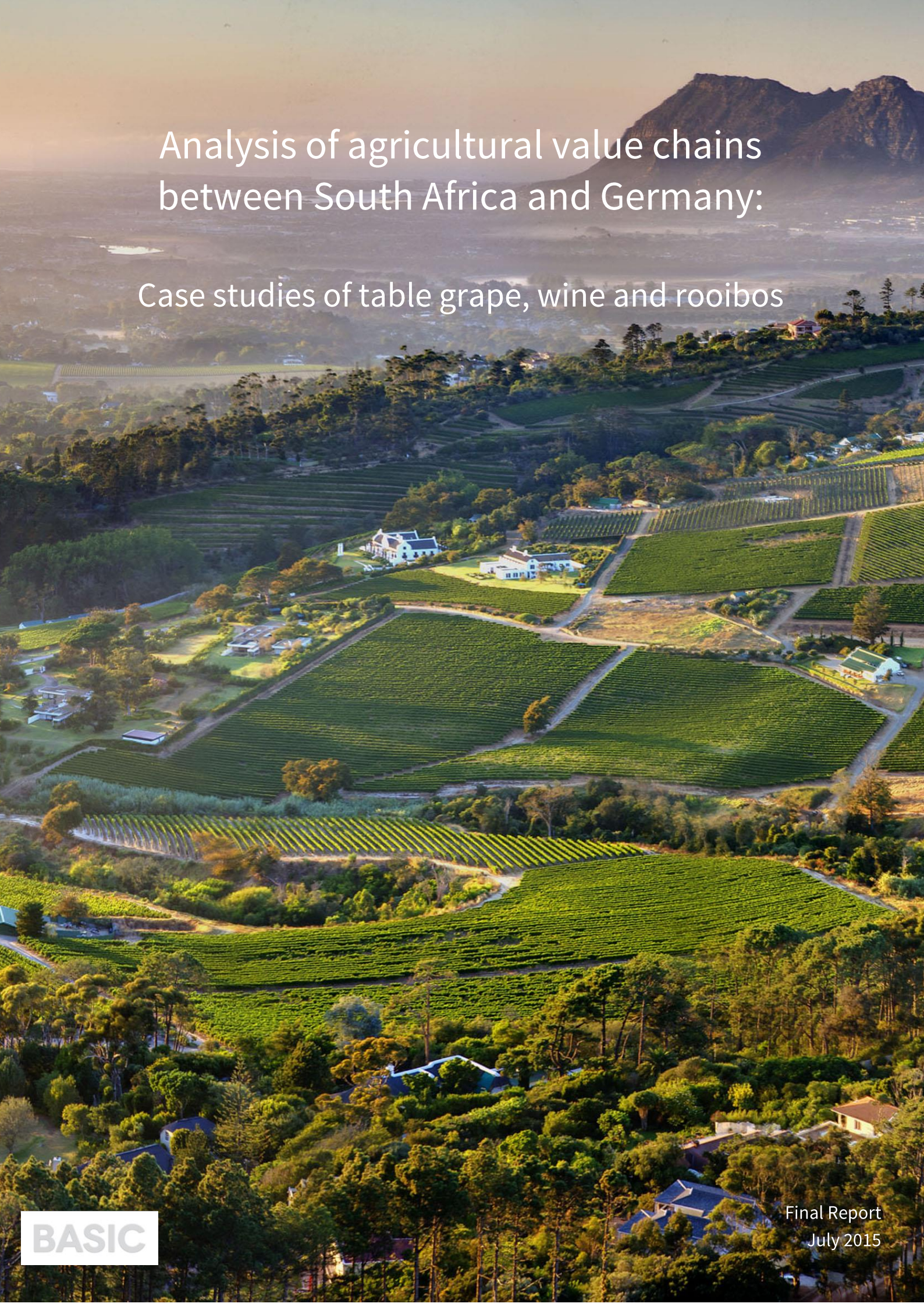
Analysis of agricultural value chains between South Africa and Germany:

Case studies of table grape, wine and rooibos



BASIC

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Executive Summary

The German food market, the largest in Europe, has been heavily influenced and structured by retailers, and more particularly discounters, over the past decades. These have created very large price sensitive and low margin markets which have been further strengthened since the beginning of the economic crisis in 2008.

In the Southern hemisphere, South Africa has been a fast growing supplier of food products since the end of the international trade sanctions against apartheid in the 1990s which has enabled the country to re-open its export market and revive its agricultural sector.

However, this was accompanied by a strong deregulation of agricultural markets in South Africa which coincided with a growing development of trade in bulk and commoditisation in world food markets which triggered ever increasing pressures on prices and the restructuration of global value chains by large retailers and importers.

The key value chains between South Africa and Germany studied in this report – table grape, wine and rooibos tea – show the significant impacts these dynamics have had on supply chain disintegration and restructuring, and their ultimate negative impacts on farmers, workers and the environment in South Africa.

If these impacts can't be attributable to German buyers only, the strong pressure on price generated over the past decade by the German retailers, especially discounters (and to a lesser extent by German importers) have fuelled and strengthened these consequences.

Reversely, the existing dynamics at stake in the South African agricultural sector (deregulation, industrialisation of agricultural production, concentration of market power, abuse of workers' rights and discrimination, etc.) have enabled and encouraged the low price demand of German large retailers and importers.

This creates a mutually-reinforcing negative spiral which requires strong initiatives to be taken in order to create meaningful transformations in South African farmers' and workers' lives and truly sustainable agricultural production in the country.

Acronyms

CIRAD	International Research Centre on Agriculture for Development
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organisation
FOB	Free on Board (incoterms)
ILO	International Labour Organization
ISO	International Standard Organisation
IUF	International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations
RSA	Republic of South Africa
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNIDO	United Nations Industrial Development Organization
USDA	United States Department of Agriculture

Table of contents

Acknowledgement 1

Executive Summary 3

1. Methodology 6
2. The German food retail market 8
3. Table Grapes Case Study 13
   a) The German fresh fruits market 13
   b) Characteristics and evolution of the table grape market in Germany 15
   c) Table grape value chains between South Africa and Germany 19
   d) Situation and evolution of the table grape industry in South Africa 26
4. Wine Case Study 31
   a) Characteristics and evolution of the German wine market 31
   b) Wine value chains between South Africa and Germany 38
   c) Situation and evolution of the wine industry in South Africa 46
5. Rooibos Case Study 52
   a) Characteristics and evolution of the rooibos tea market in Germany 52
   b) Rooibos tea value chains between South Africa and Germany 55
   c) Situation and evolution of the rooibos industry in South Africa 58
6. Impact on farmers and workers in South Africa 61
   a) The very difficult land reform and transition to farm co-ownership 61
   b) The situation of rural workers in South Africa, and its evolution 63
   c) Working and living conditions of farm workers in the grape and wine sectors 65
   d) Degradation of the environment 70
   e) Responsibility of German value chains regarding social and environmental impacts in South Africa 71
7. Alternatives to conventional trade and their impact on the ground 72
   a) Regulatory codes and certification schemes 72
   b) Focus on the impact of Fairtrade certification 74

1. Methodology

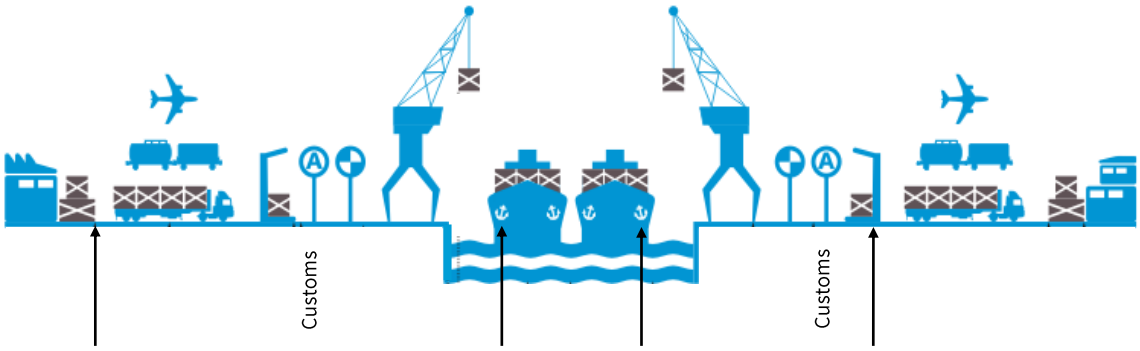
Perimeter and approach

The objective of this study is to bring together different strands of evidence (both qualitative and quantitative) to analyse the global value chains of key South African products sold in Germany, their evolution since 2000, and the potential impacts on farmers and workers.
The main areas of research were:

- The pricing trends in the German market since 2000
- The value chains between Germany and South Africa
- The impacts of German value chains on farmers and workers in South Africa

Incoterms: prices and costs along the chain

Prices and costs along the value chains have been respectively tracked and estimated for the following incoterms stages:



EXW (Ex-Works)
Seller makes the goods available for the buyer to transport it to the port of origin (= farmgate stage + sorting, washing & packing)

FOB (Free On Board)
Seller is responsible for delivery of the goods loaded on board the ship (risk is transferred as soon as the goods are inside the ship)

CIF (Cost Insurance and Freight)
Seller covers cost of freight, duty unpaid, to the port of destination

FOT (Free On Truck)
Seller delivers the goods, duty paid, unloaded inside the terminal of the port of destination

Limitations

The world market being increasingly globalised, buyers can more easily shift between origins and between suppliers while keeping consistent quality products, and exporters can more easily distribute their sales and risks between clients and consumer countries.
In this context, the German market only accounts for 6% to 7% of the world commodity trade, and the links between pricing trends in Germany and the incomes of farmers and workers are indirect.
However, long-term trends in global value chains can be identified and related to localised impacts on farmers and workers in exporting countries.

In order to analyse these global value chains, the main limitation addressed in this study is the reliability of price and cost data along the chains. To reduce uncertainties as much as possible:

- prices have been tracked from retail up to the import and export stage,
- costs have been estimated from the production stage down to the import stage.

The reliability and transparency of data has been considered too low beyond these boundaries, preventing from analysing prices and costs all along the chain.

Unit Value of exported products

In order to address the lack of transparency on prices and costs along the chain, the concept of 'unit value of products exported' was used in this study to investigate the transmission of price pressure down the chain on farmers and workers.
The unit value of products exported from South Africa and imported in Germany have been estimated based on Comtrade data.
The main reason for this approach is the greater reliability of data on flows of specific products in the UN Comtrade database compared to the other sources of information publically available, including Eurostat.

Import prices

Unit prices of import have been calculated for each country dividing the import value by the import volumes both recorded by the UN Comtrade database (used by the World Trade Organisation).
The FAO database has not been used for calculating import prices because it doesn't take into account re-exports among European countries (unlike the Eurostat and UN Comtrade databases).

Retail prices

Retail prices of products in consumer countries have been sourced from Eurostat and the German National Office of Statistics (DEStatis).
It is one of the key components of the Consumer Price Index and the Retail Price Index, both calculated weekly by this Office (prices are recorded weekly for a typical selection of products - referred to as the 'basket of goods' - using a large sample of shops and other outlets. Each week, price collectors record about 200 prices for each good of the basket).

Nominal prices and real prices

Real prices have been calculated by adjusting for inflation the nominal prices at the different stages of the chain (export, import and retail). Inflation rates are based on the Consumer Price Index (CPI) in each country; they have been sourced from:

- Eurostat for Germany, the UK, Italy, Greece, the EU (27) and the Euro-zone
- ECLA/CEPAL (Economic Commission for Latin America) for Latin American countries
- The South African statistics Institute

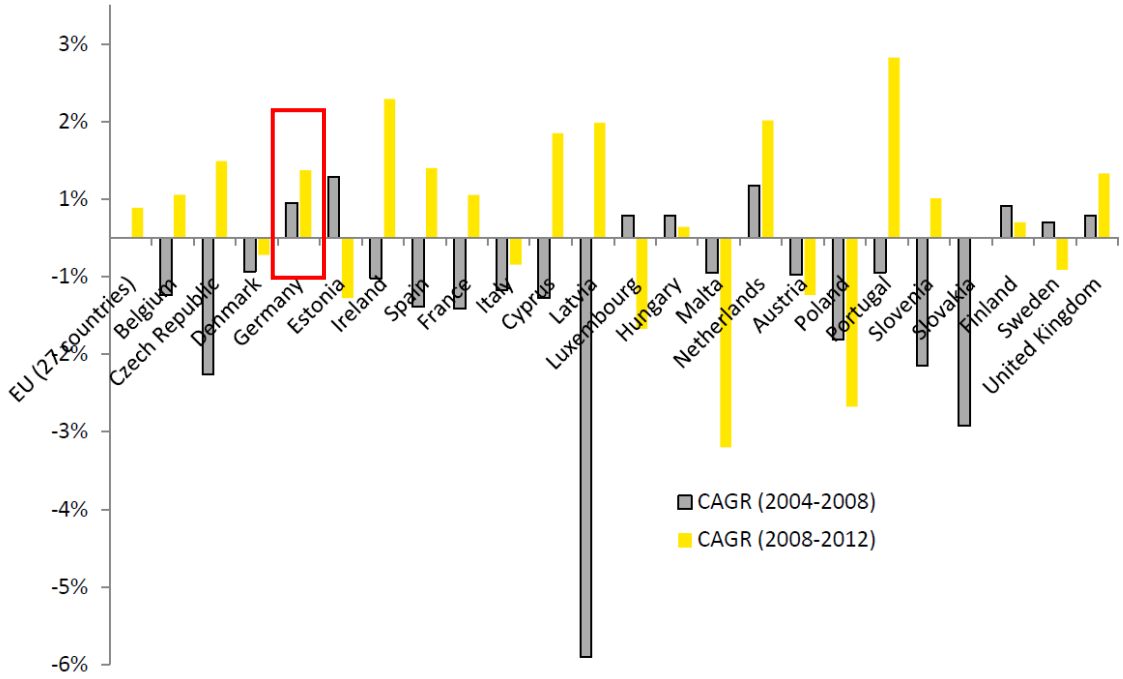
Volume units

Volumes are expressed and measured either in tonnes, kilogrammes, litres or standardized boxes of 4.5kg for table grape (the unit for transactions between fruit companies and their retail customers).

2. The German food retail market

Germany is by far the biggest market for food and beverages in the European Union. According to Euromonitor International, grocery retailing reached sales of 186.8 billion Euros in 2012[1].

Over the past ten years, Germany is one of the very few European countries where households have continuously increased their household expenditure spent on food, a tendency which accelerated since the economic crisis in 2008 (see below).



