

VARIETY IS IN OUR NATURE

Update on the South African Wine Industry



WINES OF
South
Africa

SOUTH AFRICA: OLD WORLD OR NEW?

Although South Africa is regarded as a New World wine producer, the first grapes were pressed for wine at the Cape in 1659 under the command of Jan van Riebeeck. He had come to the Cape in 1652 to establish a settlement on behalf of the Dutch East India Company. Vineyards were planted more extensively a generation later, when the French Huguenots began arriving from 1688 onwards, fleeing religious persecution.

First under Dutch and then British rule, the Cape became famous for its Constantia dessert wines. By the 18th century they were being served in Europe to the nobility, savoured by Napoleon when in exile on the island of St Helena and written about by Jane Austen.

By the late 19th century and early 20th century, German and Italian immigrants began settling at the Cape, introducing their winegrowing and winemaking traditions.

For most of the 20th century, the local wine industry was controlled by the KWV or the Ko-operatiewe Wijnbouwers Vereeniging Beperkt van Zuid-Afrika (Co-operative Wine Growers Association Limited of South Africa). Founded in 1918 to represent the interests of wine farmers and regulate the stable growth of the Cape's wine industry, it was privatised in 1997, allowing for the deregulation of the industry.

Another impetus for the freeing up of the industry was South Africa's return to international trade after decades of isolation under apartheid rule. With political reform and the advent of democracy in 1994, there was an influx of financial and intellectual capital into the wine industry. Locally trained winemakers began traveling to other wine-producing countries, to study abroad or work in the cellars of leading winemakers in the Old and New World. Viticulturists began playing a far more prominent role and producers became keenly aware of the need to focus on

noble cultivars, to use superior plant material and also to match varietal with terroir, in the process discovering and developing new winegrowing areas. They also began adopting techniques to better express specificity of site in flavour profile. At the same time, producers began developing a knowledge about international markets, and the needs and demands of consumers.

So, it is fair to say that the modern South African wine industry is a little over a decade old and has had to catch up very fast. Despite this, at the start of this decade, South African wines were receiving positive attention in international markets and notably earning prestigious awards at events such as the International Wine & Spirit Competition in London, Vinexpo in France and Mondiales in Brussels, as well as on other Office Internationale de la Vigne du Vin (OIV) events.

Today we have over 600 wine producers in South Africa, virtually double the number in 2000, when the inaugural biennial Cape Wine exhibition was held to showcase the industry to international trade.

Stylistically, South African wines have been said to occupy the middle ground between Old World and New. Structured for elegance and food compatibility, they nevertheless express prominent varietal flavours. As South Africans positively embrace their diversity of soils and climate this will be reflected in increasingly distinctive and complex wines.

WHAT IS WOSA?

Wines of South Africa (WOSA) is an independent, not-for-profit company that represents all exporters of South African wines and promotes their wines in foreign markets. Our mission is to contribute to the global success of the South African wine industry by building Brand South Africa, growing established and new export markets, advancing South African wine tourism, and fostering transformation and building capacity within the industry at home.

Our activities are primarily funded by statutory levies paid by all exporters. We have our own office in the UK (London), still our biggest market, and work with agencies in the US (New York), Canada (Toronto), Sweden, the Netherlands and Germany.

While WOSA is owned by the wine industry and not the Government, we form part of the SA Wine & Brandy Company (SAWB) established by representatives of South Africa's wine producers, cellars, labour and wholesale merchants to enhance the strategic environment in which the South African wine industry operates.

CAPE CLIMATE

Despite its African geography, the Western Cape, situated at the southernmost tip of Africa, enjoys a Mediterranean climate with cool, wet winters and warm, dry summers ideally suited to winegrowing. Some of the Cape's premier winegrowing regions fall within zone 2 of the Winkler heat summation system, although they mostly occupy zone 3 and, to some extent, zone 4. The classification system accords a rating of 1 to the coolest and 5 to the warmest zones.

Very importantly, sea breezes from the Atlantic and Indian oceans cool the vineyards during the summer afternoons, slowing the ripening process and intensifying flavours.

