australian. A second Deloitte study (cited in *Wineland*, May 2007), referring to the 2004/5 financial year, presents broadly consistent results with the first one. It also highlights that over 25% of working capital continues to be locked in inventory.

Table 15: AVERAGE PRICES OF WINE SOLD IN BULK IN SOUTH AFRICA

Varietal	CENT PER LITER					
	2000	2001	2002	2003	2004	2005
CABERNET SAUVIGNON	794.39	802.07	822.51	798.53	687.74	557.12
MERLOT	771.05	766.49	764.74	728.95	619.63	470.02
PINOTAGE	764.33	725.92	681.43	635.85	510.18	430.96
SHIRAZ	802.80	781.67	748.04	756.52	635.30	539.11
CHARDONNAY	306.77	327.59	396.06	470.17	485.06	494.22
SAUVIGNON BLANC	339.81	316.95	409.20	481.06	497.24	522.11
COLOMBAR	145.71	143.17	203.17	273.69	264.20	277.70
CHENIN BLANC	165.57	157.16	215.27	302.90	290.08	304.43
ALL VARIETIES	212.03	229.23	299.36	378.06	354.16	338.35
ALL RED VARIETIES	603.56	607.60	624.66	642.56	547.28	440.49
ALL WHITE VARIETIES	145.67	155.88	216.25	291.69	287.97	297.57

* Price excludes added wine spirit.

	CENT PER LITER					
	2000	2001	2002	2003	2004	2005
Concentrate / Sweet must for sweetening	138.90	144.69	164.77	212.13	233.07	240.21

	CENT PER LITER @ 10% ALC/VOL					
	2000	2001	2002	2003	2004	2005
Rebate wine	119.56	115.20	130.23	186.57	198.21	206.79

	CENT PER LITER @ 10% ALC/VOL					
	2000	2001	2002	2003	2004	2005
Distilling wine	64.86	63.16	73.50	103.09	94.65	97.43

Source: elaboration on SAWIS (2006; Table 7.2)

The exchange rate has an obvious impact on profitability (and competitiveness) in the export market. As one operator put it, 'the consumer doesn't care what the currency is doing' (Schmidt 2006: 6), thus even if the currency appreciates, the retail price in the importing country remains the same. When the exchange rate was over R12 per US dollar in early 2002, South Africa had an obviously much better competitive profile than in

2005/06, when the exchange rate averaged at 6.6, but touched lows of 5.6. In the first six months of 2007, there were signs of recovery as the Rand depreciated to an average of 7.2 to the US dollar.

Another explanation for the present woes of the South African wine industry is the evolving business practices of retailers in the UK (see WP2 for details). Fridjhon (2006b) argues that in the 1980s and early 1990s, retailers in the UK embraced the idea of quality wine as a lifestyle product. They gave producers shelf space, invested in wine guides and PR, and participated in wine shows and competitions. In the 2000s, however, they have started allocating more shelf space to their own private labels, and 'have come to recognize that for most customers wine is just another commodity' (Fridjhon 2006b).[19] Furthermore, there has been massive consolidation in the UK wine marketing industry, with Constellation now controlling 7 out of the top 10 brands in the UK market (including Kumala). Focus on the US market and on the South African domestic market is what Fridjhon now recommends.

Recent discussions on competitiveness for the South African industry have followed three broad lines: (1) supplier- vs. buyer-drivenness; (2) value vs. volume; and (3) 'uniqueness'. The first discussion is centered on whether South Africa has moved sufficiently from a 'supplier-driven' quality model of old to a 'buyer-driven' quality model. As seen above, many observers agree that the industry has moved decidedly from the first to the second model, even in the cooperative sector. Although there is still room for improvement in technical operations, especially in viticulture and in cost-rationalisation, marketing is seen as the main way forward, both at the industry and individual company levels (Loubser 2001; Rabobank 2004; Wood and Kaplan 2005). Thus, not only price and quality are important, but also branding, developing a 'personality' for a wine, 'lifestyle' messaging and packaging.

