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Overview of the South African Wine Industry

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The South African wine industry is under significant financial pressure, with declining vineyard areas, an ageing vine profile, and rising production costs affecting its sustainability. Despite these challenges, the sector remains a key contributor to South Africa's employment and economic growth, with strong multiplier effects. It is essential to consider the industry's current position and broader economic role when evaluating potential policy adjustments. This note provides an overview of the industry's current state, key economic contributions, and context for assessing potential policy adjustments.

1. Introduction

With the Budget Speech and the publication of the Budget Review, National Treasury will publish new excise tax rates for alcoholic beverages on 19 February 2025, applicable from 1 March 2025. National Treasury also published a policy review during November 2024, exploring changes to the taxation of alcoholic beverages in South Africa. The four main changes proposed to excise taxes (including those specific to wine) are:

- Adjustment in tax incidence (excise tax's proportion of the retail price) targets across all categories of alcohol, with the guidance incidence for wine raised to 16%;
- Implementation of a targeted band framework, with a minimum adjustment of expected inflation and a maximum of either 10% or inflation plus up to 4 percentage points;
- Progressive taxation of wine by alcohol content band, with a base rate (R/litre) applied to wine with an alcohol content between 0.5%–4.5%, wine with an alcohol content between 4.5%–9% taxed at 1.4 times the base rate, and wine with an alcohol content between 9%–16.5% taxed 1.8 times the base rate.[1] This translates to a 40% increase in excise rates for lower alcohol content wine and a 80% increase in higher alcohol content wine (which comprises the bulk of local wine production).
- A change in the basis of taxation of wine from volumetric (excise levied per litre of wine) to taxation based on absolute alcohol content (excise levied per litre of absolute alcohol in the wine).

These proposals may have implications for wine producers. In this note, we outline the current state of the wine industry, providing important context for National Treasury's tax proposals.

FTI Consulting has conducted two extensive studies commissioned by the South African Wine Industry Information and Systems ("SAWIS"). These studies provide a detailed overview of the domestic wine industry and quantify its contribution to the South African economy. The studies cover the 2019 vintage and 2022 vintage, respectively. This note highlights the main findings of the studies and provides an updated overview of the wine industry to include data from the 2023 vintage.

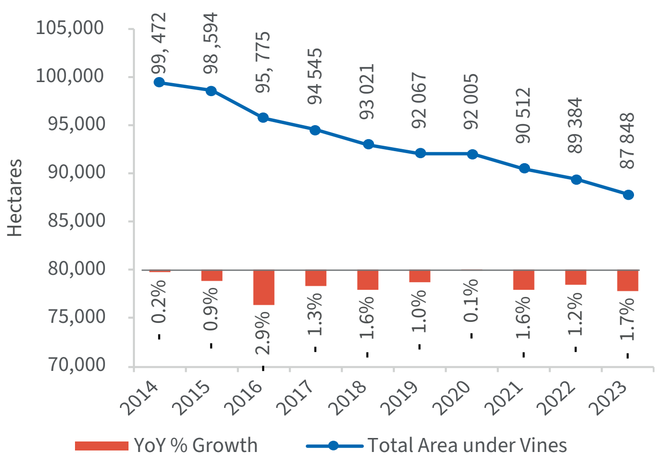
The data show that the South African wine industry is currently in a vulnerable position, with further challenges likely to intensify this strain and have a detrimental impact on the industry's long-term growth. This threatens not only a key national asset that enhances South Africa's brand globally but also the industry's substantial contributions to employment, economic growth and beyond.

2. Wine Industry in Dire Straits

The wine industry is under pressure, with participants at all levels of the value chain experiencing significant financial strain.

The total area under wine grape vineyards (excluding sultana) has steadily declined, dropping from 99,472 hectares in 2014 to 87,848 hectares in 2023. This represents a total area loss of approximately 12% over the past decade. This decline is driven by consistent net uprooting. In 2023, more than twice as many hectares of vines were uprooted than were planted, in line with the trend over the past decade.

