SA bulk wine producers fear long-term knock of lockdown

Since the start of South Africa's lockdown, its wine industry's backbone has been hit hard. Bulk wine producers represent approximately 85% of the industry in terms of production in South Africa. In exports, bulk wine surpasses bottled wine exports.

Image via 123RF

"Bulk wine producers are the silent giants that labour away in the remote stretches of South Africa's wine-producing regions and help our industry prosper. These producers play an integral role in agriculture. Their influence is multifaceted and spread across various industries." says Francois Bezuidenhout, a Cape Wine Master for 2014 and winemaker at Leenders Wines, and co-founder of local gin brand, Pimville Gin.

"If we lose the means to support even a quarter of the wine industry's workforce, we will be in a lot of trouble," adds Sterik de Wet, Ashton Winery CEO. Ashton winery's vineyards span across the Robertson Valley in the Western Cape. The company crushes approximately 18,000 tonnes of grapes annually and supply bulk wines to major local and international buyers.

According to industry body SAWIS (South African Wine Industry Statistics), the local wine industry annually contributes more than R49bn to South Africa's GDP. It offers over 290,000 jobs throughout the value chain. South Africa exports between 420 million and 450 million litres a year, earning over R9bn worth of foreign revenue. This comes down to about 50% of total production, says Wines of South Africa (WOSA)

"Bulk wine exported from South Africa is bottled under various labels in Europe," says Bezuidenhout. "It's these exports that have helped build the South African brand in the international trade pool."

> *Producers are nowchallenged with the uncertainties around the volumes they will require for their contracts, if any at all.*

Johan Gerber, wine buyer at Origin Wines adds: "Bulk wine is what drives sales abroad and the consistent growth of the local industry. We will not be able to grip the value of wine in our country's development until we lose it."

Origin Wines exports approximately 99% of its products, mostly to Europe.

"While the current demand for South African wines is rife, its producers are in a race against time to fulfil current contracts with buyers abroad.

"This time of the year is also when the new vintage bulk wines are contracted with producer-wineries for local and export markets. Producers are now challenged with the uncertainties around the volumes they will require for their contracts, if any at all. This puts bulk wine producers under immense pressure as they enter level four behind schedule to fasten their spots on shelves overseas."

The 2020 outlook

Having recently finished the 2020 harvest, the new wines (after fermentation) are expected to enter cellars and warehouses that are still quite full of the 2019 vintage - which has not left South African shores as quickly as anticipated. As a result of prosperous harvests in recent years, an over-supply of wine is available for further trade.

"The issue at hand is a simple supply-and-demand equation," continues Bezuidenhout.

"South Africa now has too much bulk wine (2019 and 2020 vintages) and is unable to sell it on the local front due to restrictions and regulations. Exports are now open under level four regulations, but the backlog at ports will be a significant burden to get wines to international markets on time.

"While the Cape Town harbour is weeks behind schedule, bottling is at least allowed for the export market. Yet, reduced staff is on duty at the bottling line. Putting this in perspective for exports of new wines, it can take up to four weeks for the final product to reach the harbour and then the wait starts for its departure."

"The long-term effect is a significant downward pressure on bulk-wine prices, even with a very favourable exchange rate. International buyers are aware of the weakening South African rand and want to capitalise on the opportunity. They are now asking to be quoted in ZAR and not in Greenback, Euro or Sterling. Even our export clients are seeking bargains that will not be buffered by a decimated rand value."

The spectre abroad

The surfeit of wine in cellars overseas has sparked concerns about the demand for imports. The Times reports that vineyards in France, Spain, and Italy are fully stocked with unsold bottles as a result of various turns of Covid-19 related events including President Trump's tariffs, Brexit, and trade deals between China and Australia.

While local sales figures for off-site consumption in the US and UK has shot through the roof, bars and restaurants' doors remain shut. Online sales are not enough to maintain momentum in trade and the wine due for exports for the hospitality industry is left in storage.

Recently, The Comité Européen des Entreprises Vins (CEEV) released a statement on the logistical challenges and a fall in sales European countries are facing. This has led to the proposition of a crisis distillation programme to distil one billion litres of wine and free up space in the cellars.

"The consequences of our export partners' excess wine may not hold many prospects for South Africa," says Gerber. "Even if we are looking at less demand for next year, we are still held accountable to deliver on current orders in due time. Failure to do so will have buyers simply turn to the next supplier. In this case, we will have to offer more competitive prices.

"This will likely set us back with three to four years in pricing structures. We are seeing an industry-changing 'wave' approach us like never before. Currently, we are looking at working through the entire 2020 harvest to regain our competitive position in the international market."

An inward look

"The 2021 harvest is less than eight months away and our cellars are full to the brim with a back-log on orders, incapable of selling to the local market and many hurdles to get the wines across the border," says Bezuidenhout. "Wine will become cheaper. A lot cheaper."

While this forces wine prices for the bulk supplier to dip, chipping, it does not necessarily mean there will be a large difference for the South African consumer. Packaging, labelling, transport, and other services will be factors in the end product's price.

It is the bulk wine producer who has to be as strategic possible to sustain a consistent production line in the post lockdown competitor market and continue covering the basis of production costs that may not have seen relief as a result of Covid-19.

"We're in the middle of a 'teething period' that that is premature in its mode of learning, adaptation and survival in an unprecedented period.

"It's not the first time and we can only hope that in a few years' we can again gather around an open fire with a good glass of wine and chuckle about the obstacles we had to overcome," says De Wet.

For more, visit: https://www.bizcommunity.com