The second discussion is essentially centred around costs of production and economies of scale. A study featured in Joubert (2005: 48-49) claims that the competitiveness index for the South African wine industry has increased dramatically since the early 1990s, but also between 1999 and 2003. In this study, South Africa is found to be competitive (as opposed to 'marginal' like New Zealand and the US, or 'not competitive') and improving (together with Australia, Chile and Italy) – as opposed to competitive and decreasing (like France,

[19] A thorough analysis of UK retailers' changing practices and of the relations between South African actors and UK retailers is provided in WP2.

Portugal and Spain). But a study commissioned by WOSA on the comparative competitiveness of South African wine in 2004 shows that the industry still has relatively high costs of production. Because of the relatively small volume of wine available, it cannot be competitive with the likes of Australia. The study suggests a focus on premium wines, rather than on price/volume (Interview SAW9). Yet, not all producers can achieve high quality, and volumes need to be 'moved' anyway (tanks need to be emptied by the time the next harvest comes in). So while strategic talk in South Africa focuses mainly on quality, the reality is that much of South African wine is sold in the popular price segments of supermarket chains (under £4 in the UK and €5 in the rest of Europe). A related aspect – that is perhaps partly in contradiction to the focus on quality – is that the wine trade in Europe sees South Africa as lacking the number of 'big brands needed to drive significant growth' (Lewis 2005a).

The third discussion is one highlighting the 'unique features' that South Africa can sell. Previous efforts on selling 'Brand South Africa' on the basis of its natural beauty were only partly successful, as natural beauty is in itself not considered a 'positioning statement' (Interview SAW9). As a result, WOSA is now concentrating on biodiversity to sell South African wine abroad (see below). A related aspect is the marketing and quality potential of varietals and blends. There is substantial disagreement on this issue in the industry. Some operators place emphasis on Pinotage, a variety that was created in South Africa by crossing Pinot Noir and Cinsaut, as a unique selling point. Others argue that there is too much 'run-of-the-mill' Pinotage around and that the intrinsic qualities of this cultivar are not that great anyway (Rabobank 2004).

The possible regulation of a unique 'Cape Blend' that may or may not include Pinotage in minimum proportions is also at the centre of debate. There is much reluctance in the industry on having the structure and components of such a blend regulated (Maxwell 2004; Ratcliffe 2005). Some are even against using Pinotage at all (Dale 2005). The industry is in a situation where regulation is eschewed (even though the inspirational model is taken from Bordeaux, where winemaking is highly regulated), but at the same time voluntary agreements among players are not forthcoming. The result is that there is a wide variety of 'Cape Blends' and that the concept has not been 'bought' in international markets.

A final element of this third aspect of competitiveness is the possibility of focusing on what South Africa is seen to be doing best. New Zealand's wine industry is largely built upon two varieties (Pinot Noir and Sauvignon Blanc, but especially the latter) and around a low-volume, high-quality, high-price model. Other countries/regions have also bet on 'unique' varieties (Argentina with Malbec, Chile with Carmenère, California with Zinfandel). Some operators in the industry argue that South Africa could focus on Shiraz[20] for reds and Sauvignon Blanc for whites (in South Africa, Sauvignon Blanc exhibits characteristics in between New Zealand-style and French-style). Others argue that selected high quality Chenin Blanc could have good potential in profiling South Africa – a variety that is compatible with spicy foods, but that also has an image problem deriving from poor quality in the past. Finally, others argue that among the best wines in the Cape peninsula one usually finds a high proportion of Bordeaux-style blends (usually, a blend of Cabernet Sauvignon, Merlot, and Cabernet Franc) (*Harpers*, 24 February 2006). The wide difference in opinions both within and outside of South Africa on a wine style focus perhaps vindicates WOSA's decision to bet on biodiversity instead.