Compound annual growth (% CGAR) in the share of final consumption expenditure of households of food and non-alcoholic beverages
Source: Eurostat data (2004-12) analysed in 'The economic impact of modern retail on choice and innovation in the EU food sector', European Commission, September 2014

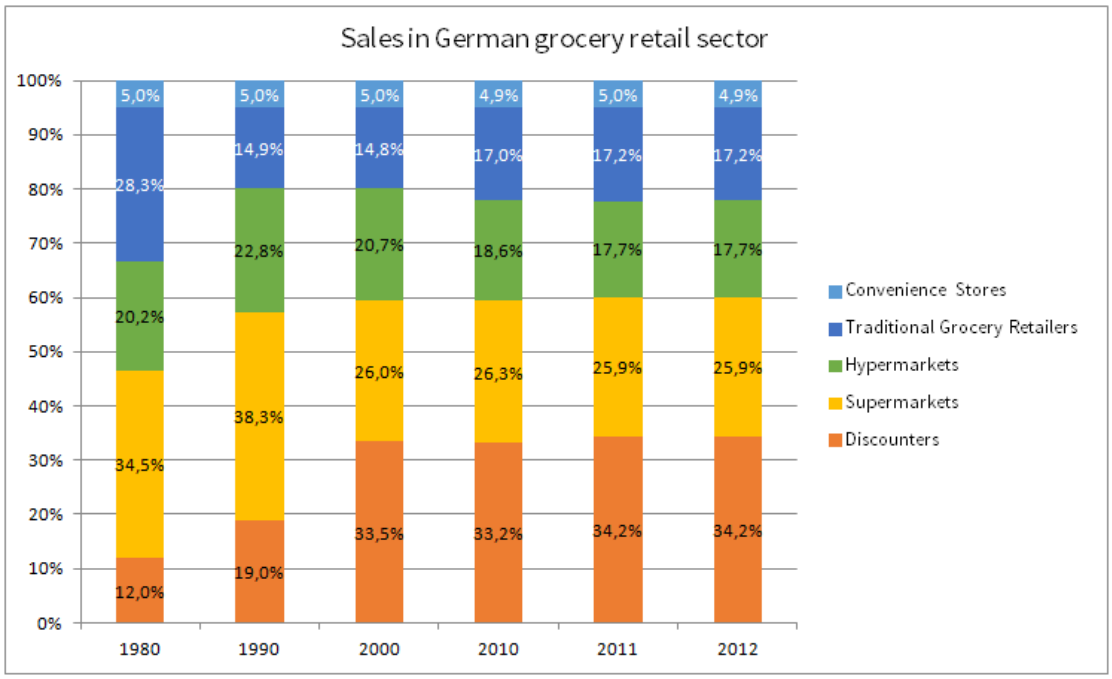
In comparison with other major European retail food markets, Germans are very price-sensitive consumers who also expect high quality products. Food prices on the German market are quite low for a country that has high average income, while the increasing consumer demand for healthier and more premium products has driven growth in the German grocery sector over recent years[2].
As a result, the **key characteristics of the German market are: consolidation, market saturation, strong competition and low prices**[3].

In this context, **discounters have been a prominent feature of the German retail market for the past 30 years**.

[1] Euromonitor International, Retailing in Germany, 2013

[2] Euromonitor International, 2013, op. cit.

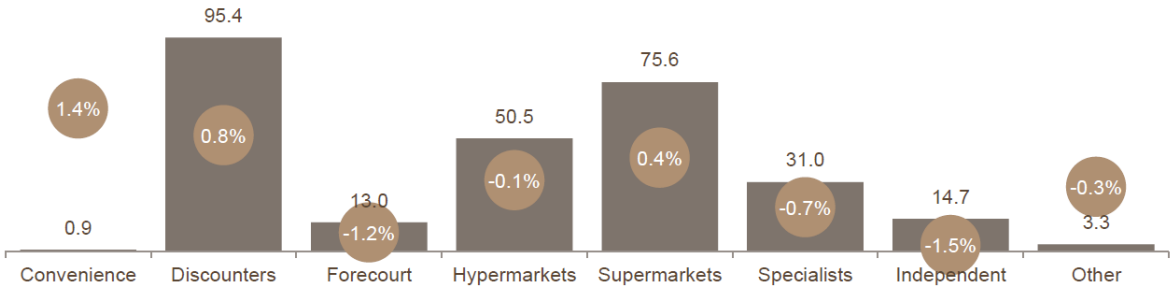
[3] USDA Foreign Agricultural Services, The German Food Retail Market, 2012



Sales in Grocery Retailing by Category, billions of Euro
Source: BASIC, based on EHI data (1980-2000) and Euromonitor International data (2010-12)

As shown in the diagram above, **the discounters' market share rose from 12% in the 1980s to 33% and above since the early 2000s.**
Their success was strongly driven by the development of private label food products focused on (low) price. While 20 years ago their offer was limited to important staples and a small range of other produce, today discounters have a wide portfolio of private label ranges which extend to virtually all consumer product areas.[4]

As a result, discounters have acquired a leading influence in the German food retail market, as shown by the breakdown of grocery retail value per distribution channel:



Grocery Retail Value by Channel 2012 (US$ billion 2013 prices) and expected Annual Growth Rate (2012-2017)
Source: Euromonitor International

Nevertheless, after years of growth, this share is somehow stagnating, in particular because of the limited ability of discounters to open new stores. [5]
In 2012, there is one discounter for every 5,231 people in the country, within a 10-15 minute drive of every German home[6]. The country has the highest share of discounters in world's food retailing.

[4] Euromonitor International, Overview of the Fresh Fruit, Vegetable and Floral Industries: Germany, April 2014

[5] Planet Retail, European Grocery Retailing, May 2014

Because of the competition with discounters, traditional retail chains have **strongly developed their private labels**, creating whole ranges of products from low-priced to high quality premium products (in 2011, the market share of private label products was above 40%)[7].

More globally**, leading German retailers have also positioned themselves on all major distribution channel types**: supermarkets, hypermarkets, and **especially discounter stores** (see below - Aldi being a specific case focused on discounter outlet only).

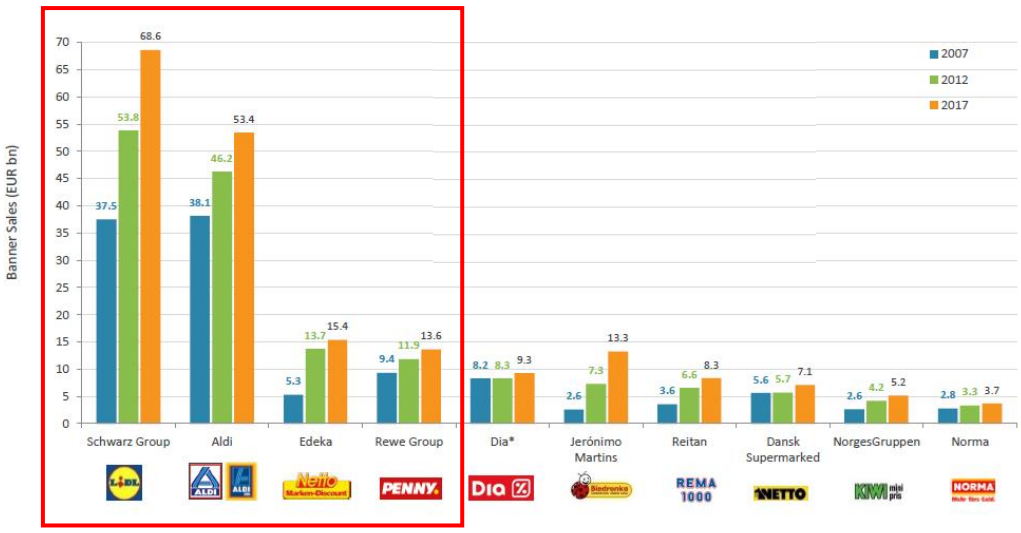
Retailer Name	Outlet Type	Food Sales (€Mil/2012)	No. of Outlets
Edeka-Group	Edeka (Supermarkets) Netto (Discounter)	32 710 11 738	7 717 4 160
Rewe-Group	Rewe (Supermarkets) Penny (Discounter)	16 643 6 701	2 820 2 266
Metro-Group	Real (Hypermarkets) Metro (Cash & Carry)	6 703 4 315	331 123
Schwarz-Group	Lidl (Discounter) Kaufland (Hypermarkets)	13 284 10 800	3 375 625
Aldi-Group	Aldi Süd (Discounter) Aldi Nord (Discounter)	11 829 9 102	1 810 2 515
Lekkerland	Lekkerland (Wholesaler)	8 182	19
Tengelmann-Group	Kaisers (Supermarkets)	2 052	710

Profiles of Leading German Retail Companies
Source: USDA based on Euromonitor and Lebensmittelzeitung

The success of this strategy is demonstrated by the growing influence of German discounter stores and banners beyond the boundaries of the country over the past 20 years, their rate of expansion being strongest outside Germany.

[6] Euromonitor International, Fresh Food in Germany, 2012

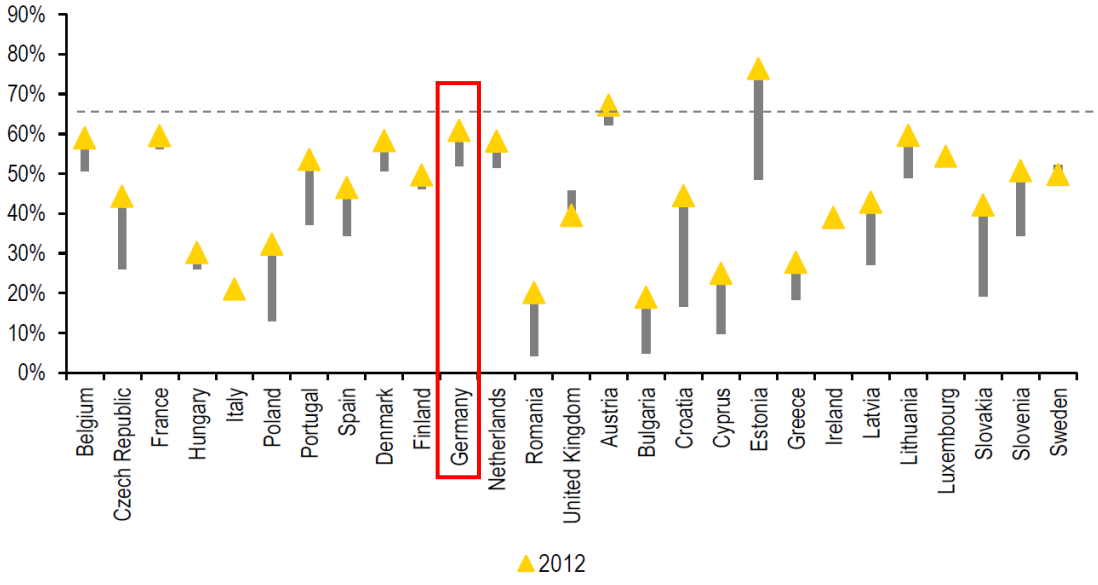
[7] USDA Foreign Agricultural Services, 2012, op. cit.



Top 10 Discount Store Operators in Europe by Total Sales, 2007-2017 (forecast)
Source: Planet Retail, European Grocery Retailing, May 2014

As shown in the diagram above, this trend is true for the two leaders, Lidl and Aldi, but also for the other German discounters (Netto and Penny).
In 2012, the international operations of Aldi represented 43% of its total turnover, and Lidl generated almost 60% of its turnover outside Germany[8]. The combined number of shoppers of Aldi and Lidl in the six main European retail markets outnumbers the cumulated shoppers of all other retailers across these countries[9].

Germany, like many other markets in Europe, is **also characterized by a growing concentration in the food retail sector**;



Concentration ratio of the 5 biggest retail groups measured in terms of edible grocery market sales share 2004-12
Source: 'The economic impact of modern retail on choice and innovation in the EU food sector', European Commission, September 2014

[8] European Commission, The economic impact of modern retail on choice and innovation in the EU food sector, September 2014

[9] Nielsen, the Hard Discounter Report - An Overview of Aldi and Lidl in Europe, 2007

As described in the study published by the European Commission in September 2014 (see diagram above), the situation in Germany is quite similar to the rest of Europe where the retail market is also dominated by 4 to 6 major retailers, but the situation is more pronounced there; to illustrate, in 2012, the sales of **the top 5 German retailers** amounted to:

- **61% of the consumer spending on food, drink & tobacco** (compared to 51% in 2004)
- **90% of the edible grocery sales of all modern retail groups** (compared to 77% in 2004)[10]

In this context, the German Bundeskartellamt published in September 2014 an inquiry into buyer power in the food retail sector. This study showed that decisive action from public authorities is needed to prevent a further worsening of the competitive conditions in the sector.
It is based on a 3-years econometric analysis which demonstrated that "**the large retail groups who make up 85% of the German market have a huge lead over their small and medium-sized competitors and can make use of their structural advantages in negotiations with manufacturers, even the large ones with well-known brands, who are exposed to the retailers' bargaining power**".[11]

The latest concentration move happened in October 2014 when Edeka announced its intention to acquire Tengelmann's supermarket chain with around 16,000 employees and more than 700 supermarkets. The acquisition is intended to be completed by the end of summer 2015.[12]

KEY FINDINGS

- Germany is the biggest food and beverages market in Europe and still in gradual expansion

- Discounters strongly influence the German food market in terms of increasing competition, low and decreasing prices and private label penetration; their influence is now expanding in many other European countries.

- Germany is one of the most concentrated food retail markets in Europe: in 2012, the sales of the top 5 retailers amounted to 61% of the consumer spending on food, drink & tobacco and to 90% of the edible grocery sales of all modern retail groups in Germany.

[10] European Commission, The economic impact of modern retail on choice and innovation in the EU food sector, September 2014

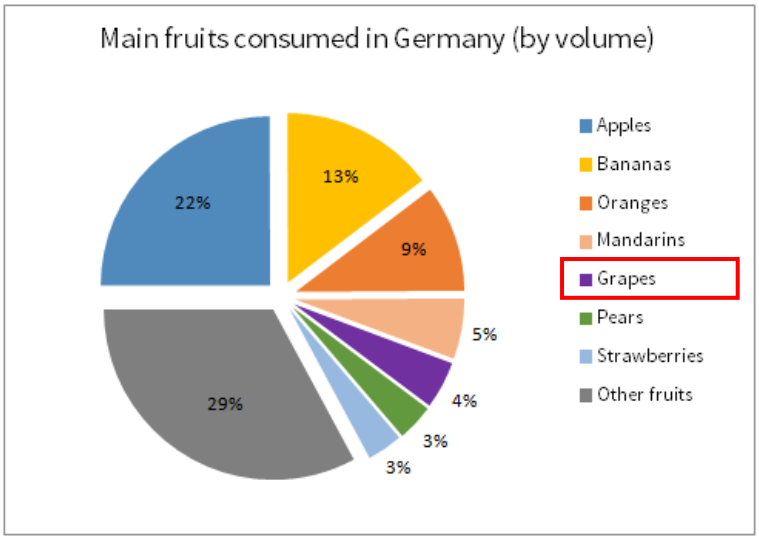
[11] Bundeskartellamt, Gliederung der Sektoruntersuchung Lebensmitteleinzelhandel, September 2014

[12] http://www.lexology.com/library/detail.aspx?g=79bfec5b-6852-4523-98c9-01d1f864d4e7

3. Table Grapes Case Study

a) The German fresh fruits market

Germany consumes more fruit than any other country within the European Union. Like many other European countries, the German fruit consumption per household is in a slight decline: it reached 81.5 kg per household per year in 2010, which is slightly below other EU countries.