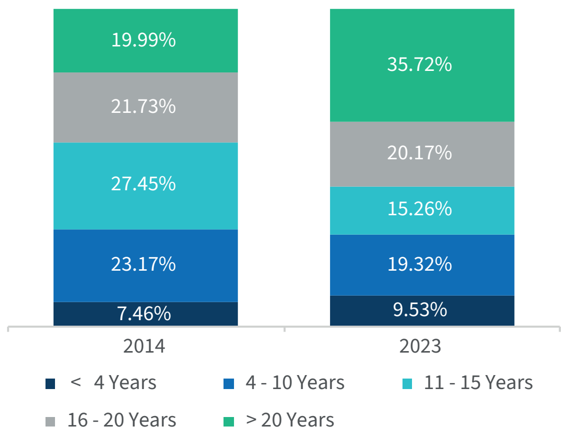
Figure 1: Total area under vines, 2014 - 2023



Source: SAWIS (2024); FTI Calculations

This net uprooting has resulted in a significantly skewed age profile of vines in South Africa. The share of vines aged between 4 and 15 years dropped from 51% in 2014 to 35% in 2023, while those older than 20 years increased from 20% to 36% over the same period. This far exceeds the recommended norm of having a maximum of 15% of vines older than 20 years. The yield – tonnes of wine grapes produced per hectare – of these older vines are also lower than the yield for younger vines.

Figure 2: Age profile of vineyards, 2014 vs. 2023

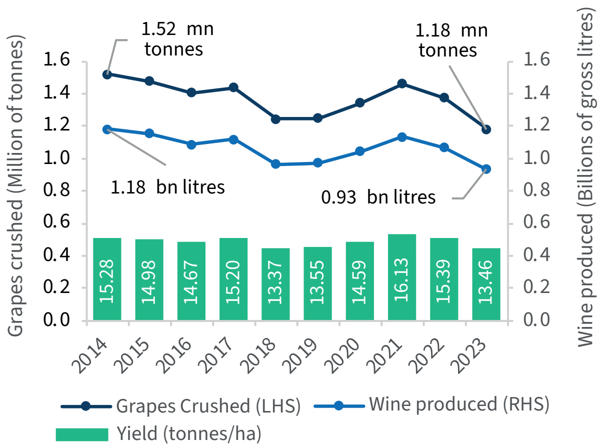


Source: SAWIS (2024); FTI Calculations

The combination of declining area under vines, older age profile of remaining vines, and adverse changes in the climate have contributed to smaller wine grape crops and yields since 2021. Indeed, the wine grape crop is on a negative long-term trajectory, with 2023 seeing the smallest wine grape crop in nearly two decades. Furthermore, wine grape yields (tonnes of grapes per hectare of wines) are also approaching their lowest level in over a decade. In 2023, only 13.46 tonnes of wine grapes were harvested for every hectare of vines.

Wine production[2] mirrored the wine crop's long-term downward trend. While there was a temporary upswing in production from 2019 to 2021, the 0.93 billion litres of wine produced in 2023 was still 21% less than the 1.18 billion litres produced in 2014.

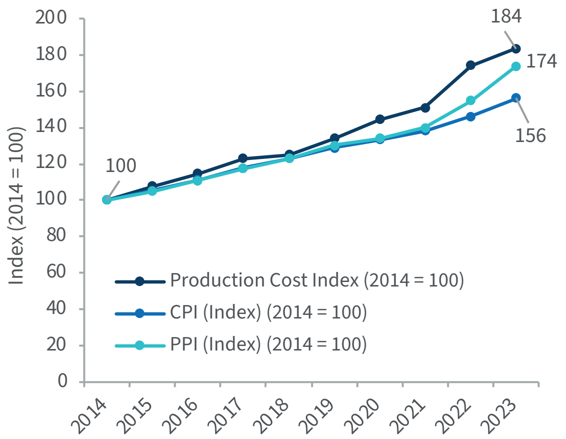
Figure 3: Grapes crushed, wine produced and yield, 2014 - 2023



Source: SAWIS (2024); FTI Calculations

In addition to the lower yields and production, wine producers are also faced with increased pressure from rising production costs. Production costs have almost doubled over the past decade, outpacing increases in both headline inflation (CPI) and the producer price index (PPI). While increases were slightly below the long-term average in 2023, this came on the back of a higher-than-expected double digit increase of 15.3% between 2021 and 2022.