'Variety is in our nature'

This motto characterizes WOSA's new marketing initiative to promote 'Brand South Africa' abroad. The idea is that the fantastic biodiversity that the Western Cape can boast can be translated into a great variety of wines, and conversely that appropriate stewardship of the winelands can preserve this biodiversity. The image symbolizing this initiative is an appropriate combination of a grape leaf and a *Protea repens* (also known as Common Sugarbush). What WOSA wants to portray is South Africa as a 'dynamic country of enormous diversity … [with a winemaking tradition blending] the restrained elegance of the Old World with the accessible fruit-driven styles of the New World … [yielding] wines which eloquently express the unique *terroir*, extraordinary biodiversity and fascinating people of the Cape' (WOSA 2005: 5).

This commitment is showcased in the Biodiversity and Wine Initiative (BWI) and in the integration of biodiversity guidelines in the Integrated Production of Wine scheme (see above). In practice, this means that before planting new vineyards, producers need to

[20] In general, however, there seems to be a problem with high alcohol levels in South African Shiraz (*Harpers*, 24 February 2006). Until recently, South African winemakers could not 'de-alcoholize' legally. In 2006, a new regulation was passed, allowing alcohol reduction (via reverse osmosis and a few other methods, but not dilution, though not for wine destined for Europe (*Grape*, 10 August 2006).

carry out a botanical audit and draw up a plan to preserve endangered and significant species. Some producers have set aside natural areas that will remain undeveloped in perpetuity (WOSA 2005: 11).

The BWI initiative, which was established in 2004 with co-funding from the World Bank (*Wineland*, January 2005: 4), aims to achieve:

- no further loss of habitat in critical sites;
- a positive contribution to biodiversity conservation through setting aside natural habitat in contractual protected areas;
- changes in farming practices to enhance the suitability of vineyards as habitat for biodiversity, and a reduction in farming practices that have negative impacts on biodiversity, both in the vineyards and in surrounding natural habitat;
- benefits to the wine industry by using the biodiversity of the Cape Floral Kingdom (CFK), and the industry's proactive stance of implementing biodiversity guidelines, as a unique selling point to differentiate Brand South Africa (Ibid.).

According to WWF and WOSA, 'the Cape Floral Kingdom (CFK) is the smallest and richest plant kingdom on earth. Internationally recognised as a global biodiversity hotspot and listed as South Africa's newest World Heritage Site . . . As 80% of the CFK is in private hands, conserving the CFK requires getting biodiversity conservation into the hearts and minds of the landowners. The most effective way of doing this is through the industries that represent them. The Biodiversity & Wine Initiative is the first project in this new conservation strategy, working directly with the South African wine industry' (Ibid.).

About 90% of wine production in South Africa is said to occur within the Cape Floral Kingdom. According to WWF and WOSA, the growth of the wine industry can endanger some areas of vulnerable natural habitat (like *renosterveld* and lowland *fynbos*). Thus, BWI 'presents a great opportunity to both the wine and conservation sectors. The wine industry benefits from using the biodiversity of the CFK as a competitive marketing advantage, and from contributing to sustainable natural resource management . . . The conservation sector benefits from pioneering biodiversity best practices in the wine industry and conserving the CFKs most threatened habitats' (Ibid.). According to Schmitt, in fact the biodiversity campaign is 'another way of talking about terroir while cleverly avoiding the French term' (2005: 66).

As of February 2007, the BWI had 4 champions, 4 cooperative cellar members, and 70 regular members *(Wineland*, May 2007). These represent over 45% of the Cape winelands (Ibid.). Requirements for membership are much less stringent than for becoming 'biodiversity champion'. For membership, applicants are asked to: comply with the biodiversity guidelines 'where appropriate, to the best of the company's ability'; to supply BWI with a copy of an aerial photo map of the property; to 'responsibly conserve' the demarcated biodiversity area to obtain an IPW certificate; and to supply the property's 'biodiversity story' for marketing purposes. Champions, on the other hand, need to score 85% of the total points in the self-assessment biodiversity form and to comply with additional demands. Vergelegen, the farm established in 1700 by the then governor of the Cape Willem Adriaan van der Stel, and now owned by mining conglomerate Anglo-American, became the first 'biodiversity champion' in March 2005.