Main fruits consumed in Germany by volume
Source: USDA GAIN Report GM7041, 2010

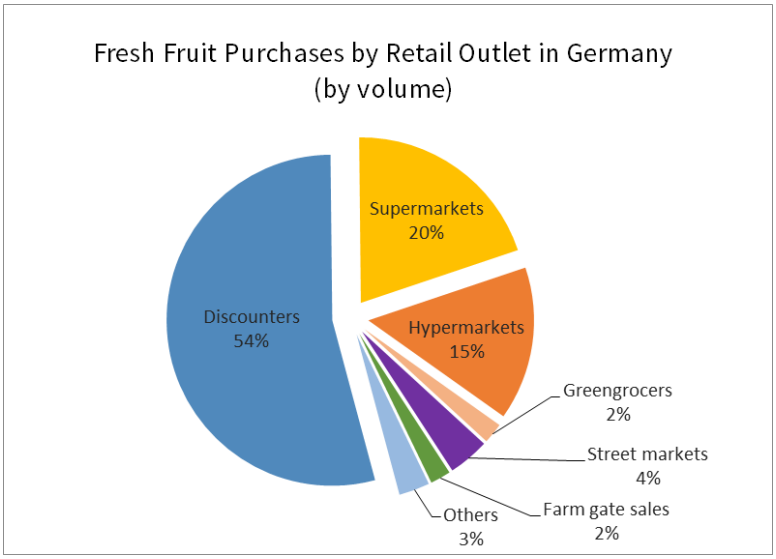
As illustrated in the graph above, the main fruits consumed in Germany (including imports and domestically grown) are apples (22%), bananas (13%) and oranges (9%), followed by mandarins (5%) **and grapes (4%).**

In terms of supply, Germany is the 6th largest European fruit producer and the biggest European importer of fresh fruits and vegetables with annual volumes reaching 5.5 million tons of fresh produce. Apple is the only fruit consumed in big volumes that is produced in majority in the country. [13]

A growing trend across all food retail outlets in Germany is the increase in the varieties of fruits available year-round rather than just in their traditional growing season[14].

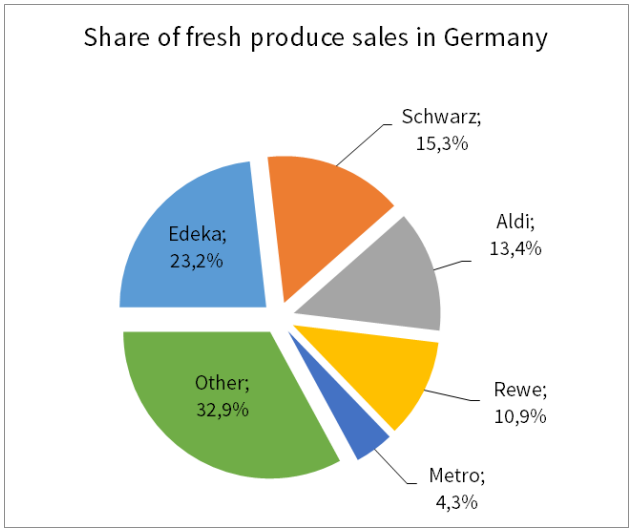
[13] Euromonitor International, Fresh Food in Germany, 2012, op. cit.

[14] Ibid.



Percent of Fresh Fruit Purchases by Retail Outlet in Germany
Source: USDA, based on Fruchthandel Directory 2013

German consumers mostly buy fresh fruits in modern retail chains, almost 90%. Most notably, the **discounters have reached a 54% market share in the fresh fruit sector in 2013** (compared to only 38% in 2008), which makes them the leading actors of the market (see diagram above).



Share of fresh produce sales in Germany by retailer group (2012)
Source: BASIC, based on Euromonitor 2014

In terms of retail groups, the market of fresh produce is dominated by the top 5 retailers which, together, accounted for 67% of all fresh products purchased by German consumers in 2012 (compared to 61% of global food purchases for the same year)[15].

[15] Ibid. No estimations were found on the share of the top 5 German retailers in fresh product sales in modern retail outlets only (more globally, they amount to 90% of total edible grocery sales of modern retail groups)

b) Characteristics and evolution of the table grape market in Germany

German market for table grapes: the second largest in Europe

Although grapes have been historically cultivated in many regions throughout Germany, they are almost exclusively grown for wine production and it is only a few decades since German consumers have begun to regularly consume table grapes. Today, the German market for table grapes is the second largest in Europe after Italy.

German consumers preferably purchase big grapes (bunches over 400 grams) but the overall cosmetic appeal is the most important feature and grapes should have no visual defect[16]. White and seedless varieties both represent 70% of table grapes consumed in the country[17]. Generally speaking, table grapes are less and less bought in bulk and packed grapes are the favoured format.

Table grape is one of the most closely monitored food products regarding **sanitary and safety issues**. In particular, the EU regulations set strict **Maximum Residue Limits (MRLs)** for pesticide residuals in this product.

In order to maintain constant quality and to address these food safety issues, **retailer groups**, who are the biggest distribution channel for fresh fruits in Germany, **impose strict safety and certification requirements** to all importers and distributors who, in turn, impose it on table grape producers[18]:

- In terms of pesticides, German retail chains require that table grapes have **residues much lower than the legally permitted MRLs**, sometimes as low as 30% of the EU norms, as they are extremely concerned regarding the safety of the product they sell to consumers.
  When retail chains find MRLs' exceeding the EU permitted norms they stop buying immediately and the commercial relationship is lost. If they find MRLs lower than the EU permitted level but higher than their own standards, they impose a penalty on the supplier and exclude him from their list for periods up to several months.
- In terms of **quality requirements**, German retailers oblige their providers of fresh grapes to be **Global GAP** certified and require their private label suppliers to have **BRC** (British Retail Consortium) certification or equivalent. Suppliers shipping pre-packed products in small packaging must also comply with the 'Green Dot' system requirements and pay fees for packaging recycling.

In terms of prices to consumers, according to a survey conducted by USAID in 2012, **the ranges are quite regular all throughout the year**, even though table grape is imported from very different supplying countries depending on the season of the year.
The differences in table grapes retail prices appear to be predominantly linked to distribution channels and store formats (and to the type of grapes, seedless varieties being more expensive) **and much less to seasonality and origins**:

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[16] USAID, EMS Fresh and dried fruits in Germany, Agricultural Competitiveness and Enterprise Development project (ACED) May 2012
[17] Ibid.
[18] USDA, Product Brief Fresh Fruits, September 2014

- The survey conducted by USAID in 2012 found that the most common price for consumers found in supermarkets was 2.99 Euro/kg for pre-packed grapes in paper bags or plastic carry bags (the highest price within the supermarket being 3.99 Euro/kg for pre-packed grapes in 500 gram plastic punnets).
  Additional price surveys conducted for this research in January and March 2015 indicated that prices could be higher for overseas origins, South African grapes reaching 3.8 Euro/kg on average.
- In comparison, **in discounters' stores, the observed average price for grapes could be as low as 1.99 Euro/kg on promotions**[19]. Looking again at the case of South African grapes, the surveys conducted in January and March 2015 indicated prices of 2.99 Euro/kg.
- The prices in green markets (e.g. Viktualienmarkt in Munich) studied by USAID varied from 9.90 Euro/kg to 11.90 Euro/kg for the same varieties of grapes that were found in the supermarkets. These high prices do not, however, reflect the general market prices.[20]
- The price of **organic table grapes** in Germany is almost twice as high as the average price for standard grapes. In 2012, when the average wholesale prices for most varieties of grapes reached 2.45€/kg, the census conducted by USAID found that the wholesale price for organic grapes was as high as 4€/kg[21]. This segment only accounts for 5% of the market and remains relatively stable[22]. The supply is mostly covered by Italian producers.

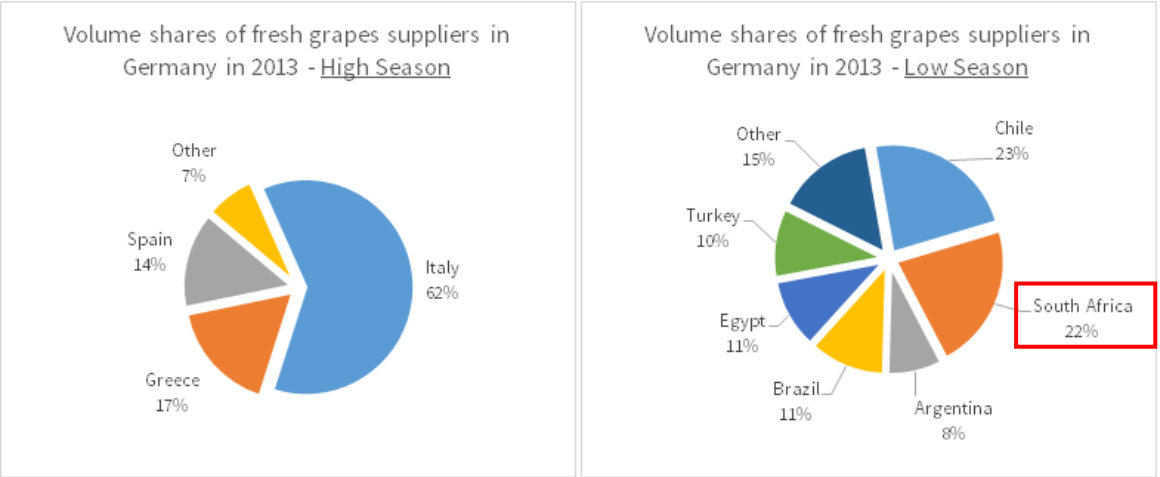
The trends of quality standardisation, regularity of supply, stable and affordable consumer prices all year round illustrate the dynamics of commoditisation of table grape over the past decade.

Table grape has indeed been **progressively considered as a "bulk commodity"** in order to make it available to consumers all year round in German supermarkets : it is now treated like an "undifferentiated product" (like wheat, soy, coffee, cocoa or sugar) and characterized by **price-sensitivity, anonymity and standardisation**; **dominant buyers can buy them quickly and at low cost using arms-length supply chains, and can substitute or mix them thanks to the universal grading system widely used in the sector**[23].

This results in an **annual table grape supply cycle** in Germany, which is as follows: the first winter supplier is Peru, followed by Brazil, Chile Argentina and South African arrivals. In early spring, grapes' shipments start to arrive from India, Israel, Egypt and Morocco. Finally, the first European grapes arrive in June from Spain, followed by Italy and Greece.

The related breakdown of table grape suppliers by season is detailed in the diagrams below[24]:

[19] USAID, EMS Fresh and dried fruits in Germany, ACED project, May 2012 op. cit.
[20] Ibid.
[21] Ibid.
[22] Ibid.
[23] Food Inc., Corporate concentration from farm to consumer, 2005
[24] Comtrade data retrieved in March 2015 - Comtrade data indicate that global shares of table grapes origins imported in Germany have been quite stable over the past decade

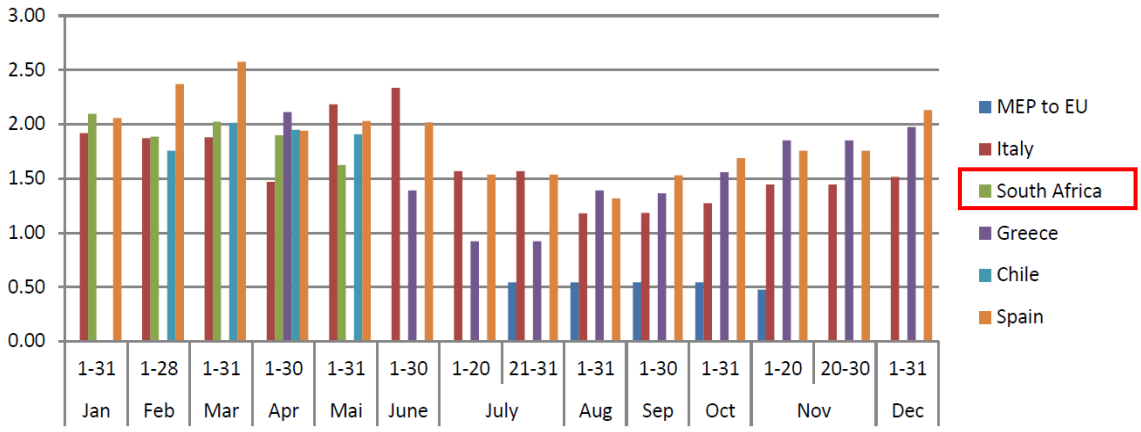


Volume shares of fresh grapes supply countries in Germany in 2013, by season (high and low)
Source: BASIC based on Comtrade data

European countries are the main providers of fresh grapes in Germany from June through November which is the high production season. Italy dominates table grape imports during this period, with a total market share of 62% in 2013 (see above). Other key EU suppliers are Greece and Spain with respective market shares of 17% and 14%.

From January to May, the low-season for the Northern hemisphere, Germany mainly imports table grapes from overseas. South Africa and Chile are the two most important suppliers of table grape, accounting for 45% of imported volumes during this period. Other suppliers are Brazil, Argentina, Egypt and Turkey.[25]

The commoditisation of table grapes is further reflected in the evolution of import prices in Germany and export prices in the main export countries.



Average monthly price per country of import in 2011 and MEP fluctuation for table grapes in Germany, euro/kg
Source: USAID, based on Eurostat

The range of import prices of table grapes in Germany (see diagram above) appears to be quite stable all year round:

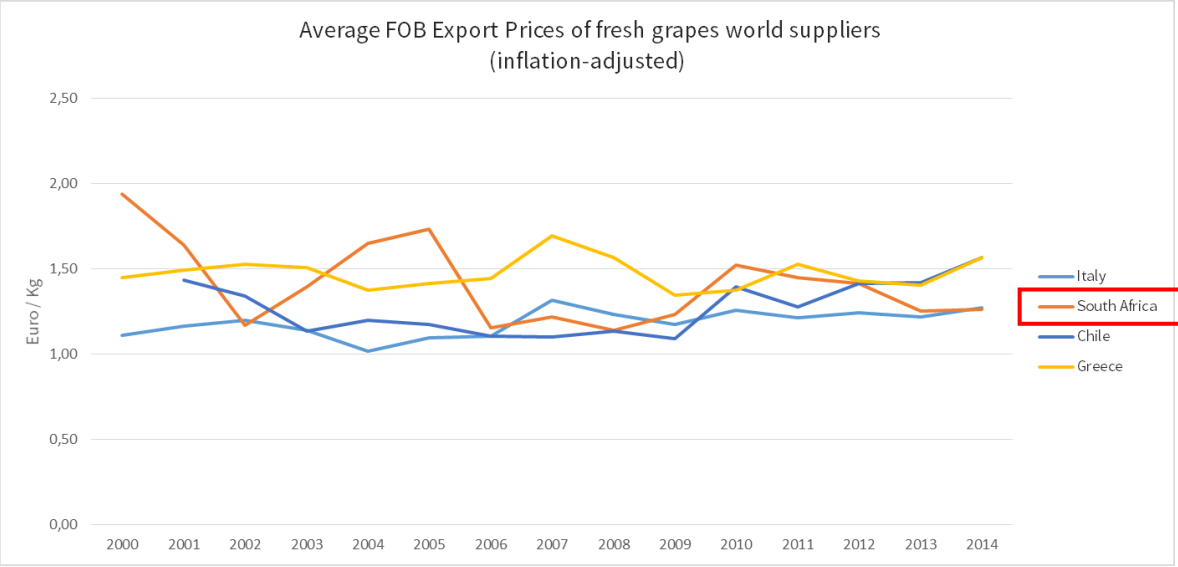
[25] USAID, EMS Fresh and dried fruits in Germany, ACED project, May 2012 op. cit.