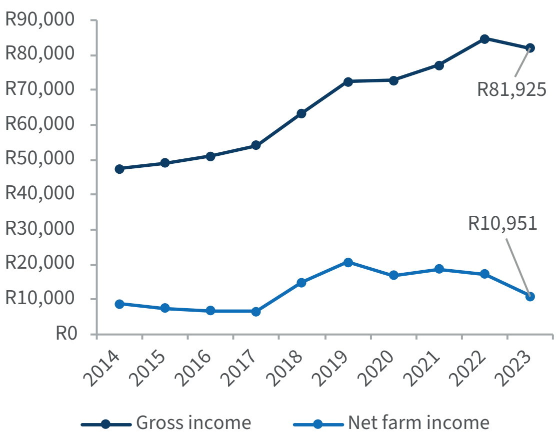
Figure 4: Production cost vs. CPI and PPI, 2014 - 2023



Source: Vinpro (2024); StatsSA (2024); FTI Calculations

Gross income for the 2023 vintage decreased by 3.22% year-on-year to R81,925 per hectare, reflecting the impact of a significantly smaller crop size. Net Farm Income ("NFI") – the difference between gross income and production costs and a proxy for profitability – fell by 36.51% year-on-year to R10,951 per hectare. This was the second consecutive year of decline.

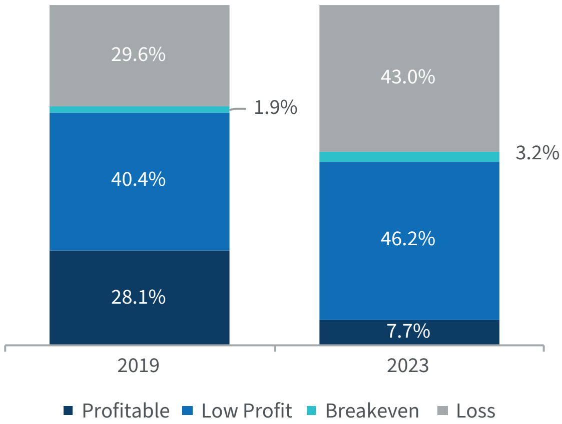
Figure 5: Gross- and net farm income, 2014 - 2023



Source: Vinpro (2024)

Declining yields, cash-flow constraints and limited price growth have severely impacted profitability, with only about 8% of producers remaining profitable in 2023, while the proportion operating at a loss has increased to 43%.

Figure 6: Profitability based on NFI, 2019 vs. 2023



Source: Vinpro (2024)

Between 2014 and 2023, nearly a third of primary grape producers – an average of 100 per year – exited the market, with smaller producers being the most affected. Similarly, the number of wine cellars declined from 559 to 522, with the sharpest losses among small private cellars crushing fewer than 500 tons annually, highlighting the growing difficulty of sustaining operations amid rising costs and constrained profitability.

These structural challenges have broad implications for the sustainability of the wine industry. This is important context to take into account when considering any policy intervention in the industry, such as, for example, increasing excise taxes.

3. Economic Contribution of the Wine Industry

Despite adverse conditions, such as the prolonged drought from 2015–2018 and Covid-19-related disruptions in 2020–2021, the wine industry contributes significantly to the South African economy. The multiplier analysis in the FTI Consulting's report of the 2022 vintage quantified the economic contribution of the wine industry as well as the knock-on effects throughout the economy that occur along the industry's value chain.[3]

The industry contributed R56.5 billion (0.9%) to the national GDP, with R50.9 billion benefiting the Western Cape, R1.4 billion the Northern Cape, and R4.2 billion across other provinces.

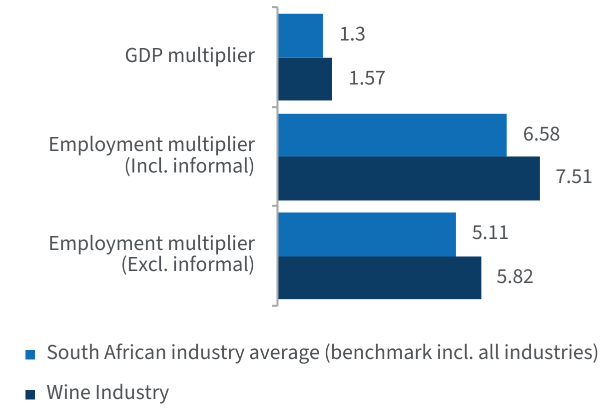
The sector also supported 270,364 jobs (1.8% of national employment). Most jobs were in the Western Cape (245,128), followed by the Northern Cape (7,333) and other provinces (17,902), spanning permanent, seasonal, and indirect roles across urban and rural areas. This is a vital addition to job creation in the face of South Africa's persistently high unemployment rate, which reached 33.5% in the 3rd quarter of 2024 (41.9% if discouraged workers are included).