According to the now-departed coordinator of BWI, Tony Hansen, BWI offers 'a conservation alternative that does not merely prescribe what farmers should do … but offers them a way to make money out of caring for it' (quoted in Joubert 2006: 22). However, no indications are offered on how 'regular' farmers (as opposed to wine tourism complexes owned by mining companies or magnates) can cater to biodiversity in a financially sustainable way. Encouragingly for small farms, the BWI has recently established two further membership criteria (an alternative to a farm needing to have set aside 2 ha for conservation, which excludes many farms): membership through rehabilitation of own land or in a neighbouring farm, and membership through donation to a conservation fund project (Joubert 2006). In the latter case, on the one hand, this opens up participation and lowers entry barriers. On the other hand, it further problematises the direct link between the wine industry and biodiversity. In addition, scare tactics have been used to promote BWI, including the statement that there is 'talk of European Union imposing strict sustainable wine production criteria on all wines imported by EU countries' (Joubert 2006: 25). In 2006, the bulk of funding for BWI provided by conservation groups (thus, not the wine industry) was coming to an end, opening speculation on the future survival of the initiative.

Is the biodiversity initiative a win-win situation? WOSA's motto 'diversity is in our nature' sits rather uncomfortably with two facts: first, that grape growing is a mono-crop cultivation method that destroys rather than enhances biodiversity (Schmitt 2005: 67); and second, that the industry is not diverse in its *human* nature, especially at the managerial and

ownership levels (see Kruger et al. 2006). Much of the wineland expansion has already taken place, leaving only limited scope for further expansion – both because of relative lack of suitable land and water and because of the current red wine market glut (see Rabobank 2004; Interview SAW9). Furthermore, biodiversity conservation provisions are fairly limited in scope (restore indigenous vegetation around tasting rooms and on the margins of vineyards) in relation to farms that have *already* cut down *fynbos* to establish vineyards planted with *vitis vinifera*, an exogenous plant. Only a few operators (usually large but environmentally progressive corporate cellars and marketers) can afford to set aside and manage large chunks of land for conservation.[21] The average grape grower and small-scale winery have enough trouble getting by in a conjuncture of global wine oversupply and strong South African currency to afford using extra resources for conservation.

The troubles of the wine industry with BEE (or lack thereof) are well known (Kruger et al. 2006; Williams 2005). The industry is still almost completely white in terms of ownership, control and consumption. Most black operators in the industry are found on the farms as labourers, and increasingly in tasting rooms and the wine tourism trade. There are indications that conditions for the permanent labour force on farms have improved, but at the same time a large proportion of it has been externalized and is now hired *ad hoc* through labour contractors. Some 'black empowered' labels have emerged and a handful are enjoying healthy sales, but all in all they involve a very small number of people. 'Diversity is in our nature' is in practice focused on 'nature', not 'human nature'. A simple indicator suffices to show that: there are no human faces at all in WOSA's colorful brochure prepared for the launch of this initiative at the London 'Mega Tasting' of October 2005. In its 8-minute promotional video, humans do appear, but blacks are showcased for a total of about 60 seconds: a winemaker (or assistant winemaker, as he appears next to a white person); upper-class black South Africans at a winery restaurant; a laboratory operator (again, next to a white one). Farm workers and 'cellar hands' (the large majority of black workers in the industry) are invisible – with the exception of a one-second distant shot where they seem to be in the scenic picture by mistake.[22]

[21] Vergelegen is said to have spent R3.9 million for its conservation project (Theron 2005). Graham Beck set aside 1 885 ha of natural vegetation (almost 50% of their Robertson estate) for rehabilitation (*Wineland*, May 2006)

[22] Biodiversity was also at the center of one of the events at Cape Wine 2006, a biennial showcase of Cape Wine organized by WOSA since 2000. The Wine Diversity conference's attendance, however, was lower than the bookings received, perhaps indicating that PR rather than meaningful engagement is what counts in the industry. To WOSA's credit, however, the conference did feature diversity in its BEE sense, and Gavin Pieterse of SAWIT was invited to give a presentation on this 'vexing' topic (*Wineland*, June 2006: pp. 19-22).