- During the high season fruit production in Europe, grapes are imported by German importers/wholesalers at an average price of 1.4 Euros/kg[26].
- During the Northern Hemisphere winter period, importers/wholesalers import table grapes from South Africa, Chile and Argentina at roughly 1.7 Euros/kg on average.

In order to protect European fresh fruit producers, **the European Union applies a minimum entry price (MEP)** for table grapes when the "season is open" in Europe.
However, in the case of table grapes, the MEP is equal to 0.546 Euros/Kg, which is far below the average prices of fresh grapes imported in Germany, regardless of origin[27]. Therefore, it doesn't represent a trade barrier for overseas grapes during any part of the year.

In terms of export prices, during the high season, **Italian shippers manage to propose lower prices than most other suppliers**: they are 20% cheaper than Spanish or Greek suppliers. They work with open pricing contracts which enable them to realign the issued invoice with the actual market price. Thus, **in summer time, the European table grapes market is uninteresting for overseas countries**.

Moreover, there has been a **gradual convergence of the export prices of fresh grapes** over the past decade between exporting countries of the Northern and Southern hemispheres.



Unit Prices of fresh grapes exported by the main world suppliers
Source: BASIC based on Comtrade data

As shown in the diagram above, **export unit prices are now as low as 1.25 Euro/Kg on average in South Africa and Italy** (the biggest European exporter) while they amount to 1.55 Euros/Kg in Greece and Chile (the biggest world exporter).

[26] USAID, EMS Fresh and dried fruits in Germany, ACED project, May 2012 op. cit.
[27] A product is said to be trading on the framework of an Asymmetric Trade Agreement when exported to EU and 0% of import duty is applied. In order to benefit from this, the price of imported goods needs to be equal to or higher than the stipulated price for that specific period of the year. If the price is lower it is automatically adjusted to the minimum entry price (MEP) by applying a corresponding import duty. (USAID ACED, 2012)

South Africa appears to be moving towards being one of the low-cost providers of fresh grapes to Germany. Given that the average export price in South Africa is getting as low as in Italy, and given the higher costs of transport involved to export, the price pressure is likely to be the strongest there, and related social and environmental **impacts are quite likely to be the highest**.

Hence, the following sections of this study focus on table grape value chains between South Africa and Germany to investigate these trends and their consequences.

c) Table grape value chains between South Africa and Germany

The process of table grape production

Table grape cultivation, processing and selling
Source: BASIC

The global process of table grape cultivation, processing and selling can be described as follows[28]:

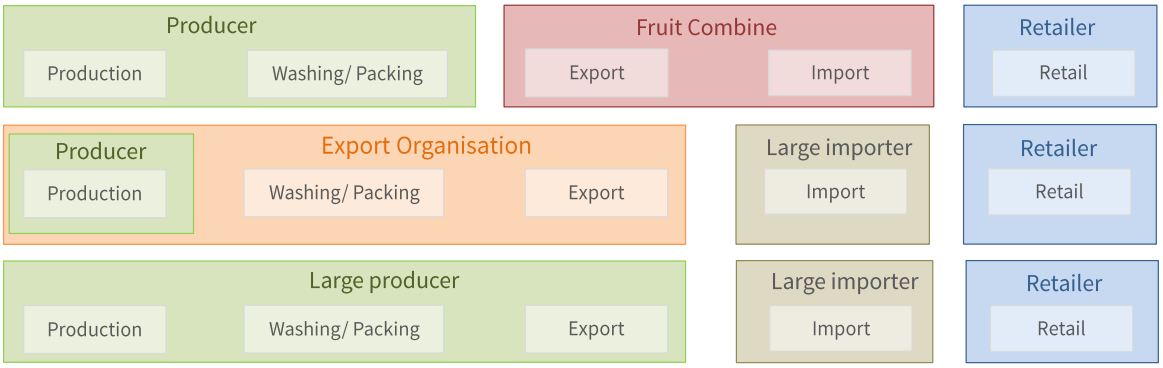
- **Grapes cultivation** typically require a hot, dry climate with warm days, cool nights and low humidity. The season must be long enough to allow both the fruit and the vine plant to mature. Grapes require water for production, the plant being little tolerant to water stress.
- **Grapes are harvested** when fully ripe, as they do not ripen after harvest. They should be picked only after they reach the optimum stage of acceptability in appearance, flavour and texture. Grapes can be kept for several weeks either by remaining on the vine after maturity, or when they are picked and stored in a very cool, dry, well-ventilated place. Table grapes demand a significant level of manual labour, technical knowledge and experience for harvest, in particular because of the high quality requirements of retailers.
- **Sorting** of grapes is mainly done by workers, but can also be electronically managed (although expensive). The harvested bunches are graded according to the size of their berries and to their colours. The decayed, undersized, broken and discoloured berries are removed before grapes are packed. Grapes that are sent to foreign markets are packed in five-ply corrugated boxes, 500 × 300 mm in size to accommodate 5 kg of grapes.
- **Cooling is the most critical phase of the postharvest**. It reduces the rate of fruit respiration, retards the development of decay and most importantly minimizes water loss. Grapes are cooled in forced-air rooms (at -1°C) and fumigated with sulphur dioxide (SO2) to reduce fungal decay. The cool chain is maintained all throughout the export, sea freight (or more rarely air freight), import and distribution phases until it reaches the end consumer.

[28] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, Grapes production guidelines, 2012

The 3 main value chain patterns of South African table grapes imported in Germany[29]

Case # 1: retailer-importer driven chains

The majority of fresh grapes, almost 90%, is bought and consumed through retail chains (hypermarkets, supermarkets and discounters) which are mostly supplied by large importers and much more rarely source directly from abroad. Their typical margin is in the range of 15% to 25%.



Main patterns of retailer-importer driven table grapes chains into Germany
Source: BASIC

Generally, German retailers prefer buying from importers/wholesalers specialized in fresh fruits (see the above diagram). The main large importers involved in the grapes value chain are Atlanta Gruppe, Cobana Fruchtring, Dole and OGL Food Trade Lebensmittelvertrieb[30].

Importers buy and sell their own capacity, assuming the full risks (unless on consignment). They are also responsible for clearing the produce through customs, packaging and assuring label/quality compliance of the produce. Their typical margins lie between 5% and 10%.[31]

The importers can be[32]:

- *either* part of "**fruit combines**" which are multinational companies that mutualize import and export operations on a worldwide basis to achieve economies of scale;
- *or* independent companies which buy table grapes from **export organisations**, *or, more rarely,* directly from large grape producers.

Export organisations are cooperatives or private organizations who collectively sell the grapes of individual producers. They organise the washing, sorting and packaging of the produce as well as labelling, bar-coding, etc.[33]
Most of the time, **export organizations** enter into collective agreements with freight forwarders in order to negotiate better prices and services (more regular transport, lower peak season prices).[34]

[29] USAID, EMS Fresh and dried fruits in Germany, ACED project, May 2012 op. cit.
[30] MAICh, Research for Strategic Plan and Development for the promotion of Greek Table Grapes, 2012
[31] Republic of South Africa, A profile of the South African Table Grape market value chain, 2012 op. cit.
[32] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, A profile of the South African Table Grape market value chain, 2012
[33] Ibid.
[34] Ibid.

The transport of South African table grape has benefited from the unprecedented growth in the container liner sector over the past decade: The global container shipping industry has strongly expanded at the expense of traditional reefer operators. Containerisation has provided greater control over quality for larger producer/exporters, enabled smaller producers to access cool chains, and allowed supermarkets to centralise their sourcing and introduce direct procurement.[35]
Following the entrance of newly-established, low-cost Asian shipping lines, intense competition has been taking place and shipping actors have developed larger vessels and containers which can be transhipped from one mode of transport to another. As a result, international shipping is getting more and more concentrated through mergers and acquisitions and is moving away from the traditional port-to-port services towards door-to-door solutions[36].

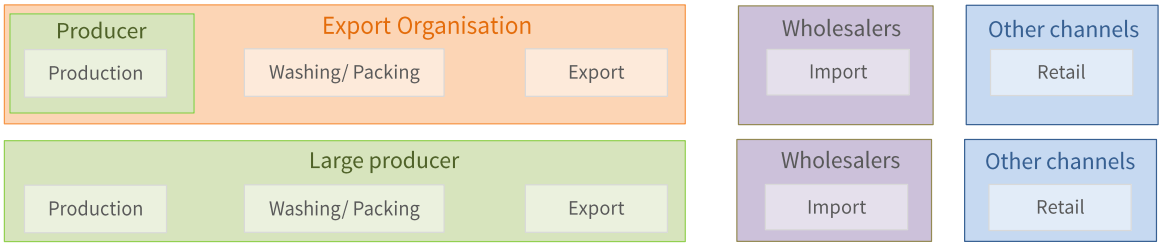
Case # 2: retailer driven chain

In this context, some German retailers have chosen to start **buying directly** fresh grapes from export organisations, but much more rarely than through importers[37].

Main patterns of retailer-driven table grapes chains into Germany
Source: BASIC

Large German supermarket chains such as Edeka, Aldi and Lidl, have their own import companies that handle imports of fresh fruit.
Export organizations seem to be the only actors to have long term contracts directly with retailers, but with the increasing importance of standards (Global Gap, etc.) and availability of the fruit, the planning of long term contractual relationship is expected to increase in the coming years.[38]
Agents are sometimes also contracted to establish contacts between export organizations and retailer. In such cases, they usually take between 2% and 3% commission.[39]

Case # 3: Non-retail chains



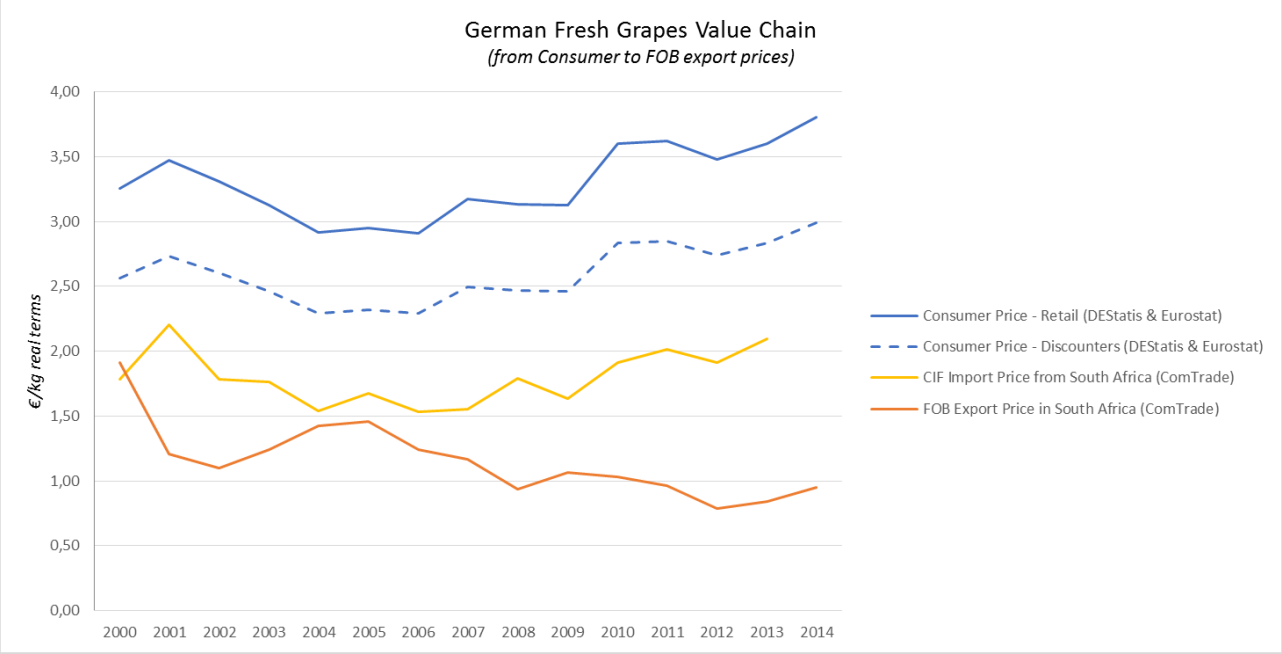
Main patterns of non-retail table grapes chains into Germany
Source: BASIC

[35] Barrientos S. and Visser M., South African horticulture: opportunities and challenges for economic and social upgrading in value chains, September 2012
[36] Confederation of South African Workers Union (CONSAWU), A Study on the Power Relations in the Fruit Supply Chain, October 2012
[37] USDA, Product Brief Fresh Fruits, 2014 op. cit.
[38] Ibid.
[39] Ibid.

The last value chain pattern ends up in **green markets, individual shops, Hotels Restaurants and Catering** (HoReCa). These are mostly supplied by average size wholesalers situated in 18 wholesale markets throughout Germany. These wholesalers are mostly supplied by export organisations and large producers in South Africa.
This channel appears to be in gradual decline as individual shops which are their main clients are under strong competition with the larger retailers.

Value breakdown of South African table grapes imported in Germany

Looking at the value breakdown along the table grape chain between Germany and South Africa, the strong influence achieved by importers and retailers – especially discounters – has translated into significant evolutions over the past 10 to 15 years, in particular for producers.



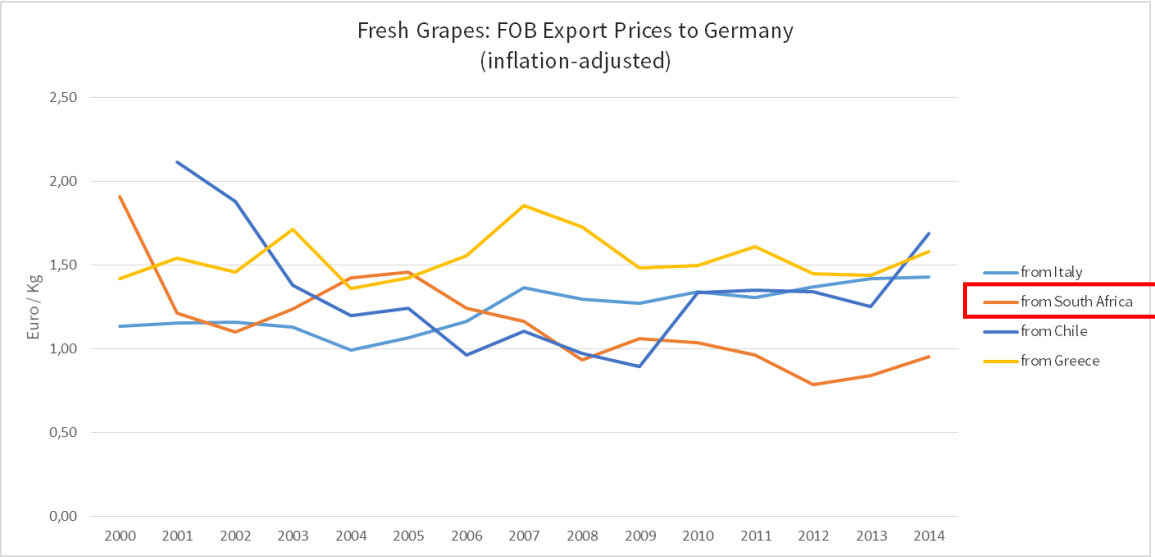
German Fresh Grapes Value Chain
Source: BASIC, based on DEStatis, Eurostat and Comtrade data

As shown in the above graphs, official statistics monitored by DEStatis and Comtrade show that:

- the **average consumer price of fresh grapes has been slightly increasing** since 2000 in real terms, even in discounters' chains which are roughly 20% cheaper on average[40],
- the **CIF price of importers has also increased in line with the consumer price**,
- **in contrast, the FOB price earned by South African exporters has been significantly decreasing by more than 40%** in real terms.