The Cape has the oldest geological formations in the world, dating back around 1 000 million years, and soils are highly weathered and nutritionally poor, helping to curtail plant vigour. The Cape Floral Kingdom (CFK), where by far the majority of Cape wines are grown, is also the richest floral kingdom on the planet, with an abundance of biodiversity unequalled anywhere. Such diversity is the result of an enormous diversity in soil type, topography and climatic conditions and gives rise to complex, distinctive and varied wines.

FUNDAMENTAL CHANGES

With the advance of the industry and the upgrade of the national vineyard to meet international standards, more than 40% of the national vineyard has been replanted over the past 10 years.

Greater viticultural expertise and visionary thinking has led to the development of new winegrowing areas, many in marginal locations, where vigour is naturally curtailed. These areas are right along the coast to the east and the west of the Cape Peninsula, as well as on mountain slopes and valleys further inland.

Not only has South Africa been exposed to leading-edge viticultural research and winemaking techniques internationally, but prominent viticulturists and winemakers from other countries have identified South Africa as having outstanding viticultural potential and have invested in ventures here too. They include Zelma Long of Simi Vineyards in California, May de Lencquesaing of Chateau Pichon Longueville Comtesse de Lalande, Anne Cointreau, Michel Rolland, Michel Laroche and many others.

A study by James Herrick of Wineprophet has shown that South Africa performs best in an environment of medium or high-cost wine farming, as opposed to low-cost farming. The country's wines thus prove more globally cost-competitive at the higher end of the spectrum than in the value segment. His research has found that the majority of South Africa's winegrowing areas are best suited to the production of premium wines and higher. The widely varying growing conditions throughout the Cape winelands, while making winegrowing highly demanding and expensive, give rise to wines of great diversity, complexity and interest, ideally suited to the more sophisticated, less price-sensitive segments of the market.

This and other research has prompted the development of a positioning for Brand South Africa that focuses on the wealth of biodiversity and the positive impact on wine styles.

BIODIVERSITY & WINE INITIATIVE (BWI)

The BWI is a pioneering partnership between the local wine industry and the conservation sector aimed at minimising any further loss to the highly threatened Cape Floral Kingdom (CFK), the smallest on the planet but home to as many as 9 600 plant species, more than the entire Northern Hemisphere. Some 90% of local wine production occurs within the CFK, which is also a World Heritage Site and a conservation hotspot.

To become a member of the BWI, producers have to incorporate biodiversity best practices in their farming operations, enhancing the suitability of vineyards as habitat for biodiversity through eco-sensitive measures, and reducing the negative impact of farming practices on the surrounding natural habitat.

BWI aims to:

- ¥ Prevent further loss of habitat in critical sites*
- ¥ Increase the total area set aside as natural habitat in contractual protected areas*
- ¥ Create marketing opportunities for the wine industry by positioning the biodiversity of the CFK, and the industry's proactive stance on biodiversity, as a unique selling point to differentiate Brand South Africa.*

In less than one year of the BWI campaign, already more than 17 000 hectares have been set aside for conservation.

In a world first, biodiversity guidelines have been incorporated in the Integrated Production of Wine (IPW), effective from 2006. IPW is an environmentally sustainable system endorsed by the OIV (Office Internationale de la Vigne du Vin) and involves, on a partnership and voluntary basis, local wine research bodies, grape growers, wine producers, the Department of Agriculture, as well as suppliers of chemicals and fertilisers. It is funded through registration fees paid by all participants and is therefore totally independent of any vested interests.

In 2006, over 90% of the harvest will be IPW-compliant. By 2009, no wine that is not IPW-certified will be exported.

A new positioning has also been adopted for Brand South Africa that amplifies the competitive advantages afforded by biodiversity.

≠HANNUWA*

This is an ancient word of the San people, indigenous to the Western Cape, and first encountered by early European travelers in the late 16th century. It means the gathering of good fortune through living in sustainable harmony with our natural environment. The word has been chosen by WOSA to describe the approach to winegrowing and winemaking adopted by South African producers, mindful of the need to protect biodiversity and natural habitat.

