

Smaller wine farms 'struggling to survive'

VREDENDAL: Smaller boutique wine farms were finding it difficult to survive as the industry in South Africa enters an era of consolidation, making a few co-operative wine sellers larger, Absa agribusiness head Ernst Janovsky said Thursday, 15 November 2012.

By Hopewell Radebe 19 Nov 2012

Addressing a media briefing in the Western Cape, Janovsky said it was expected that this consolidation phase would continue placing a downward pressure on wine farm prices in the Stellenbosch and Paarl areas.

The industry expected that "only the strong brands will eventually survive" placing further pressure on small boutique wine brands. Janovsky predicted the producer revenue per hectare would continue to improve due to the combined effect of higher prices as well as higher production volumes. Also, the producer input costs remain well managed with a resulting small rise in net farm income per hectare.

In the 1990s, due to deregulation of the wine industry in general, small boutique wine producers emerged. This made wine making, to a large extent, an art with the emphasis on the wine maker. Given the technological advances in the past decade, even bulk wine makers are producing high-quality wines and this was affecting the small-scale producers.

Janovsky said that after reaching a low in 2009, international bulk wine prices increased on lower stocks. He said the bulk wine prices would continue to strengthen and stabilise slowly and production volumes increase as world economic conditions improved.

He said world growth in demand and consumption of wine peaked in 2008 and declined substantially in 2009 due to the global recession, this combined with major production expansions during the preceding years which led to a buildup of stock and a resulting decline in world wine prices. Slow consumption trends had, however, bottomed out and consumption is expected to grow in the next two to three years due to the development of new markets in Asia which should soften the blow of the slow world economy.

"World production is lower than world consumption with a resulting decline in world stocks, this will bring some relief to wine farmers as world prices are expected to show some recovery in 2013," Janovsky said.

Source: *Business Day*