

## SA's wine sector at a crossroads after a challenging year

There is no doubt that the wine sector has been one of the worst affected by the global upheavals of 2020. The Covid-19 lockdown halted sales and exports of South Africa's second most lucrative agricultural product, exacerbating challenges that were already in play.

By [Daneel Rossouw](#) 21 Dec 2020

Our last harvest was drought-affected, making it expensive, and the sector has been under pressure due to declining margins and fewer hectares under vine, with wine farmers moving to citrus and other high-value crops. But the lengthy freeze on sales at home and abroad has left South African wine producers with a surplus stock of 280 million to 300 million litres, even as we prepare for the 2021 harvest.

The sector is facing a myriad of challenges, some linked to the pandemic and some not: the vast surplus stock situation and cash flow pressure due to significantly lower sales in 2020 mean that prices are likely to be lower in 2021.



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18,000 jobs lost in wine industry - Vinpro

1 Jun 2020

As a result, Vinpro estimates that 80 wineries and 350 growing groups could exit the industry in the next 18 months. Smaller wineries that rely on wine tourism for cellar door sales and income as wedding venues and accommodation have been hit hard by global travel bans, and an estimated 20,000 jobs are at risk. More than 25% of wineries and 40% of grape producers with cellars are not planning capital investment in their businesses at all in the next 12 months.

Thankfully, there are opportunities ahead. The South African wine industry's Covid-19 recovery plan includes stimulating the demand by driving exports and reopening and growing local sales and revenue through wine tourism. Despite the challenges to penetrate the market in China and the Far East, export opportunities do exist, especially with the recent 'trade war' between Australia and China.

With Australian wines now subject to provisional export tariffs in China, ripe opportunity exists for South African wines to grow beyond their 1% market share in this market. There are also prospects in emerging markets in Africa and demand from retailers abroad, while the weak exchange rate makes our exports more appealing and increases profitability.

### Promoting South Africa wines

Technology has enabled new ways to market, and like all sectors, e-commerce has become the go-to marketplace for wine and is expected to become a permanent trend. At the same time, social media and digital platforms offer excellent media for communicating and promoting South African wines.

In the rebuilding of the industry, businesses are adopting a leaner but meaner principle, by critically reviewing price points in various markets and reassessing the place and strategy of South African wine in terms of global production and markets. We are also seeing better cooperation and partnerships at an

industry level, which is creating improved information flow and economies of scale for marketing, logistics and production.

The industry is evolving to focus more on sustainable production. Producers are using better technology, infrastructure and planting material to cater for higher production while producing better-quality grapes with fewer precious resources. With South Africa being a water-scarce country, water is increasingly a major consideration. The wine industry is in competition with the fruit and citrus industries in terms of water usage and suitable land. Ultimately, producers will consider net income per hectare and net income per litre water used in their planting strategy.

Nedbank, as a bank whose business values are entrenched in sustainability, for example, has advocated for sustained production through the responsible use of the limited natural resources available. The benefits of this sort of approach include preservation of the environment, economic profitability, the most efficient use of non-renewable resources, the protection of public health, and social and economic equity.



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We also form strategic partnerships with key organisations with a view to helping grow and develop the agricultural sector. One of these partnerships is our annual sponsorship of the Nedbank Vinpro Information Day, which will be held virtually for the first time on 21 January 2021. The challenges and opportunities facing the South African wine sector will be thoroughly explored at the event. We feel the time is now to scrutinise the direction that the value chain needs to take to ensure a growing, competitive, resilient and sustainable industry in the future.

Fortunately, we believe that there will always be a South African wine industry – it is simply a question of the extent of it. We might end up with a smaller wine sector in future, but a more profitable one that can compete on the international stage and locally against other industries such as citrus and fruit.

## ABOUT THE AUTHOR

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