EXECUTIVE SUMMARY

PART I: A GENERAL DESCRIPTION OF THE WINE INDUSTRY

In Part I of this study reference is made to developments in the wine industry over the past five years or so, whilst the magnitude of the industry in economic terms is given for the calendar year of 2008.

RECENT DEVELOPMENTS

For the most part of the first decade of the second millennium, the wine industry in South Africa experienced a significant swing towards red wine production - moving from 18% of planting in 1996 to 44% in 2008. This gave rise to a surplus production position putting downward pressure on producers’ prices.

Given that the local demand for wine, red wine in particular, did not match the increased supply, the local industry was forced to enter the export market in a much more aggressive way than ever before. No wonder then that export, as percentage of local production increased from 21% in 1999 to 54% in 2008. Despite fluctuations in the Rand exchange rates over this period, the general trend was downwards, helping to maintain export profitability.

The inflationary conditions coupled with pressure on disposable income have resulted in consumers trading down. This obviously became much more price conscious. The South African wine consumer in general is regarded as more price conscious and less likely to venture into the higher priced products. In 2008 the demand for white wine has weakened whilst red wine sales showed a moderate increase. However, as far as red wine is concerned, the supply/demand position has since moved into equilibrium.

OVERALL ECONOMIC STATUS OF THE WINE INDUSTRY IN 2008

The total turnover of the wine alcohol industry in 2008 amounted to R19 164 million. Of this amount R6 272 million was exported directly. Imports amounted to R237 million or about 2% of domestic sales. In actual fact, primary agriculture output valued at R3 320 million was beneficiated and added in value downstream to the value of R19 164 million, i.e. about 5 times the initial value of the raw materials. Another R4 263 million was generated indirectly through wine tourism.

Compared with the 2003 study, it is evident that the wine industry as a whole did somewhat better over the 2003 – 2008 period. Total turnover grew by 79%. This growth can be attributed mainly to the excellent export performance (close to doubling in current rand value terms since 2003). The growth in value of domestic sales in nominal terms, over the period 2003 – 2008
amounted to 76%. These figures also indicate the much slower growth in primary producers’ income but an escalating tax haul by government. The industry has been under ever increasing inflationary pressures on the production side that ultimately had to be given through to the consumers. However, the primary producers were in a more disadvantaged position to recoup all these cost rises.

TOURISM

As in the previous studies, the researchers again made an attempt to establish the extent “wine tourism” features in the wine industry’s contribution to the economy. Information in this regard is rather scant, but it was possible to make use of indirect methods to establish a useable figure.

The Western Cape is, as could be expected, a very popular holiday and tourist destination (15% of all local tourists and 17% of all foreign tourists in 2008). These tourists spend their time on a variety of activities, ranging from visiting wildlife; cultural, historical and heritage sites, natural attractions; shopping, etc. Assuming these tourists just spend one day of their holiday visiting the wine lands, an amount of about R1 billion in spending can be indirectly linked to this tourist attraction. However, much more research is needed to arrive at more valid figures in this regard.

Lastly, in the tourism field, a brief look was given at the expected impact that the 2010 Soccer World Cup might have on “wine tourism”. Again, relevant data is scarce, if not unavailable. A special study by the Government revealed that about 500 000 visitors will enter the country during the 5 weeks. Cape Town will entertain 7 matches, roughly 70 000 people will be involved with each match, of which 50 000 will be local people. So, the extent to which they might end up in the wine lands needs further research.

PART II: MACROECONOMIC IMPACT ASSESSMENT OF THE WINE INDUSTRY

This part of the study comprised the use of macro-econometric models to calculate the total impact of the wine industry on the South African economy and the Western Cape.

IMPACT ON GDP (INCLUDING REGIONAL PERSPECTIVE)

The wine industry contributes R26 223 million to the annual GDP of South Africa. What is also important to note is the measure of value added that takes place with every step of beneficiation. Starting at farm level, the initial value of the raw material in terms of income created, amount to R3 373 million and ultimately leads to a total GDP value of R21 743 million (excluding tourism). This illustrates the exceptional ability of the industry as a creator of economic growth.

However, the question is whether the wine industry contributes a fair and reasonable share to GDP per unit of capital invested compared to other industries. The study showed that its GDP/Capital ratio of 0.53 is higher than the national average of 0.46. Even though this is not a
The wine industry supports employment opportunities to the tune of 275,606. Of this number 58% are unskilled, 29% semi-skilled and 13% skilled. According to the labour/capital ratio (5.54) it is obvious that capital is applied much more effectively regarding employment creation as the ratio is higher than that of the national economy (3.18). The relative labour intensiveness of the wine industry is specifically the result of the intensive labour production methods which are followed in the primary agriculture. In the Western Cape, the wine industry in total is responsible for 8.8% of total employment (168,102), compared to 2.2% for the country as a whole.

CAPITAL UTILIZATION

A total capital stock of R49,768 million (2008 prices) is required nationally in the wine industry and supporting industries to sustain the present level of GDP of R26,223 million in 2008. The wine industry is probably more capital intensive than is generally believed. Although the primary agriculture portion of the wine industry is relatively labour intensive, the other portions of the industry i.e. cellars and manufacturing are more capital intensive.

Thus both are the labour and capital front, the wine industry seems to be more efficient in the utilization of these productive factors.

INCOME DISTRIBUTION

Household income worth R17,124 million was generated by the wine industry in 2008, of which R2,908 million is destined for the lower income groups of which a large portion is spent in the Western Cape region. Coupled with the annual expenditure by farmers on production inputs, one can understand why the wine industry forms the backbone of the economy of many districts in the Western Cape. 17% of household income is generated by the wine industry which is only slightly above the average of 16% for the economy as a whole.

CONCLUSION

The South African wine industry has again gone through a tough period of major changes over the past 5 years, as is largely reflected by the changes in its economic structure. Its re-introduction into the world trade set-up has brought huge opportunities, as reflected by the doubling in exports but on the other hand has brought pressure on its competitiveness. As in the
past, the R/$ and Rand/ Pound/Euro exchange rate development will be crucial for the country’s future economic health.

In terms of the wine industry’s actual impact on the South African economy, the study again produced some interesting results. Of these the following deserves to be mentioned:

- The total capital asset base (direct, indirectly and induced) of the wine industry is estimated at R49 768 million. The corresponding number of employment opportunities that are supported by the wine industry amounts to a significant 275 606. The major part is to be found in the trade, catering, accommodation and transport sectors.

- In terms of GDP, the total (direct, indirect and induced) annual impact of the wine industry of the Western Cape on the national economy amounts to R26 223 million which amounts to 2.2% of the total GDP of South Africa in 2008.

- The wine industry generates an amount of R17 124 million of private disposable income. Of this amount, 17% is destined for low-income households which are slightly higher than for the economy as a whole (16%).

- The Labour/Capital ratio for the wine industry amounts to 5.54 which is much higher than that of the economy as a whole and should be highly regarded.

- The GDP/Capital ratio for the wine industry in total of 0.53 is somewhat higher than that of the economy as a whole, namely 0.46. With the exception of the wholesale and retail component all the other sectors related to the wine industry show smaller GDP/Capital ratios than the average of the economy.

For purposes of this study, the regional impacts emanating from the wine industry were also calculated for both GDP and labour. Of the total impact that the wine industry has on GDP and employment creation, approximately R14 214 million and 168 102 employment, respectively, occurs in the Western Cape.