In the spirit of ≠hannuwa, participants in Cape Wine 2006 have been approached by WOSA to sign a commitment to working with nature for the benefit of all . The commitment document calls on growers and producers to show their respect for the land and its people by farming sustainably; acting as custodians for the land and preserving it for future generations; nurturing a culture of respect among the people who work on wine farms and in wine cellars; promoting an environment of dignity, equality and upliftment; protecting the biodiversity of the winelands and safeguarding their rich heritage.

The principle of ≠hannuwa also underlies the Variety is in our nature positioning for Brand South Africa unveiled at the Pan-European Mega Tasting held in London last October. This positioning is being underscored in advertising and merchandising initiatives in major markets and uses a wealth of visual material to demonstrate diversity of natural habitat, focusing on flora, birds and other elements of nature.

SOUTH AFRICA'S PRODUCTION

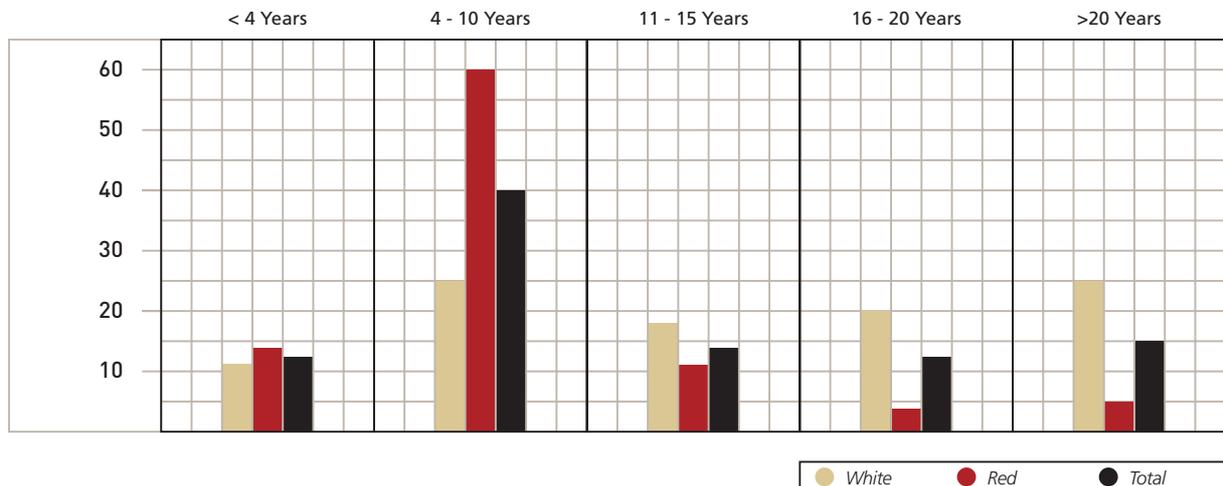
Although South Africa is currently the ninth biggest producer of wines worldwide, it occupies fifth position in UK retail, currently the world's biggest wine market in value terms. It is the biggest New World wine producer in the Netherlands, the second biggest producer in Sweden and is assuming increasing significance in other Scandinavian markets. South Africa is also the fastest growing New World wine category in most Canadian markets. Recently, focus has been given to the US, where markets are rapidly being developed, most concerted along the Eastern seaboard and in California.

There are currently just over 100 000 hectares of wine varieties under cultivation in South Africa. Whites comprise 54% of the national vineyard and reds 46%. The most widely grown whites are Chenin Blanc, Colombard, Chardonnay and Sauvignon Blanc. The most popular reds are Cabernet Sauvignon, Shiraz, Merlot and Pinotage.

RANKING BY VARIETIES

- 1 Chenin Blanc
- 2 Cabernet Sauvignon
- 3 Colombard
- 4 Shiraz
- 5 Chardonnay
- 6 Merlot
- 7 Sauvignon Blanc
- 8 Pinotage

