



**MINISTRY: FINANCE**  
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**Freedom Day lecture – South African Wine Council**

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**The South African Wine Industry: challenges and opportunities**

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There have been enormous changes in the wine industry over the past decade – influenced in no small measure by agricultural marketing reforms, opening up of export opportunities and restructuring of the role of the KWV from about 1997 onwards. Red wines have increased from 15 to 40 per cent of the total – signaling the steady march forward of civilization; exports have climbed from 12 per cent of production in 1994 to 45 per cent – the relentless trajectory of globalisation; production costs have increased from something like R6500 a

hectare to over R20 000; production revenue has increased to something like R3 billion a year and I understand that profitability remains a fondly-imagined distant possibility.

But I think we all know that the transformation we have seen over the past ten years has been just the preparatory phase for the challenges and opportunities of the decade ahead. So you will surely agree with me that the establishment of the South African Wine Council last year, the formation of the Industry Trust and associated initiatives in marketing, research and industry development represent most welcome and timely interventions.

I am honoured to have been invited to join you at this inaugural Freedom Day lecture. Let me begin by expressing appreciation for the wisdom and foresight of those who did the groundwork in bringing the industry together in these new institutions. Professor Asmal has shared with me his address at the Vinpro Information Meeting in January this year, and instructive papers by several participants. Clearly your debate on challenges and opportunities is already well under way, and before long you will all, together with old Father William, be standing on your heads.

This is all for the good, because it helps to look at things upside down from time to time. Of course I can't do your strategic planning for you, but perhaps I can propose a few wrong-sides up perspectives.

The January meeting correctly indicated the two great challenges before us: market development and broad-based empowerment.

Let's start with growing the market. I understand that you have identified the United States as a key target market for the period ahead, and quite rightly, because US sales are hardly above 3 per cent of South African wine exports at present.

But the great project of reconstructing American consumption habits should not be under-estimated. When a nation has developed a long historical preference for fast-moving industrial beverages, it is hard to advance the cause of the noble contemplative arts.

I can probably only tell you what you know already about the export marketing challenge that lies ahead: there is over-production of wine worldwide, China is planting 100 000 hectares of vine a year, our industry is fragmented and production quality cannot entirely be managed or predicted, with some 600 or so estates and labels it is hard to coordinate and consolidate South Africa's marketing efforts internationally.

But in marketing especially, the upside-down view is the right perspective on the problem. From the global consumers' perspective, South African wines are just beginning to come into view. If we can succeed in expanding that view, then the global wine lake recedes into insignificance. And so we need to ask what it is that keeps our wines in view, in mind, on menus, on order lists, on investment portfolios.

*Wines of South Africa* has got off to a great start as a collective marketing initiative, and its work in packaging and positioning our brands internationally is clearly central to the market development challenge. This is not just an advertising account, it is the much more difficult and organizationally demanding project of constructing a partnership across some 60 cooperatives and 500 private cellars, and of collectively branding up to 4 500 distinct products.

Expanding the visibility of South African wines in the view of the consumer is about penetrating the fog of confusion that accompanies information overload in the global product market. Selling South African wines requires a clear and consistent message, and clarity of message requires an industry that works together and combines its resources effectively.

What should be the content and strategic focus of our marketing efforts? Those are questions I can't answer, and they need detailed and careful review. I can't even help very much on how you should consolidate financial resources for an expanded marketing strategy, except to say that it can be done and it is a lot better that it should be done by the industry acting collectively than by government department acting on your behalf.

But I can say this, because the broad principles of growing an industry are not dissimilar to the challenges we face in growing the wider South African economy. You have to take a long term view, you have to think ten, twenty, thirty years ahead; you have to let the numbers and the analysis speak and be wary of pat answers and sweeping judgments; you have to listen to the experts and let the debate unfold even if it leads in uncomfortable directions; you have to confront barriers and difficulties boldly and forthrightly.

There are also several pressing challenges, globally and domestically, that your industry unavoidably shares with other sectors and indeed with wider humanity.