Conclusion: Upgrading in the South African wine industry

In this section, the concept of upgrading is used to distill the analysis carried out throughout the paper in view of: (1) highlighting both the progress and failures that have characterized the wine industry in South Africa in the last 15 years; (2) to highlight present and future challenges; and (3) suggest some strategic directions.

In Global Value Chain (GVC) analysis (see details in WP2), upgrading is used to identify the possibilities for producers to 'move up the value chain', either by shifting to more rewarding functional positions, or by making products that have more value-added invested in them, and that can provide better returns to producers. In the GVC approach, the upgrading process is examined through the lenses of how knowledge and information flow within value chains from 'lead firms' to their suppliers (or buyers) (Gereffi 1999). Upgrading is about acquiring capabilities and accessing new market segments through participating in particular chains (Humphrey and Schmitz 2002b). The argument is that upgrading in various forms can be effectively stimulated through learning from lead firms, rather than through interactions between firms in the same functional position (horizontal transfer in clusters) or within the frameworks of common business systems or national systems of innovation. Humphrey and Schmitz (2002a) have developed a typology of upgrading based on four categories:

(1) *process* upgrading: achieving a more efficient transformation of inputs into outputs through the reorganization of productive activities;
(2) *product* upgrading: moving into more sophisticated products with increased unit value;
(3) *functional* upgrading: acquiring new functions (or abandoning old ones) that increase the skill content of activities;
(4) *inter-chain* upgrading: applying competences acquired in one function of a chain and using them in a different sector/chain.

Although functional upgrading continues to be regarded by GVC analysts as the optimal form of that developing country farms and firms can achieve, attention has also been being paid to the practical difficulties lying in its path (Gibbon 2001; Gibbon and Ponte 2005; Schmitz and Knorriga 1999) and to the fact that functional downgrading, combined

with economies of scale, can also be successfully employed to maximize returns or to remain in an increasingly demanding GVCs.

Table 10 summarizes the dynamics of upgrading in the South Africa value chain for wine. What emerged in the previous sections is that South Africa has gone through a true 'revolution' in wine quality in the last 10-15 years, driven to a large extent by exposure to international markets. In the 1980s, over 60 cooperative wineries supplied a large majority of wine to a small number of producer/wholesalers and marketers. These buyers had developed their own brands and selected the best wine from cooperatives; whatever was not sold, KWV was obliged to purchase, mostly for distilling purposes. The pool system in cooperatives and the overall regulatory system gave incentives on the basis of volume, rather than price, with obvious implications for quality.

With the end of apartheid and the opening of the export market, investment flowed in the industry, new farms and cellars were established, wine quality improved, cooperatives modernised themselves (both infrastructurally and managerially), and export volumes increased dramatically. The wine styles produced in South Africa these days match the styles required in its main markets (fruit-forward, easy-to-drink, full colour). This reflects a search for riper, more concentrated wines with higher alcohols to appease, depending on the wine segment, wine judges (such as the influential Robert Parker) or the perceived fruit-forward preference of Anglo-Saxon consumers.

South Africa also moved away from a predominant production of whites towards increased production of reds. In 1998, 75% of vineyard area was planted with white varieties and 25% with red varieties. By 2005, the split was almost 50-50 following increased demand and better prices for reds. Paradoxically, the failure of South Africa to produce even more reds became a boon from 2004/05 when a global red wine glut occurred in international markets, thus prices for reds decreased. The fairly equilibrate distribution of production among many varieties means that South Africa is less dependent on any one for survival (other countries, such as Australia with Shiraz and New Zealand with Sauvignon Blanc, have followed a strategy focused on few varietals).