AGE OF VINES AT 2004



SOME FACTS & FIGURES

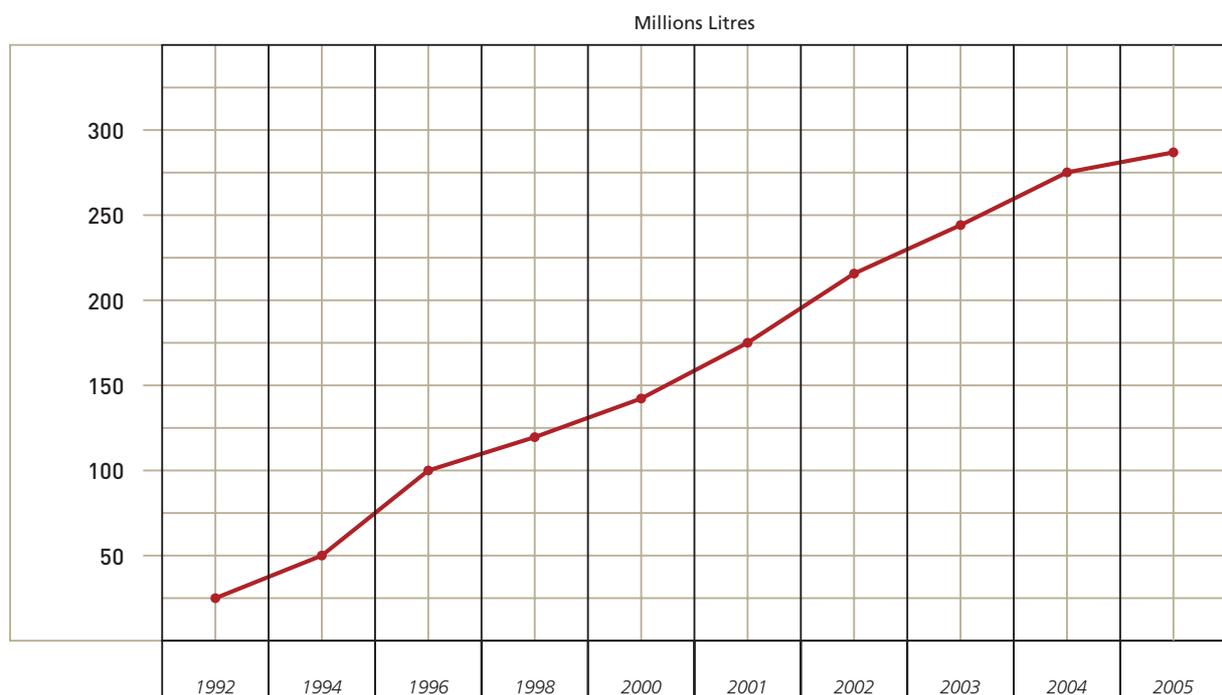
South Africa's wine industry:

- Contributes R163bn to South Africa's GDP of which 70% directly benefits the Western Cape economy (2004 study)
- Generates an additional R4,2bn through wine tourism (2004 study)
- Employs 257 000 people directly and indirectly (2004 study)

The estimated wine grape harvest for 2006 is 1 245 182 tons, 6% up on 2005. Including juice and concentrate for non-alcoholic purposes, rebate and distilling wine, this should produce 960 million litres.

Exports have been climbing steadily every year, reaching 280 million litres in 2005. In 1994 South Africa exported 50,6 million litres of wine.

TOTAL SA EXPORTS



SOME FACTS & FIGURES

EXPORT PACKAGED LITRES BY MARKET

Bottled	2002	2004	2005
	%	%	%
UK	53	46	44
Netherlands	19	17	14
Sweden	3	8	10
Germany	6	8	8
Canada	2	3	3
Belgium	2	2	2
USA	3	5	5
Finland	2	2	2
All others	8	10	12
TOTAL	100	100	100

EXPORT PACKAGED LITRES BY MARKET

	Vol	%	04/03
	(m litres)		
TOTAL WHITE	127.6	48	107
Chardonnay	22.0	8	104
Sauvignon	14.7	6	128
Chenin	32.9	12	114
TOTAL RED	127.67	48	115
Cabernet	14.8	6	133
Shiraz	10.0	4	125
Pinot	12.0	5	129
Merlot	5.7	2	97
ROSÉ	7.4	4	151

SOME FACTS & FIGURES

TOP 10 EXPORT COMPANIES : 2005

Note that these are not in order of magnitude.

- African Terroir
- Baarsma
- DGB
- Distell
- KWV
- Noordweste
- Origin Wine
- Swartland Co-op
- The Company of Wine People (Omnia)
- Western Wines

Represent 55% of total exports by volume.