Environmental considerations are already recognised in your Council's agenda and have come to the fore in various projects, on individual estates or jointly. Effective and responsible management of water is an issue that I know Professor Asmal will keep under close scrutiny. Habitat conservation, and the appropriate balance between adaptation and preservation of the landscape that is under your trusteeship, may appear in the short-term to be complicating and cost-raising factors. But these are also central aspects of long-term sustainability and they bring at least some opportunities for diversification that holds commercial potential.

Research and technology improvements are important elements in long-run industry development, and in this respect as in the environmental arena, I am

mindful that there is scope for better cooperation between industry and government. We have considerable strengths on which to build – good research facilities and excellent university resources, sound environmental legislation, for example. I am advised that in the SA Wine and Brandy Company's 2006 submission to the Ministerial Review Committee on Agricultural Marketing, several recommendations were made for improvements in research cooperation, in combating crime and fraudulent activities, addressing congestion or delays in the ports and speeding up international negotiations that affect market development, amongst other matters. Ongoing and better focused dialogue between industry and government is the key to making progress in these areas.

I understand that the industry submission also proposes that the excise duties on wine are excessive. This is a view that enjoys my sympathy, and I will pass on the concern to my officials. But I need to caution that on these matters industry objections and Ministerial sympathy are not always sufficient to counter the weighty advice that the Treasury musters each year when it comes to constructing the annual budget.

Tax is just part of the larger framework of control over the use of alcoholic beverages, but it is a reminder that we still have some way to go in addressing issues of social responsibility in this industry. We should think of this as part of both the empowerment and social transformation agenda and of market development in its more inclusive long-term sense. I have in mind both the general contribution of the wine industry to promoting responsible drinking and to the more specific challenge of addressing alcohol abuse on farms and its various effects, which include the continued high incidence in the Western Cape of foetal alcohol syndrome. I believe the industry needs to act more decisively in this area and should not shrink from doing so publicly, in partnership with other role-players.

But the positive sides of empowerment and social investment also need more visible expression and public discussion. Housing, access to education and health care, deliberate interventions focused on the quality of schooling, training and business partnerships, co-ownership and joint ventures with new entrants to the wine industry – are all contributing to building a South African future in which growth and opportunities are shared. Progress in these activities needs to be accelerated.

Although individual efforts on farms and in factories and local communities will always play a prominent role in the progress of working conditions and social advancement, collective undertakings also have their place. I am mindful that government, for its part, has concentrated efforts over the past decade on policy and programmes of general application. Indeed in several respects we were Constitutionally bound to take this route.

But in the decade ahead, we need to recognise also that social progress will depend increasingly on adapting development programmes to the particular circumstances of different industries and communities and groups.

In the challenge of building a broad-based social security system that contributes to improved unemployment insurance, survivor benefits and retirement savings for working people, for example, we are going to have to confront the particular difficulties of accommodating seasonal and irregularly employed farm workers.

In the challenge of creating job opportunities for rising numbers of young work seekers we clearly have to do much better at adapting training and further education programmes to both the sectoral and industrial skills shortages that are emerging and the shortcomings of the school system at present.

In the challenge of building welfare services that meet people's practical social needs we have to adapt to the impact of HIV and Aids on families and

communities, but also to the particular kinds of social fragmentation or dysfunctionality that characterise Western Cape farms or townships.

In the challenge of building industries that can grow and compete successfully on the global market, we have to locate the particular technological shortcomings that may be holding back progress or the logistical bottlenecks that interfere with more streamlined market access or the special skills requirements that need to be met through a new training or education programme.

In the challenge of constructing a public administration that adapts to modern requirements we have to invest in IT systems that actually work and municipal planning processes that keep pace with residential and commercial and industrial development opportunities.

And in the challenge of managing a faster growing economy, we have to find the right ways of ensuring that marginalised people are not left further behind, and that the benefits of growth reach those without skills or education, reach rural villages and congested townships; that constructing universal access to the internet does not come at the expense of universal access to sanitation.

The challenge before us is no less than this: to give considered, intelligent, practical effect to both market development and empowerment across an increasingly broad array of social and economic opportunities. That is what growth brings: more opportunities; greater challenges. Building a future in which freedom is fully enjoyed by all remains a formidable challenge for us all. But with the right institutions in place, and with the kind of leadership that can bring together those who need to work together, I know that the wine industry can play its part, and more.

Thank you.