As seen earlier, another major shift has occurred in the composition of grape varieties. The proportion of so-called 'noble varieties' of higher quality has increased. In 1998, almost 30% of total area was planted with Chenin Blanc, a white variety that has been for a long

time the ‘workhorse’ of the industry – appreciated for its resilience to stress and its adaptability for production of different styles of wine (for distillation, dry, semi-sweet, sweet, sparkling). The second largest planting was Colombard (13% of total area), a white grape mostly used for cheap blends and for distillation. ‘Noble’ varieties such as Cabernet Sauvignon, Chardonnay, Sauvignon Blanc, Pinotage, Shiraz and Merlot represented only 2-6% of total planted area each, for a total of 31% of the total planted area. In 2005, the picture looks remarkably different: Chenin Blanc is still the most widely planted variety (which is positive, since it can be used for many different products, including distilling wine, thus reducing risk for producers), but represents only 19% of the total. Cabernet Sauvignon follows suit with 13%, Shiraz has a 9% share, and Chardonnay and Sauvignon Blanc approach the 8% mark. All together, noble varieties make up 54% of the total planted area.

Three other indicators of product upgrading, however, are not ‘positive’ if read from a narrow perspective:

(1) The proportion of ‘natural’ wine production over total production of wine (which includes rebate wine, distilling wine and grape juiced concentrate) has not changed much: natural wine represented 67% of total wine production in 1996; by 2005, it was 69% (see Table 3). Some cooperative growers interviewed for this study claimed that in 2005 they were profiting more from a hectare of vineyard that was being managed to produce distilling wine than from a hectare managed for table wine production. Bad quality can come with its rewards sometimes.
(2) Of the wines that were certified under the Wine of Origin scheme in 2005, a large majority (69%) specified only the broad geographical unit. Other, and more specific, origins under the Wine of Origin scheme applied to 29% of total certified wine, while estate wine accounted for only 2% of total certifications.
(3) The proportion of certified bulk exports has remained in the range of 25-30% of total certified volume between 1999 and 2005. According to an analysis by *Drinks International* (May 2006), bulk exports from South Africa to Europe have actually increased recently, due to high local bottling costs and differential taxation in some countries.

Furthermore, the package of ‘basic quality’ that South African suppliers have to deliver has become more and more demanding and sophisticated. While this has inevitably stimulated

innovation, better managerial practices, and more systematized quality management, its rewards have been limited. Margins remain extremely low in the retail market in the UK, Germany and the Netherlands. Many of the improved processes and obtained certifications (such as BRC) are part of what is now expected as a given by retailers, and do not provide a competitive advantage, just potential entry into the market. The extras (promotional support) that need to be delivered to obtain a listing do not have much to do with improved product and processes.

In addition to producing an increasing number (and volumes) of high-quality wines, South Africa has improved in consistency and timely delivery of homogenous, basic quality wine. Sometimes, this has implied an outright downgrading process, as the increase in bulk exports to Germany and the Netherlands of the last few years suggests. But volume is absolutely essential in price-sensitive markets, and especially in the UK if one wants to run 2-3 promotions a year. Cooperatives and ex-cooperatives still crush 79% of all grapes used for winemaking in the country (see Table 6). Along with a few producing wholesalers, they are the ones that can provide economies of scale, competitive pricing and large volumes. These are essential requirements for supermarket chains to place wines on the shelf (together with impeccable logistics). There are only two private cellars (both newly established) and one producing wholesaler that have a capacity between 5 000 and 10 000 tons in South Africa. Cooperative and ex-cooperative cellars still provide the bulk of large-scale wine production (with 30 facilities able to crush over 10 000 tons of grapes), together with three producing wholesalers.