PROMOTING TRANSFORMATION

Historically, the South African wine industry has been white-owned and while the majority of winegrowing land remains in the hands of whites, there are now increasing numbers of black-owned wine ventures and others structured to become entirely black-owned, with shareholding financed from profits.

However, transformation is not only taking place at land ownership level. It is also taking place elsewhere along the value chain. A recent study by Deloitte s indicates that opportunities for black ownership are to be found mostly in the latter part of the value chain, with most potential to be realised not in the 30% value created before the wine leaves the cellar but in the 70% thereafter, in areas such as marketing, advertising, sales, distribution and logistics.

Transformation is not confined to ownership. It also focuses on empowerment through skills transfer in areas such as viticulture, wine farm management, viniculture, business administration, marketing, advertising, sales, wine tourism, wine service and through preferential procurement initiatives that encourage members of the industry to source from businesses economically empowering blacks. To accelerate the process, all ventures in the industry will soon be required to subscribe to a Government-monitored scorecard that assesses progress against agreed goals and datelines in terms of skills transfer, employment equity and preferential procurement requirements.

Industry members are also working with Government to develop a charter for the wine industry, that will assist in institutionalising change.

WOSA'S SOCIAL RESPONSIBILITY INVOLVEMENT

WOSA is engaged in a range of activities to promote transformation, devising and running training courses in wine tourism and wine service for township tour operators, restaurateurs and game lodges. The organisation also assists in giving Black Economic Empowerment (BEE) producers access to international markets and exposure at international trade and consumer events.

In addition, WOSA supports programmes that educate against drinking during pregnancy, has plans to provide a safe house for battered women, and funds research into Foetal Alcohol Spectrum Disorder (FASD).

WOSA was also involved in the launching in 2002 of the Wine Industry Ethical Trading Association (WIETA), understanding that if socio-economic issues affecting the wine industry were not urgently addressed, it would not have been possible to ensure a sustainable and flourishing wine industry as a source of jobs for the rural, often marginalised poor.

Membership of WIETA is voluntary. The aim of the organization is to promote ethical conduct and improve conditions of employment in the wine industry by encouraging wine growers and wine producers to comply with its code of good practice. Adherence to the code is monitored by an independent team of specialists, and those meeting the prescribed criteria achieve accreditation. Non-compliance requires audited worksites to submit improvement plans to demonstrate how they intend to upgrade standards to achieve accreditation.

To date, over 60 production sites have been audited by WIETA. Wine buyers are urged to assist the process by encouraging their suppliers to join WIETA and by buying wines from producers who are committed to responsible and fair labour practices.

WIETA's stakeholders include representatives from the country's national government, organised labour, wine growers, wine producers and NGOs, and is funded from membership levies and monies derived from the export of duty-free wines to EU countries, then repatriated to South Africa by UK importers and supermarkets.

In terms of the EU-SA Wines & Spirits Agreement of 2002, South Africa is permitted an annual export quota to EU countries of 42 million litres of wine exempt from Common Customs Tariff (CCT) for 10 years. Instead of the benefit of the reduction in import prices going to importers' agents or retailers, UK importers and supermarkets harness it to effect transformation of South Africa's wine industry.

WHERE IS SOUTH AFRICA'S WINE INDUSTRY HEADED?

While the double digit annual growth in volume and value of exports since the advent of democracy cannot be maintained in the present climate of global oversupply, WOSA is conservatively projecting an increase of 8% in volumes and 10% in value in 2006.

The UK is expected to remain the single biggest export destination in the immediate future. WOSA aims to take South Africa from fifth to fourth position in terms of its value share of the retail sector, with value exceeding volume share.

North America will assume increasing importance for South African producers and new markets in Asia will also extend opportunities for exports. At the same time, established markets in Europe are also being exploited, notably in Scandinavia, the Netherlands, the Benelux countries and Germany.

WOSA is also working with other members of the local wine industry to promote a culture of wine drinking in South Africa, reaching emergent consumers, who are traditionally beer drinkers. Currently the average per capita consumption of alcohol is below eight litres a year, having remained relatively static in recent years.