[40] note that the nominal consumer price of South African grapes in discounter and supermarket shops is often higher than the average price indicated in the diagram as they are mainly sold in winter during the off-season

Further investigations show that this downward trend of grapes export price in South Africa, and the contrast with the evolution of the import price in Germany, is specific to these two countries.



FOB export prices to Germany of main world exporters of fresh grapes
Source: BASIC, based on Comtrade data

As detailed in the above diagram, the Comtrade data shows that **South Africa is one of the only suppliers which underwent a price decrease of exported grapes in real terms over the past decade** in comparison with the other major origins supplying the German market.
While the main other suppliers of fresh grapes have witnessed a relative stability of their export unit prices, South Africa has seen a significant decrease and reached the lowest export price among major fresh grapes exporters.

This downward trend can be explained by a combination of factors:

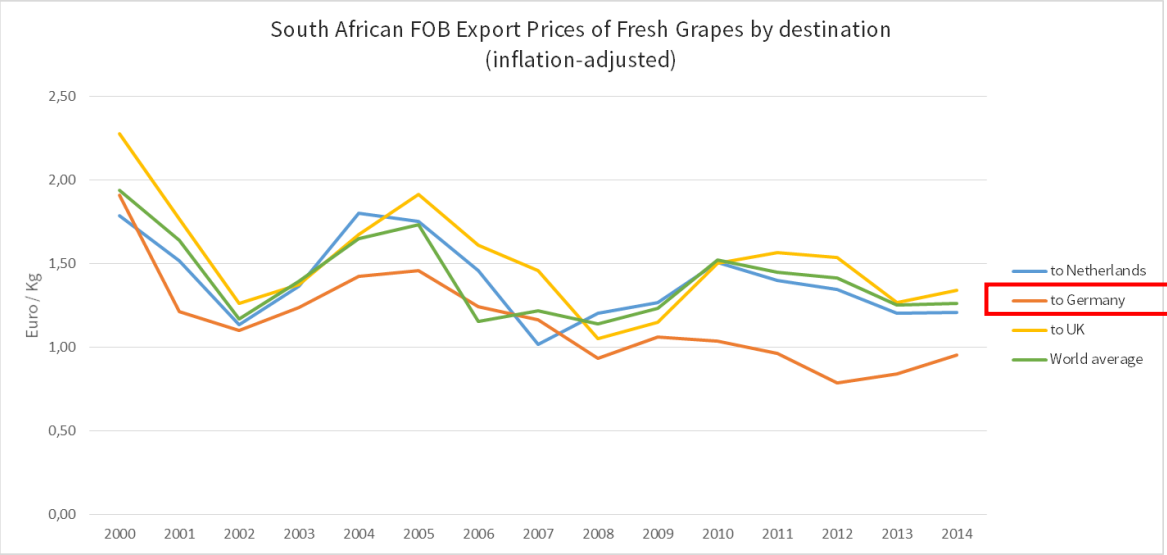
- The **decline of the Rand against the Euro** over the past decade, which went from 0.11 euros for one rand in 2001 down to 0.08 euros for one rand in 2013
- The **constant commercial pressures of European supermarkets**, who use their dominant position to extract favourable terms on price and to pass risks on to their suppliers, especially through practices such as over-procurement and complaints over quality of South African grapes[41]. This trend has even developed further because of the economic recession[42].
- The **expansion of larger scale farms** in South Africa which manage to achieve bigger economies of scale and take more advantage of production factors (land, water, workers…). In conjunction with the commercial pressure of buyers and the increase of production costs, many smaller growers have gone out of business, their farms being taken over by larger growers. The result is a **greater concentration in the number of grape growers** producing the same output. This evolution has been facilitated by the deregulation of the sector in South Africa since the late 1990s[43]. This is further investigated in the following chapter.

[41] Symington, Supermarket Buying Practices, Commonwealth Agri-Forum Platform, September 2010

[42] Barrientos S. and Visser M., South African horticulture: opportunities and challenges for economic and social upgrading in value chains, September 2012

[43] Ibid

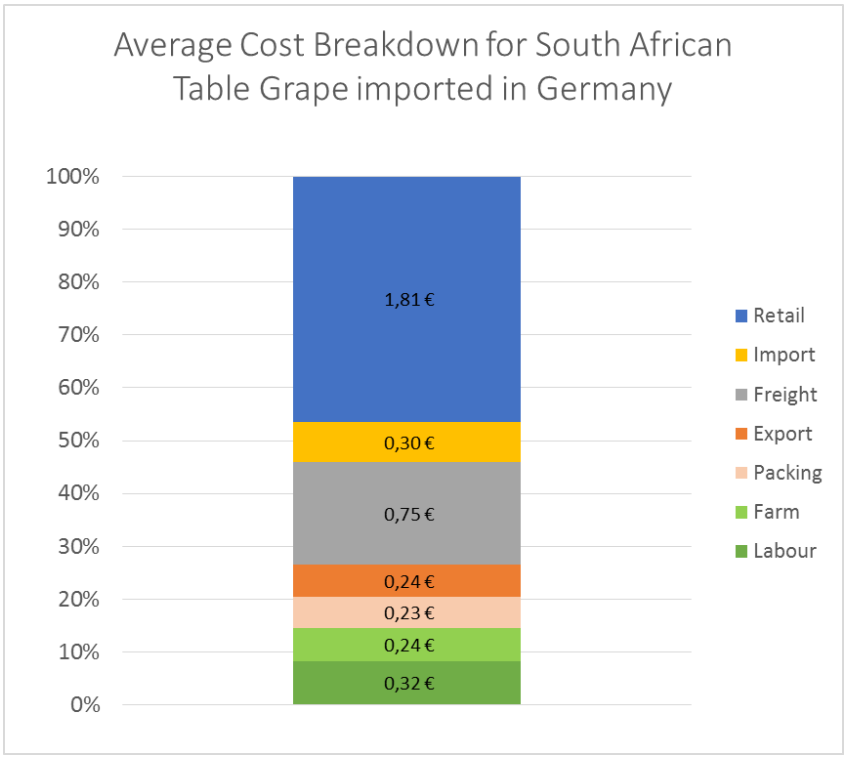
Reversely, looking at the different destinations of fresh grapes exported from South Africa, **the decrease of the FOB unit price mainly applies to South African table grapes sold to Germany**.



FOB export prices of fresh grapes in South Africa by destination
Source: BASIC, based on Comtrade data

As illustrated in the above diagram, the Comtrade data indicate that the decline of South African grape export prices applies to all the major European importing countries, such as the Netherlands and the United Kingdom. **However, it is clearly more pronounced in Germany**, **which shows the higher commercial pressure exerted by German buyers** compared to other markets.

This analysis translates into the following average value breakdown for Germany:



Average Cost Breakdown for South African Table Grape imported in Germany
Source: BASIC, based on data from SATI (South African Table Grape Industry), 2014 and ad-hoc price surveys

South African table grape producers are squeezed between the price pressure of buyers and ever increasing production costs.

In contrast with the decline of the average prices of table grapes exported to Germany, South African grape producers have been facing sharp increase in production costs since the early 2000s.

According to the South African Table Grape Industry, since 2005, the **costs of fertiliser have risen by 191%, fuel by 178%, packaging material by 152% and maintenance and repairs by 152%.** Between 2009 and 2013 alone, input costs have increased by 46 % in nominal terms[44].
These rising costs have strongly impacted farm profitability (even though the Rand has steadily conceded value to the US$ and the Euro in recent years).[45]

Many growers also complain about the **rising costs of implementing European supermarket requirements**. With a few exceptions, suppliers have to meet the costs of changes in supermarket sourcing requirements, which include: rising quality standards, social auditing, new packaging formats (such as the move to punnets or zipped bags) and 'BOGOF' (buy one get one free) deals. All these put additional cost pressures onto growers[46]. Interviews conducted in 2012 by academic researchers among South African grape farms indicated that[47]:

- GlobalGap and most supermarket audits cost 6,000 rands (470 euros) per farm per audit excluding auditor transport and food.
- British Retail Consortium costs 12,000 rands (940 euros) per pack house.
- Ethical audits cost about 8,000 rands (620 euros) per farm.

Grape cultivation and postharvest are also very labour intensive and the related costs substantially rose in recent years according to the South African Table Grape Industry: the **proportion of production costs accounted for by labour increased from 35 % in 2000 to 47 % in 2009 and to 57 % in 2013**[48].
This is linked to the **introduction and gradual increase of the minimum wage** for farmworkers determined within the agricultural sector since 2003. This has enabled a significant increase of rural workers' incomes (which used to be very low until the early 2000s), but also led to numerous job losses in agriculture and strong casualization of labour, especially in the South African grape production[49]. This trend is further explored and analysed in the last chapter of this report.

Finally, **climate events** also regularly affect South African production. For example, in November 2008, the "worst flood in memory" caused an estimated damage of 200 million rands to grape farms in the 'De Doorns' area, and in January 2012, flash flooding again caused damage on about 20 farms and crop losses of up to 30% in the same region.[50]

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[44] South African Table Grape Industry (SATI) Booklet 2009, 2010 and 2014

[45] Republic of South Africa, Department of Agriculture, Forestry and Fisheries. Crops and Markets, 2011.

[46] Barrientos and Visser, South African horticulture: opportunities and challenges for economic and social upgrading in value chains, 2012 op. cit.

[47] Ibid.

[48] South African Table Grape Industry (SATI) Booklet 2000, 2009, 2010 and 2014

[49] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa: key trends, emergent issues, and underlying and structural problems, International Labour Organisation (ILO), February 2015

[50] Ibid.

d) Situation and evolution of the table grape industry in South Africa

The long history of table grape production and export in South Africa has been profoundly impacted by public deregulation over the past 20 years.

The first table grape variety (Muscat d'Alexander) was planted in the Hex River Valley, and was first exported to the UK in 1886. In 1892, the recently established Cape Fruit Syndicate export company had already exported 2100 cartons of 4.5 kg table grapes.[51]
The industry soon realised the importance of pre-cooling fruits. The first chambers were used in the Cape Town port in 1925 and the Perishable Products Export Control Board (PPECB) was established in 1926 to control the quality of the exported products. In 1937, the Deciduous Fruit Board was established to modernise farming with powers to fix prices and control marketing.[52]

In the early 1970s, the Deciduous Fruit Board abolished the control over fresh fruit. Ten years later, as South Africa's political status created growing public concerns overseas, consumer boycotts and divestments campaigns intensified. The decade was marked by strong inflation, decline in profit margins, stagnation of prices in export markets and growing overseas competition[53]. In 1986, the Deciduous Fruit Board decided to **delegate its export marketing powers to the Universal Fruit Trade Co-operative (Unifruco)**.[54]

A deregulation era started in the 1990s because of two major shocks:

- The end of the sanctions against apartheid, the opening of the economy to world markets and the rapid liberalisation of export chains,
- the changes in agricultural policies, employment conditions of workers and access to water initiated by the ANC coming into power.

Between 1994 and 1997, the Deciduous Fruit Board started to issue a limited number of export licenses, whereas all fresh table grapes exported were marketed through Unifruco prior to 1994.
By the time deregulation was officially introduced in October 1997, Unifruco's sales only accounted for 66% of the country's export volumes and 51 exporter companies had been created[55]. By 2006, the number of table grape exporters had tripled to reach 161 and the market share of Unifruco's spin off (called Capespan) was down to 17% of industry's export volumes[56].

This opened a period of strong economic growth as well as uncertainties. Grape production rapidly developed in many regions and the table grape market started booming (the production for export almost tripled since the end of the 1990s). **This created a new cycle of commodity speculation and agricultural "pioneer fronts" in table grapes,** mirroring what had happened previously in the South African cotton sector (in the 1940s) and dried grapes sector (in the 1960s and 1970s).[57]

[51] Burger, 2002

[52] Symington, Creating Sustainable Competitive Advantage in the Marketing of South African Table Grapes to the United Kingdom in the Deregulated Era, University of Cape Town, Thesis, February 2008

[53] Ibid.

[54] Tregurtha and Vink, 2002 - Fundira, 2003

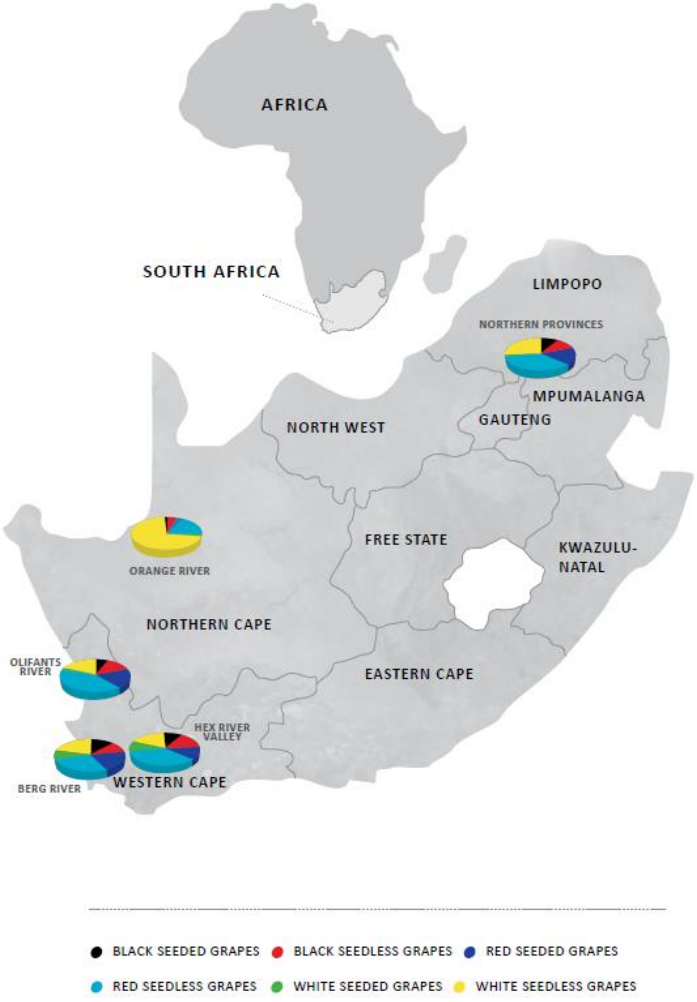
[55] CONSAWU, A Study on the Power Relations in the Fruit Supply Chain, October 2012 op. cit.