In terms of functional upgrading, two parallel processes are taking place (see details in WP2). Within South Africa, functional upgrading is taking place across the board (or, rather, a process of shedding upstream – closer to the producer – functions). Cellars and producer-wholesalers are moving away from (or reducing their engagement in) grape-growing. The most successful marketers have moved away from winemaking as well, thus largely divesting from holding fixed capital. However, the increasing number of smaller cellars suggests that the move away from wine production is not taking place across the board. Also, cooperatives and ex-cooperatives, while not divesting from production, are more engaged (though joint ventures) in marketing and branding.

Overseas, the few South African producer-wholesalers and marketers who used to have their own agencies in the UK and Europe are either divesting from them or entering in

joint-ventures with Europe-based branders and marketers. The most successful brands of South African wine in the UK are now owned by UK companies – while the traditional South Africa-owned brands have remained fairly stagnant in market share, with a few exceptions. These are processes of functional downgrading from a point of view of South African producers – yet, they have yielded good results, and the stellar rise of the Kumala, Namaqua and First Cape brands in the UK is the most obvious example.

UK agents and marketers are the ones who had to functionally upgrade. Under pressure from shorter lead times, they had to increase their control over logistics (some of them are now selling 'ex-in-bond delivery' in the UK instead of FOB; see WP2). As retailers are seeing themselves increasingly as shelf-space providers, replenishment as a function falls upon UK agents. Much product innovation, new packaging, new presentations and styles are also generated by these agents/marketers. This does not mean that upstream learning is not taking place. Up to the early 1990s, quality in South African wine was 'producer-generated', while now cellars and South African marketers are able to interpret consumer market changes and react to downstream requests much more quickly and efficiently. Yet, if average retail price changes are considered a measure of success of 'upgrading', South African wine has not yet been able to 'break the GBP 5 barrier', where margins are healthier, even though average selling prices are slowly increasing.

But getting higher prices is not only a matter of 'trading up' in an end-market; it is also a matter of succeeding in other end-markets where returns are healthier. From this point of view, South Africa's recent obsession with the US, where it sold very little wine until recently, is completely justified. Even Sweden is a better place to sell one's wine, as margins are higher than in the UK for basic quality wine. So, upgrading may also be related to the simple matter to be paid better for the same wine. [23]

A final aspect of upgrading relates to labour and (peculiarly to South Africa) to BEE. The implementation of labour legislation in South Africa following the end of apartheid seems to have led to improved labour conditions for *permanent* employees. At the same time, a process of labour casualization has taken place. Casual workers are excluded from the

[23] Interestingly, two of the most obvious positive stories of upgrading in the South African wine industry refer to aspects that are ill-fitted with the traditional GVC approach to upgrading. The first, large volumes of basic wines sold under UK-owned brands, is a story of actual downgrading and economies of scale. The second, increased presence in the US and Sweden, has to do with the specific structure of rewards in end-markets (and its upstream repercussions) than with product, process or functional upgrading per se.

basic entitlements that permanent workers have now gained. Despite reporting wages that may not be lower than permanent workers, casual workers face higher livelihood vulnerability and insecurity (Barrientos and Kritzinger 2004; Kritzinger et al. 2004). Finally, the upgrading of 'empowerment' credentials in the wine industry in South Africa has been slow, partial, and generally less satisfactory than others sectors of South Africa's economy (see Kruger et al. 2006; Ponte et al. 2007).

In sum, South Africa in the space of a little over a decade went from a supply-driven to a buyer-driven approach to winemaking and marketing. Major product and process upgrading took place, although the margins for improvement have now decreased in many areas. Major reshuffling of the functional division of labour took place in the wine value chain, with a mixture of both functional upgrading and downgrading. Volume and consistency allowed the industry to maintain a foothold in its main markets, while the proliferation of higher quality wines has opened new niches. Yet, major challenges are still facing the wine industry (see Table 16 for a summary and some suggestions), not the least the very low margins prevalent in its main end-market (the UK), and the long road ahead in opening up more profitable markets such as the US.