Furthermore, the wine industry's activities supported R18.85 billion in household income across the various sectors in its value chain, providing income to sustain thousands of workers and their dependents.

Despite the ongoing challenges faced by the industry, its links to other industries in its value chain generates greater multiplier effects than the average South African industry. This is measured by output-based multipliers, which show how the industry contributes to economic indicators as its impact flows through the broader economy.

The industry's GDP multiplier shows that R1.57 million is added to national GDP for every R1 million in output by the wine industry. Furthermore, the employment multiplier shows that 7.51 jobs (including informal jobs) are supported throughout the economy for every R1 million in output (5.82 when excluding informal jobs).

Figure 7: GDP and employment multipliers, wine industry and South African average, 2022

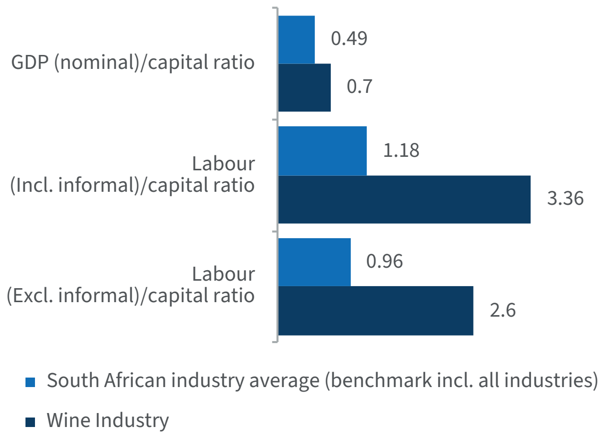


Source: FTI Consulting (2024)

Notably, the wine industry also has a greater contribution to GDP and employment relative to the average South African industry. Stimulating the wine industry to increase output therefore yields greater returns than the average South African industry.

The wine industry also outperforms the South African average in terms of its efficient use of resources. Its GDP/capital ratio shows that for every R1 million in capital expenditure, it adds R0.70 million to GDP (at market prices), outperforming the national average of R0.49 million. Furthermore, the labour/capital ratio shows that for every R1 million invested in capital, the industry supports 3.36 jobs (including informal employment), well above the national average of 1.18.

Figure 8: GDP- and labour-to-capital ratios, wine industry and South African average, 2022



Source: FTI Consulting (2024)

4. Concluding Remarks

This note has shown that the wine industry is under significant financial pressure, with many farms caught in a self-reinforcing downwards cycle. Nevertheless, the wine industry contributes meaningfully to the national economy, supporting thousands of jobs and the household income to sustain workers' dependents. Moreover, the wine industry does this more efficiently than the average South African industry. This is important context when considering policy intervention in the industry, such as changes to the current excise tax regime.

1 National Treasury uses the 2022/23 rate as the minimum tax tier as an illustrative example.

2 Wine production consists mainly of wine (83% in 2023), with the remaining 17% including wine for brandy, distilling wine and grape juice and grape juice concentrate.

3 This note focuses on contribution to GDP, employment and household income. The full study, where FTI Consulting analyses the economic contribution of the wine industry to the broader South African economy, as well as the economic contribution to provincial economies in detail (also considering the labour income, household income, government tax revenues, etc.), can be found online on the SAWIS website.

ALBERTUS VAN NIEKERK
Senior Director
+27 (0) 71 242 4087
albertus.vanniekerk@fticonsulting.com

PAULA ARMSTRONG
Senior Director
+27 (0) 76 725 4420
paula.armstrong@fticonsulting.com

ELIZE RICH
Director
+27 (0) 82 632 7127
elize.rich@fticonsulting.com