[56] Symington, Creating Sustainable Competitive Advantage in Marketing of South African Table Grapes, 2008 op. cit.

[57] Blanchon, Vignes du Kalahari : des raisins dans les turbulences de la mondialisation, Cahiers d'Outre-Mer, 2008

Grape production in South Africa: the move towards more industrialised production

Today, more than 80% of table grape production in South Africa occurs in the Western Cape region. Other production areas include the Northern Cape, East ern Cape, Limpopo, Free State and Mpumalanga. Grape production for table grape and wine are from different plots.[58]



Map of South African table grape production
Source: South African Table Grape Industry, Statistics Booklet 2013-2014

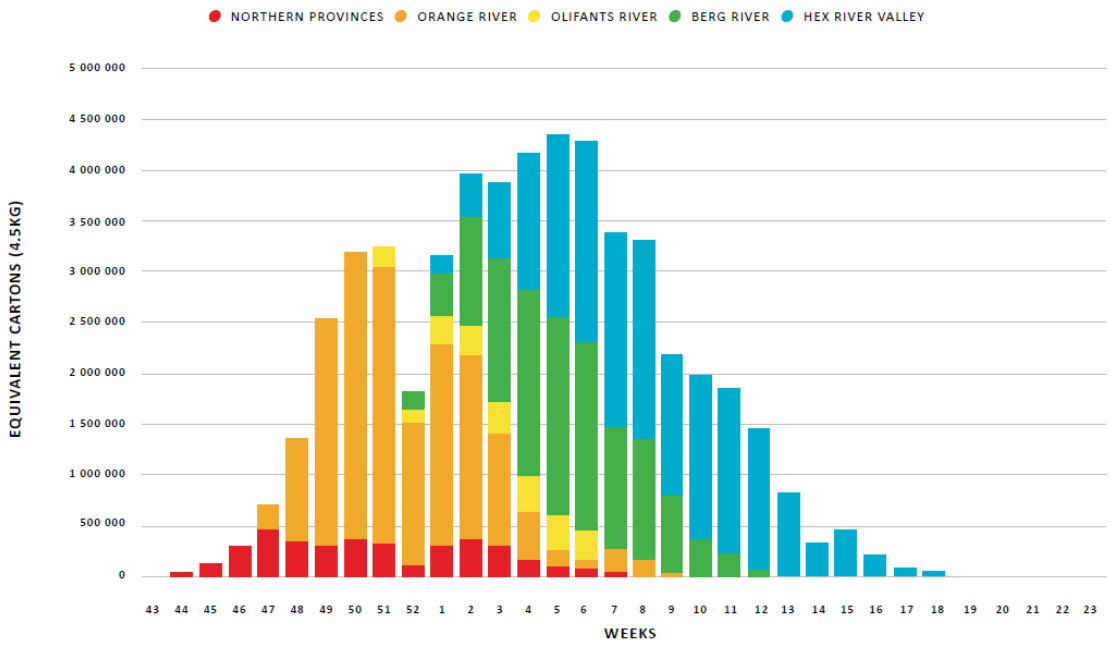
The Hex river valley in the Western Cape is the largest production area at 5,185 ha, followed by the Orange River valley with an area of 4,896 ha, the Berg river valley at 3,706 ha, the Northern Province at 1,205 ha and Olifants River at 1,192 ha. South Africa is ranked as the second largest producer of table grapes and is the **fourth largest exporter in the Southern Hemisphere**. [59]

Grape production in South Africa is primarily aimed at the export market and the local market is not substantial (less than 10% of volumes). Because of long trading relationships with Europe, the EU is the major importer absorbing 75% of volumes. Netherlands is the leading destination (from where grapes are re-exported in the EU), followed by the United Kingdom and **Germany**. [60]

[58] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, Grapes production guidelines, 2012

[59] South African Table Grape Industry, Statistics Booklet 2013-2014

[60] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, Grapes production guidelines, 2012



Regional weekly intake of South African table grape production
Source: South African Table Grape Industry, Statistics Booklet 2013-2014

In comparison with other exporting countries, **South Africa has one of the longest supply season starting from late October until May**. Harvest starts in week 43 in the Northern Cape region, followed the Orange River region and finally the Hex river valley region (see diagram above). The first grape crop is supplied to markets by November (see diagram above).

The "boom" of table grapes is **often presented as a symbol of successful integration** into "globalization" and a maximisation of the return on investment for the scarce water resources of the country. Even if this cultivation consumes significant amounts of water (around 1,200 m3 / t), it has gross yield which are 7 times higher than in wine, alcohol and grape juice productions. As a result, **its value is much higher than all other possible crops in the region**, with an estimated average gross income of 18,000 Euros (255,000 Rands) per hectare[61] compared to 3,500 Euros (50,000 Rands) per hectare in vine production[62].

However, table grape is a very risky market as the prices drop rapidly each year after short peak times, as demonstrated in the Orange valley where the sales are then often made at a loss after week 51 (end of December).

In addition, the investments required to engage in table grape production are proportionate to the expected benefits. For example, in the Orange valley, it takes currently about 35,000 Euros/Ha (500,000 R/Ha) for installation (purchase of land, water permits, soil preparation, installation of irrigation and necessary cold chains for export)
Therefore, **only farmers who have already significant land and financial capacity can embark on this new production**; it is indeed necessary to be able to support not only the initial investment, but also climatic hazards and price fluctuations on the market. [63]

[61] Blanchon, Vignes du Kalahari : des raisins dans les turbulences de la mondialisation, 2008 op. cit.
[62] Vinpro, 2014 record crop: the impact on primary wine grape producers' financial sustainability, 2015
[63] Blanchon, Vignes du Kalahari : des raisins dans les turbulences de la mondialisation, 2008 op. it.

These dynamics have dramatically changed the economic conditions of production and, as early ripening has become the decisive factor in grape, they have induced major changes[64].
They have **triggered strong competition for access to irrigation water permits and access to land, notably in the "Veld"**, the rocky low-value land traditionally used for sheep grazing, because this is where grapes ripen much earlier thanks to the dryness of the climate.
As a result, rural landscapes have been profoundly transformed in several regions as **vine monoculture became preponderant** at the expense of other crops (it represents, for example, 58% of all irrigated area in the Orange valley).

Towards greater consolidation of the South African grape industry

As detailed earlier, the deregulation of the table grape sector within South Africa has increased the vulnerability of growers to commercial risks, and increased the competition between them to access the northern markets. **South African growers have thus been caught in a 'pincer movement'** between[65]:

- on the one side, rising production costs, employment legislation (a range of labour legislation has been enacted since the ANC came into power in 1993), and requirements demanded by supermarkets (in particular the German ones)
- on the other side increased competition and declining real prices on the international markets, in particular in Germany.

As a result, **the total number of table grape producers has been significantly reduced** in recent years, from 543 in 2008 to 326 in 2013, a decline of 40%[66]. Smaller farms are increasingly being absorbed by larger farmers in pursuit of economies of scale, and the average farm size is increasing. As a result, grapes production area and volumes are still on the rise.[67]

This demonstrates **the dynamics of "horizontal integration" in table grape cultivation** which has been taking place in the South African table grape industry over the past twenty years. [68]

The deregulation has also strongly impacted the export stage of the South African grape industry.
As described earlier, it has enabled the **entry of a large number of export market agents**: multinational companies (like Dole and Katope), South African-owned (-based) export agencies, foreign importing companies with branches in South Africa (like the American-based Vanguard and the Dutch-based Van Doorn) and South African-based producers who export their own product.[69]
As competition intensified because of the proliferation of exporting firms looking for market share, the export sector became polarised between two camps: **the top 20 export companies retain over 80% of the export volumes** while the remaining 120 or more small exporters make up the balance of export volumes. [70]

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[64] Ibid.

[65] CONSAWU, A Study on the Power Relations in the Fruit Supply Chain, October 2012 op. cit.

[66] South African Table Grape Industry, Statistics Booklet 2013-2014 op. cit.

[67] Republic of South Africa, A profile of the South African Table Grape market value chain, 2012 op. cit.

[68] CONSAWU, A Study on the Power Relations in the Fruit Supply Chain, October 2012 op. cit.

[69] Symington, Creating Sustainable Competitive Advantage in Marketing of South African Table Grapes, 2008 op. cit.

[70] Ibid. Most of the major export houses accredited to the industry's exporters' association, the FPEF, which has played a major role in stabilizing and unifying the export sector since the deregulation.

The leading exporters, especially multinationals, have been able to use their access to cheap international finance, preferential shipping rates and international marketing information to **challenge the traditional vertical chains** in the South African table grape sector.[71]
A notable sign of this profound change was the dissolution of the Capespan Grapes Trust in 2005, which was a historical model of vertical integration in South Africa (formerly called Unifruco), although it remains to date the biggest single export company of grapes in the country[72]
Since deregulation, the multinational exporters have also developed financial offerings for producers in the form of production loans, advance payments and minimum guaranteed prices to capture greater volumes of grapes and secure access to supermarket chains (also offering post-season rebates and loss leader for a while if necessary). This **enabled them to exert control over the whole South Africa grape chain** through their strategic position as exporters.
In the meanwhile, smaller exporters have hard times to compete with these large companies and their vulnerable position has cascading adverse effects on the producers working with them.[73]

In this context, although table grape producers are well-organised when it comes to technical information and lobbying for access to markets, there is little if any collective action to increase their bargaining power; thus, fragmented growers have been facing a more powerful group of private exporters in South Africa and supermarket buyers in Europe as well as in South Africa.

In reaction, a recent move of vertical integration has been revived. Firstly, a number of **producer have integrated forward in exporter companies** to build an all year round business, (many emanated from the Capespan Grapes Trust after it was dissolved in 2005).
In turn, the bigger private agents have started to integrate backwards in the value chain by acquiring production units in order to secure the product for themselves. Finally, grape producers doing their own exports are on the rise, like Hoekstra Farms, Suiderland Plase and the more recently established River Fruits.

KEY FINDINGS

- Germany is the second largest consumer market for table grape in Europe; quality standardisation, stable and affordable prices for consumers all year round and retailers' demand for regularity of supply, have jointly led to the commoditisation of this sector. Large importers and retailers, especially discounters, are the dominant actors of value chains, fostering strong price competition and strict requirements on providers of table grapes.

- South Africa is becoming one of the low-cost providers of fresh grapes to Germany. Its average export price is getting as low as in Italy, and given its higher costs of transport, the price pressure on producers is getting strong. At the same time, the costs of production keep rising, the German buyers are passing on compliance costs, and growers end up being squeezed in the middle.

- The deregulation initiated by the South African government since the late 1990s has accelerated further the fragmentation and consolidation of grape growers who are increasingly integrated in the global value chains of more powerful groups of private exporters in South Africa and supermarket buyers in Europe.

[71] CONSAWU, A Study on the Power Relations in the Fruit Supply Chain, October 2012 op. cit.

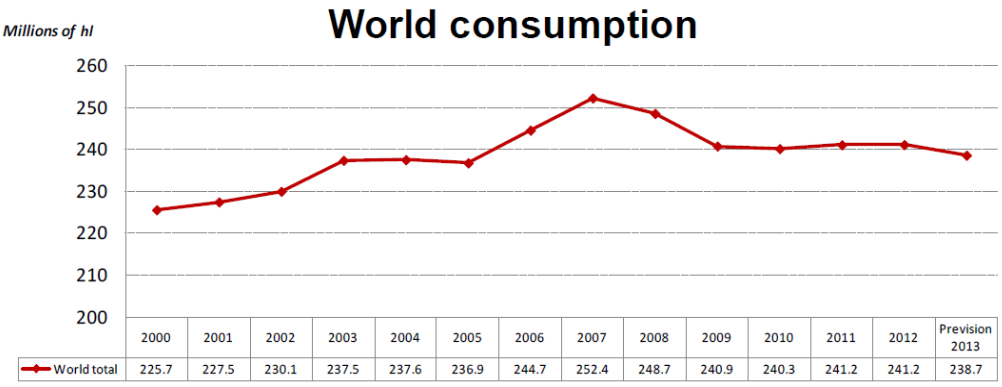
[72] Ibid.

[73] Symington, Creating Sustainable Competitive Advantage in Marketing of South African Table Grapes, 2008 op. cit.

4. Wine Case Study

a) Characteristics and evolution of the German wine market

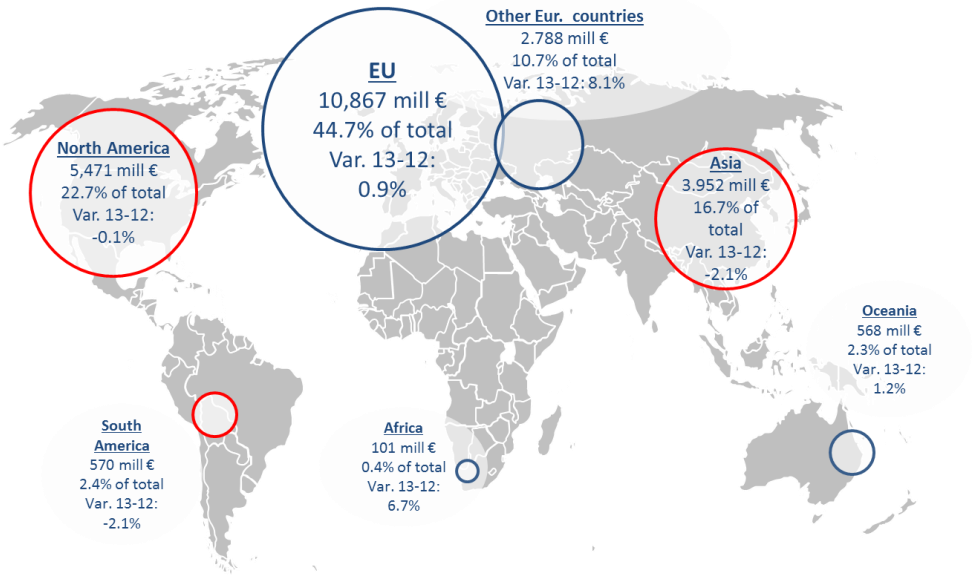
The changing context of world wine consumption



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Prevision 2013
World total	225.7	227.5	230.1	237.5	237.6	236.9	244.7	252.4	248.7	240.9	240.3	241.2	241.2	238.7

World Wine consumption volume
Source: OIV, 2014

After years of incremental growth, the world wine market has been hit by the financial and subsequent economic crisis which took place in 2007. Following two years of decrease, the **world consumption of wine has globally stagnated since 2010** and even decreased further in 2012 due to the low level of world production (see diagram above).[74]



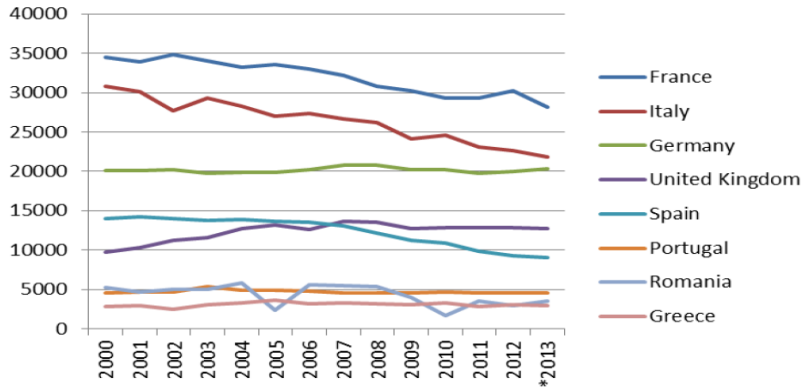
World Wine consumption by continent
Source: OIV, 2014

In geographical terms, roughly half of the world consumption still takes place in Europe and almost a quarter in Northern America (see map above). Consumption is still highly concentrated: the 5 biggest consumer countries consume roughly half of the world production.[75]

[74] International Organization of Vine and Wine (OIV), The wine market: evolution and trends, May 2014

[75] Bouzdine-chameeva & Zhang, 2013

The decline in wine consumption is more pronounced in Europe, the biggest consumer market.