Table 16: Dynamics of upgrading in the South African value chain for wine

Type of upgrading	Changes	Sign*	Comments
product upgrading			
overall quality	improved	+	still space for improvement
red/white composition	more reds	+	should not be pursued further
noble variety proportion	increased	+	dangerous to push it too far: some 'non-noble' varieties have more flexible uses and therefore minimize producer risk (Chenin Blanc)
proportion of natural vs rebate/distilling wine production	more or less the same	-	if distilling wine pays better, not a problem
alcohol levels	increased	+	alcohol levels are becoming too high
icon wines	number and visibility increased	+	still space for more, especially in the US
certified under Wine of Origin Scheme (generic indications)	increased	+	ok
certified under Wine of Origin Scheme (specific indications)	no large increase given the growth of exports	-	important to improve, but only if value added comes with it
proportion of bottled exports vs. bulk exports	stagnating in the 2000s	-	need to lobby for changes in import taxation if discriminating against bottled imports; stimulate competition in the bottling industry in South Africa
process upgrading			
managerial systems	improved	+	ok
viticultural practices	improved	+	still space for improvement
winemaking practices	improved	+	still some space for improvement
food safety and quality management certifications (BRC, IFS, HACCP, ISO 9000)	becoming more common	+	ok, needed for market access
environmental and social certifications	entering the industry, but not common yet	+	fair trade, WIETA and organics may become more important for market access, especially in more remunerative markets such as Sweden
marketing and advertising	improving, but still a weak point	-	need improvement
functional upgrading			
in South Africa	cellars and producer-wholesalers are moving away from (or reducing) grape-growing	+	strategic for them, but can backfire if overdone; also grape growers bear more risk
	marketers moving away from winemaking	+	can backfire if overdone
	cooperatives and ex-cooperatives are more engaged (though joint ventures) in marketing and branding	+	ok, but more and larger JVs needed to ensure economies or scale and larger volumes
	product innovation increasingly done by European/US marketers and agents	-	ok for basic wine, because SA needs to be responsive to changes in consuming markets, and Europe-based marketers can better monitor these; but question mark on returns for SA players
in Europe			
	South African producer-wholesalers and marketers divesting from own agencies in the UK and Europe	-	not a problem necessarily, also because some operations were too large in comparison to results
	South African producer-wholesalers and marketers entering in joint verntures with Europe based agents and marketers	+	ok
	Brand ownership by South African actors decreasing	-	creates vulnerability, but ok as long as sales are increasing and margins are satisfactory
	European marketers and agents taking over more control of logistics and replenishment	+	not a problem for South African actors

Table 16 (cont.): Dynamics of upgrading in the South African value chain for wine			
inter-chain upgrading			
	improvements in management and marketing also benefitting wine tourism industry	+	ok
other aspects			
promotional support	increased	+	expensive but necessary in the UK
proportion of exports	increased	+	ok, but domestic market needs to be developed further
diversification of varieties	increased	?	ok
varietal risk	increased	?	see above (noble variety proportion)
product consistency	increased	+	still space for improvement
economies of scale (coops)	increased	+	essential for basic quality wines
economies of scale (other)	decreased	-	need to deliver volume too, not only quality
responsiveness to buyer-demands on quality	increased	+	positive
brand recognition	improving, but mainly due to Europe-based marketers	+	need major brand development for the US
average price in consuming countries	increased only slightly	-	need to move wines over the GBP 5 line
South Africa unique blends or varietals	fragmented approach	-	need regulated approach to 'Cape Blend'
Brand South Africa recognition	not strong enough, especially in the US	-	Biodiversity initiative may work, but it's based on faulty premises
access to higher-margin markets	increasing, but still small	-	more volume and recognition in the US essential
labour	more skilled and motivated permanent labour force	+	still space for improvement
	increased proportion of casualized labour	-	need stricter regulation of labour contractors

Note: * positive/negative connotation in this column reflects an interpretation from a ‘narrow’ GVC point of view of such changes. However, these are qualified (if not corrected) in the comments column

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