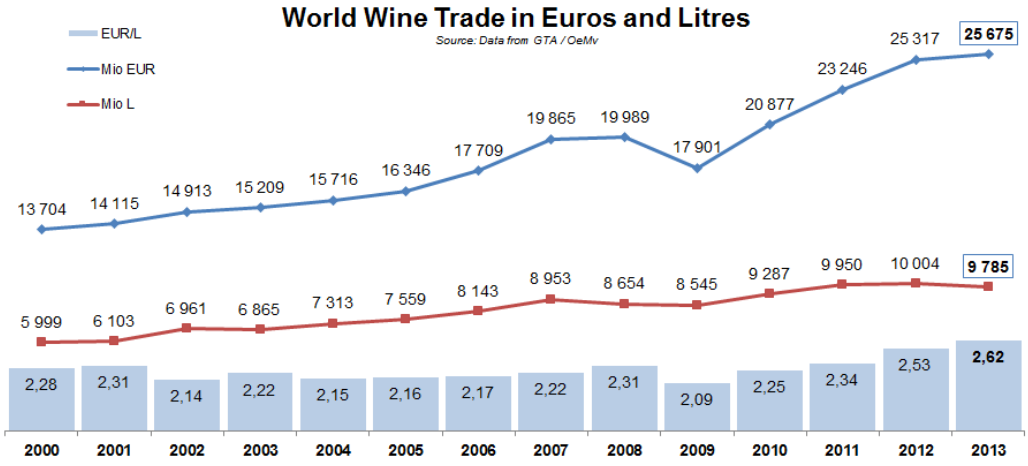


EU-28 wine consumption trend (in thousand HL)
Source: OIV, 2014

As shown in the diagram above, **the wine consumption per capita is in sharp decline in historical wine producing countries** (Italy, Spain, France, etc.), in particular because of changing lifestyles and tastes, anti-alcohol drinking campaigns, and health concerns.

Meanwhile, consumption is stable or slightly increasing **in Northern Europe countries such as Germany, UK and Scandinavia, and increasingly oriented towards branded wines or varietal wines** (e.g. Merlot, Cabernet Sauvignon, Grenache, Pinot, etc.) **rather than Protected Denomination of Origin (PDO) or Protected Geographic Indication (PGI) wines.**[76]

In contrast, **world exports and imports of wine have significantly increased since 2000** (albeit for short decreases in 2008, 2009 and 2012).



World Wine trade in Euros and Litres
Source: OIV, 2014

As shown in the above graphs, world traded wine is on the rise - especially in recent years - in terms of global value generated (blue curve on top) as well as traded volumes (red curve underneath). The unit value of traded wine has remained quite stable since the early 2000s (it amounted to 2.28 € per Litre in 2000 and reached 2.62 € per Litre in 2013 – cf. blue histogram at the bottom).[77]

[76] USDA, Wine Annual Report and Statistics, 2015

[77] OIV, The wine market: evolution and trends, 2014 op. cit.

The wine market in Europe is significantly regulated

The common market organisation (CMO) for the wine sector was established by the European Community in 1962. It aimed at generating reliable information on production (cadastre, annual declaration of must and wine quantities…) and quality for wines produced in specified regions.
In 1970, additional measures were established: price intervention instruments, a regime for trade with third countries and rules concerning control of planting and oenological practices. In order to **adjust wine-growing potential to market requirements**, a temporary European ban on planting new vineyards appeared in 1976 and was extended by subsequent regulations until 2015.[78]
In 1999, major changes were introduced to the EC regulation: removal of the price regime and simplification of the distillation measures.
Finally, in 2008, the wine CMO was reformed: new measures specifically aimed at improving **competitiveness of EU wines on foreign markets** were introduced (in particular, the measure "Promotion on third country markets").[79]

The EU is not the only one to adopt policies to assist domestic wine industries on international markets: during the last decade, the EU's main competitors have all developed policies to support wine marketing, market access and export initiatives (see details below).
However, the EU invests much larger amounts of public funding in marketing support to wine businesses: roughly 230 million Euros in 2014 (equivalent to 1 Euro/Case) compared to 4 million Euros in South Africa (equivalent to 0.15 Euros/Case).[80]

	EU	USA	Chile	Argentina	Australia	New Zealand	South Africa
Wine export/promotion programmes	x	x	x	x	x	x	x
Duties and tax refunds		x					
Support to generic advertising (country brands)			x	x		x	x
Support to R&D and innovation	x		x		x		X
Control of production	X						
Oenological practices, labelling rules	x	x					
Geographical indications, designations of origin	x	x			x		x

Policy measures developed by countries with potential effects on market access and competitiveness
Source: Cogea, based on EU-DG Agri, E-Bacchus, National legislation (2014)

Regarding the tax regime for imported wine, the EU has already established Free Trade agreements with South Africa and Chile, and is negotiating other ones with Mercosur (Argentina & Brazil) and the USA (the Transatlantic Trade and Investment Partnership – TTIP).

[78] COGEA S.r.l., Study on the competitiveness of European wines, 2014 op. cit.
[79] Ibid.
[80] Ibid.

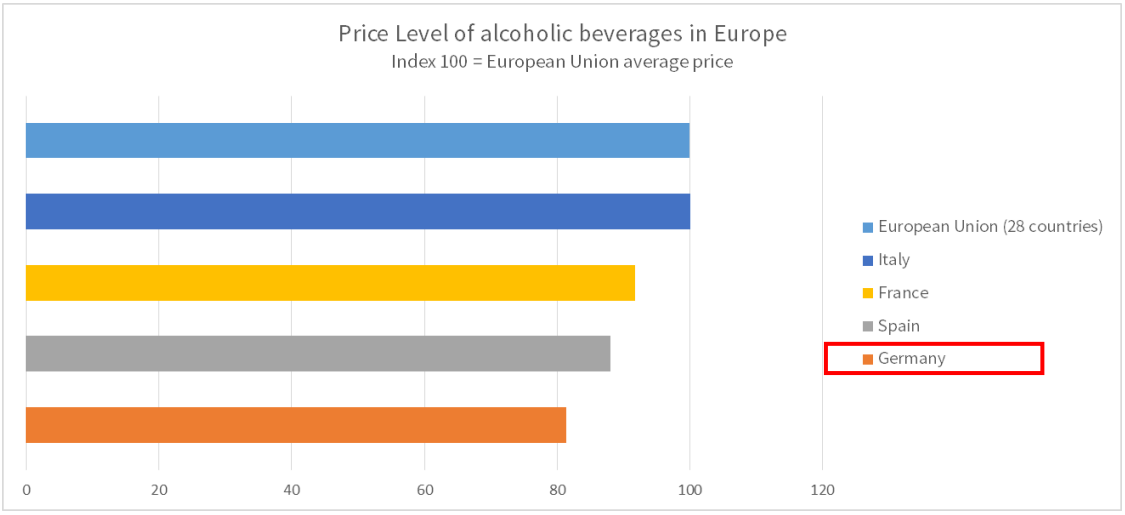
In addition to the regulations outlined so far, the **wine trade is also shaped by voluntary standards**. These standards cover a wide array of aspects of production, processing, food safety and quality management more generally. Some of the standards increasingly applied in the industry are the Hazard Analysis and Critical Control Point (HACCP), a system for food safety used for most food products imported in Europe, and the International Standards Organization (ISO) 9000 and ISO 14000 series of standards on quality and environmental management respectively.[81]

The German wine market: price-sensitive, quite liberal and open to foreign origins

In this context, **Germany, is the 4th wine consumer in the world in 2014** (in volumes terms) and illustrates quite well the evolution of the wider international market.

The economic crisis has not affected the German wine market as much as other European markets. Total **consumption has remained relatively stable**, although consumers have switched from on-trade (i.e. consumed in restaurants, hotels, bars…) to off-trade (i.e. purchased in supermarkets, discounters, specialised stores or directly from German producers).
In 2013, German households spent 11.2 billion Euros on alcoholic beverages: wine and sparkling wine together accounted for 39% of expenditures, followed by beer (28%) and spirits (25%).
In 2014, total wine consumption in Germany reached almost 21 million hectolitres (HL) and per capita consumption 25 litres annually (compared to 106 litres for beer).[82]
German consumers love sparkling wine: about one in five (22%) bottles of sparkling wine in the world is opened in Germany and in 2012, almost 16% of all wine consumed in Germany was sparkling wine.[83]

Globally speaking, **consumer price levels in Germany are significantly lower** than in most other major European markets, for wine as well as for alcoholic beverages in general (cf. diagram below).

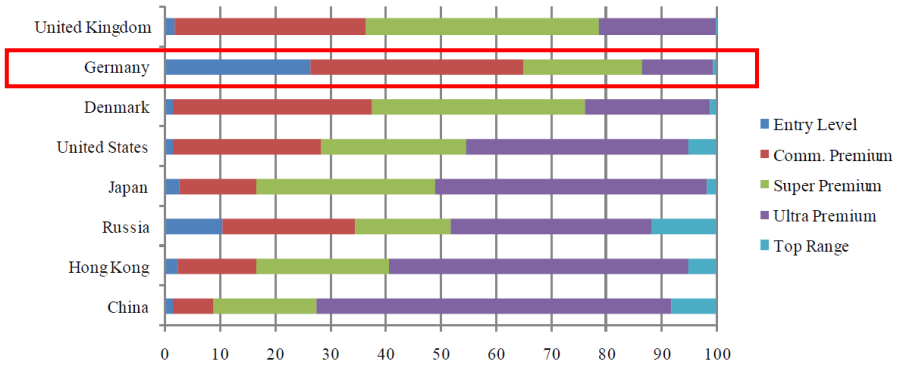


Price level of alcoholic beverages in Europe in 2013
Source: BASIC based on Eurostat

[81] CBI, Product Factsheet: Premium wine in Germany, 2013 op. cit.
[82] USDA, Wine Annual Report and Statistics, 2015 op. cit.
[83] CBI, Product Factsheet: Premium wine in Germany, 2013

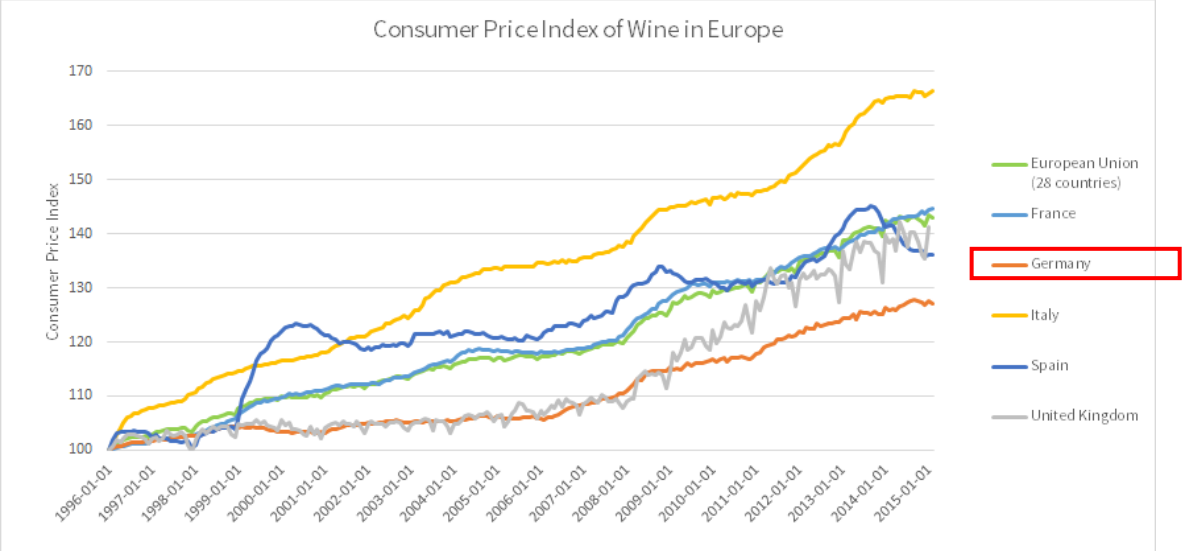
Discounter chains are very powerful in the German wine market: this channel **accounts for 55% of wine sales in Germany.** This exceptionally large market share fostered strong price competition on the wine market and made price loyalty more important than brand loyalty. In order to keep prices as low as possible, discounters introduced private labels, used blends to enable substitution of products without the need to change labels or barcodes, and easily switch between suppliers.[84]

As a result, Germany has a very specific price segmentation compared to other wine markets.[85]



Consumer Price Index of Wine in Europe 1996-2015
Source: BASIC based on Eurostat

Based on the data collected and analysed by the International Wine and Spirit Research[86] (see diagram above), **Germany appears to be the market where the largest number of products are positioned in the lower price ranges**: 65% at 'Entry level' + 'Commercial Premium', including 26% in the 'Entry level' range alone (which average price is below 5 Euros).



Consumer Price Index of Wine in Europe 1996-2015
Source: BASIC based on Eurostat

[84] CBI, Field of competition for wine in Germany, 2014

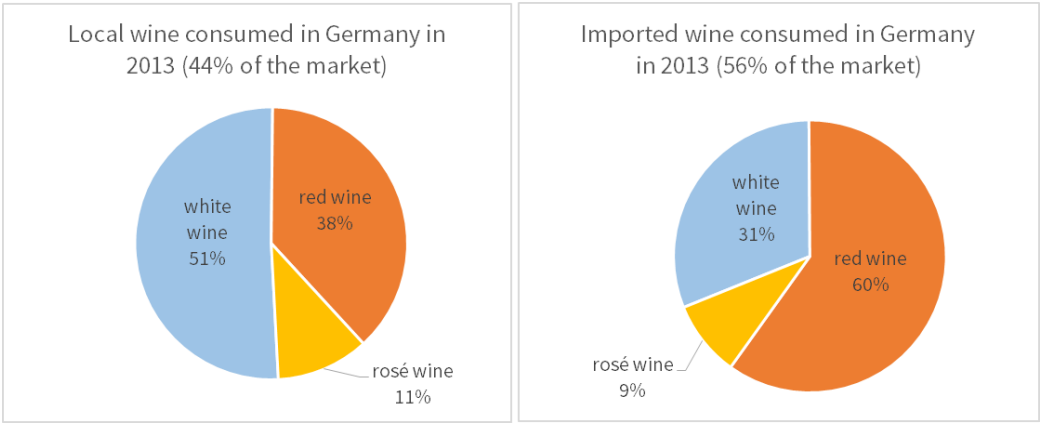
[85] COGEA S.r.l., Study on the competitiveness of European wines, study commissioned by the European Union, 2014

[86] IWSR methodology for price data collection
Price data are collected in large supermarkets through store checks conducted in each of the countries surveyed by the IWSR. The IWSR tries to visit the same stores each year to provide consistency. The collected prices reflect the lowest non-promotional price found for a brand. Prices are published in local currencies and for the typical wine bottle size (unless otherwise specified, this is 75cl).

The strong price competition fostered by discounters in Germany is also visible in dynamic terms (cf. above graphs): Eurostat data show **a much lower evolution of the average consumer price of wine in Germany** over the past 20 years in comparison with other European countries. It increased twice less than the EU average price and 4 times less than prices in Italy.

The German wine market is price sensitive, especially in the bulk market, but it **is not just a low price market**. German consumers are also willing to pay a premium for high-end products.[87]

In comparison with traditional wine producing countries in Europe such as Italy, Spain or France, **Germany is one of the most liberal wine markets**, combining local wine production of approximately 9 million HL and additional imports of around 15 million HL.



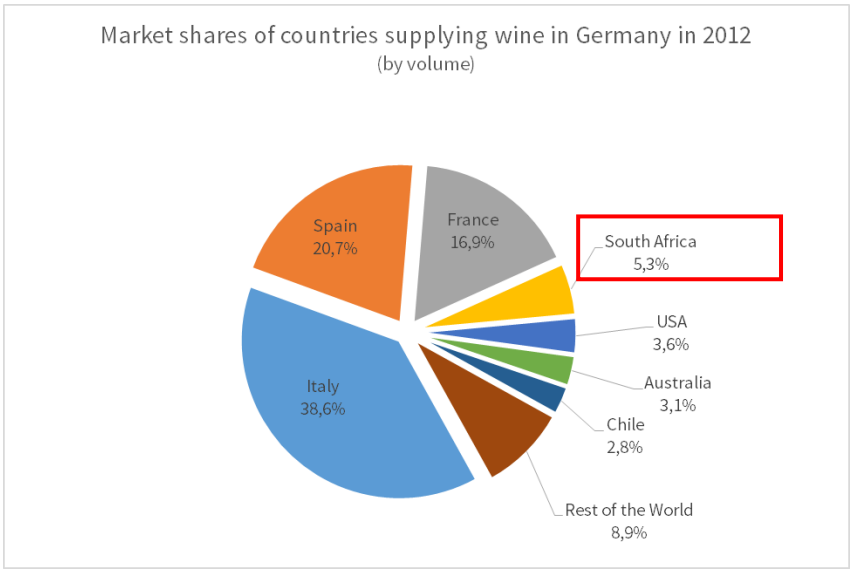
German wine consumption, by type and origin (local Vs imported)
Source: BASIC based on data from CBI (2013) and USDA (2013)

Sales of wines originating from Germany develop notably better than the overall German wine market which is globally stagnating. In 2013, **German wines accounted for 44% of the wine consumed in the country**. German household tend to favour local white wine (51% of consumption) over local red wine (38 %) and local rosé wine (11%).
In 2011, German wine production represented 3.5% of the total world production (Germany is the 8th biggest world wine producer). The German wine production is characterised by a high level of fragmentation, with several thousand minor and often local wine brands competing for sales. This is related to the country's long tradition as a wine-growing country.[88]

The large German market is **also quite open to foreign wines**. Despite the large domestic production, consumers welcome wines from outside Germany, even from overseas. **Germany is the world's biggest wine importer by volume and ranks third in value terms after the United States and the United Kingdom.** The related consumption pattern is the opposite of local wines: 60% of household purchases consists of red wine, 31% of white, and 9% of rosé wines.[89]
Sales of imported wine represented 56% of the wine consumed in Germany in 2013 (a significant part of the imported volumes being re-exported in other countries, in particular by discounters such as Aldi and Lidl who supply their stores at a European level from Germany).[90]

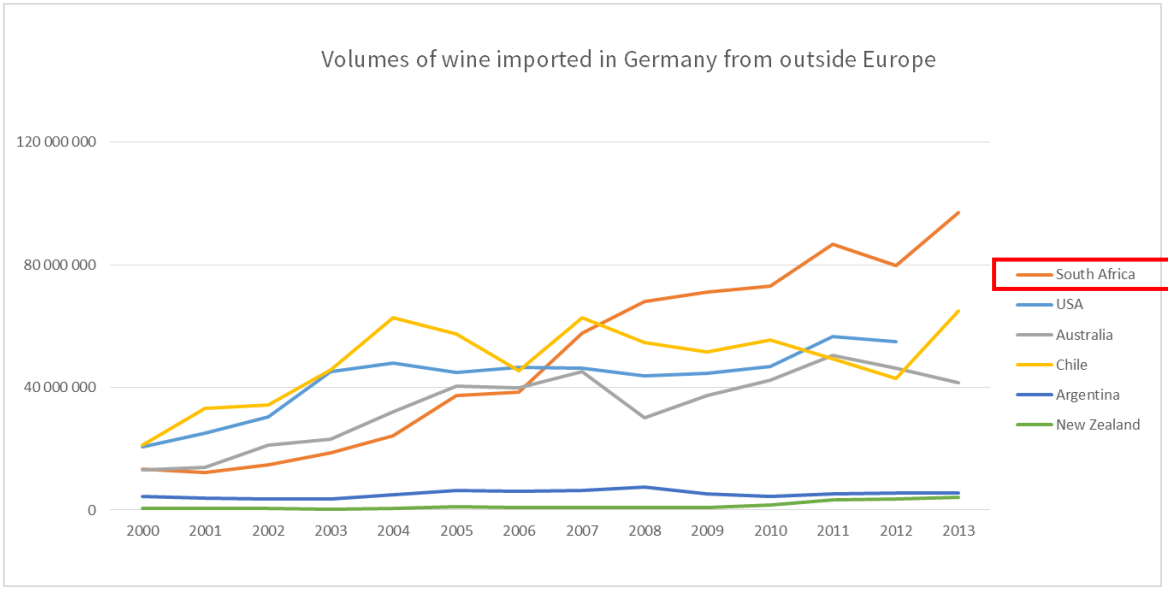
[87] CBI, Field of competition for wine in Germany, 2014
[88] CBI, Product Factsheet: Premium wine in Germany, 2013 op. cit.
[89] USDA, Wine Annual Report and Statistics, 2015 op. cit.
[90] CBI, Product Factsheet: Premium wine in Germany, 2013 op. cit.

Looking more precisely at **wine imported in Germany, more than 75% originates from Europe**, especially Italy, France and Spain (see below), their respective market share being quite stable over the past decade.



Market share of countries supplying to Germany in 2012
Source: BASIC based on Comtrade data

Focusing on imported wine originating from outside Europe, **South Africa has achieved strong steady growth over the past decade, and has become the first overseas supplying country since 2008, far ahead of Chile, USA and Australia** (see diagram below).

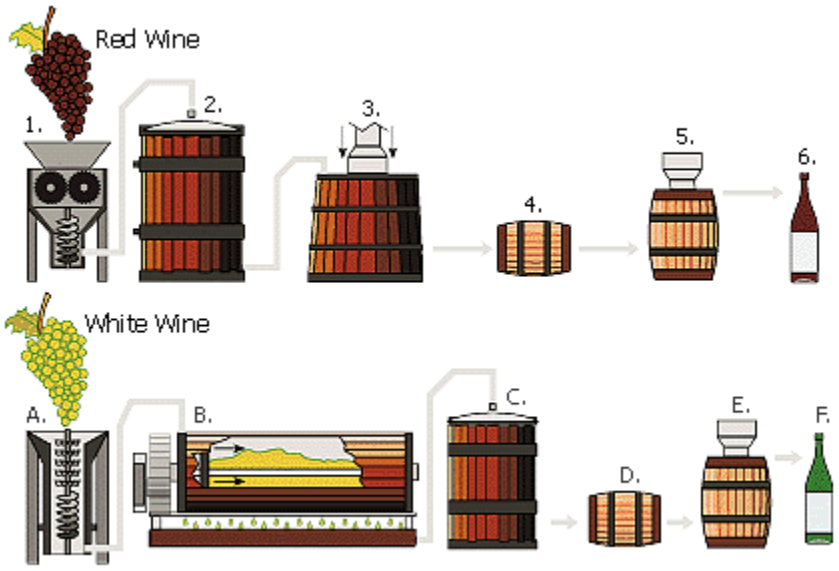


Evolution of the volumes of wine imported in Germany from outside Europe 2000-2013
Source: BASIC based on Comtrade data

The case of South Africa is more particularly explored in the following section to investigate the causes and consequences of this phenomenon.

b) Wine value chains between South Africa and Germany

The process of table grape production



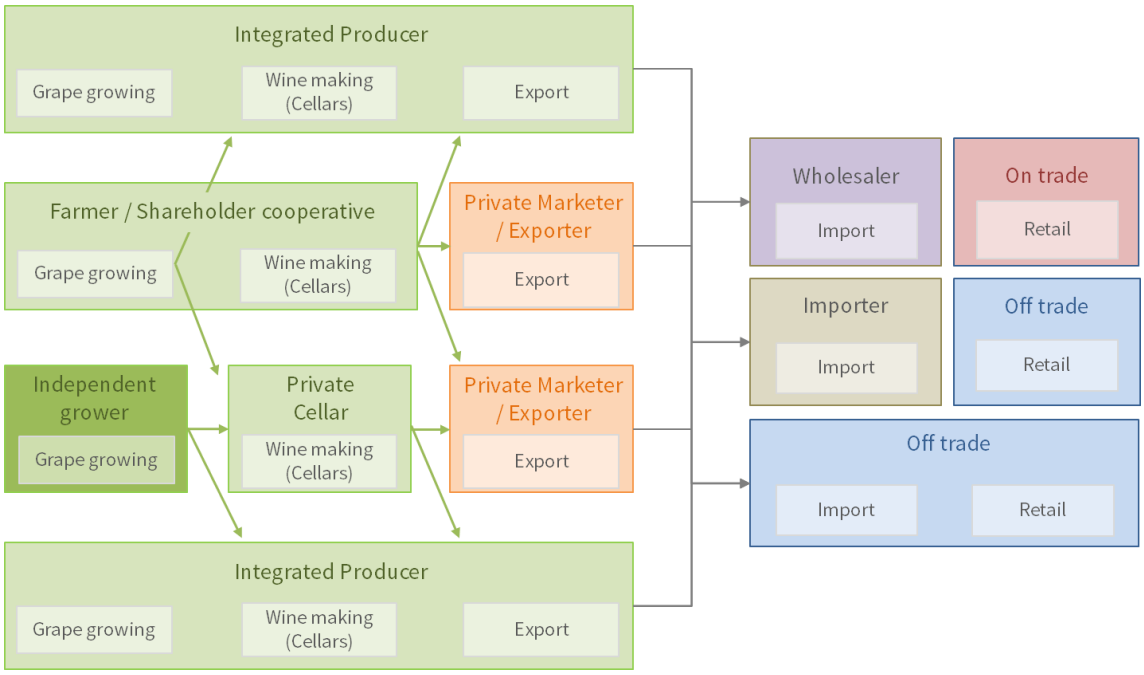
Wine making process
Source:

Wine production dates back some 5,000 years ago. Regardless of location, the wine making process remains globally the same:

- **Step 1 / A: Crushing**
  Grapes are conveyed to a de-stemmer/crusher where grape leaves and stems are removed, and grapes are crushed.
- **Step 2 / B: Fermentation / Pressing**
  Most grapes for red wines go to the fermenter for primary fermentation (where yeast is used to start the process), while most grapes for white wines are pressed prior to fermentation.
- **Step 3 / C: Pressing / Fermentation**
  After fermentation, grapes for red wines go to press to separate the wine from the grape skins, while pressed grapes for white wines are fermented (following earlier pressing).
- **Step 4 / D: Tank-Barrel**
  Most wines are settled in large stainless steel or upright oak tanks. After settling, red wines and fuller-bodied white wines are put into small oak barrels for barrel aging.
- **Step 5 / E: Filtering**
  After barrel aging and prior to bottling, some wines are filtered to stabilize & clarify them.
- **Step 6 / F: Bottling**

Main value chain patterns of South African wine imported in Germany

Wine value chains between South Africa and Germany follow a 'mainstream' global pattern which is highly concentrated, governed by supermarket chains and where a process of restructuring is taking place all along the chain.[91]



Main patterns of South African wine chains imported in Germany
Source: BASIC

At the consumer end, **the "on-trade" sector** (i.e. hotels, restaurants and bars) **constitutes a small portion of the market** (less than 20%) **which is mostly supplied by Cash & Carry wholesalers**[92]. This sector is recently being revived as wine is becoming more fashionable in German restaurants and wine bars have begun to emerge. Online sales are also rapidly developing and create interesting opportunities for established players as well as newcomers, although this channel still remains quite small (a little more than 5% of the market in 2012).[93]

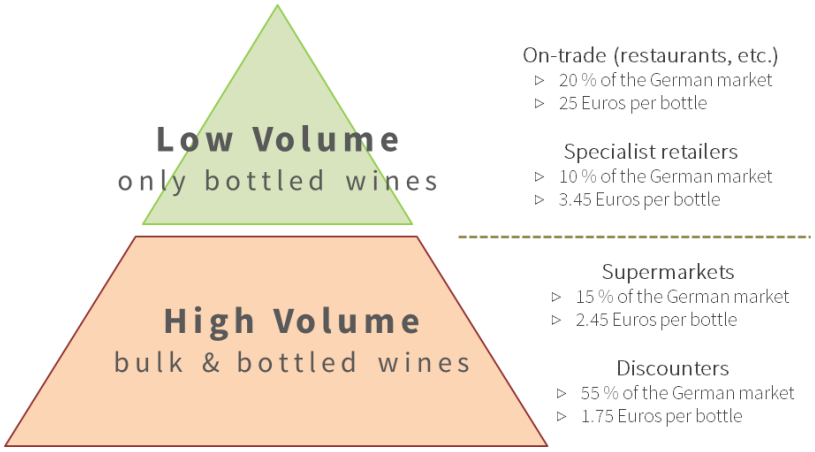
The majority of wine, almost 80%, is bought and consumed through the "off-trade" sector (i.e. discounters, supermarkets, specialist retailers) **which is supplied either by large importers or directly** by exporters or cellars (except for the direct sales of German wine producers).

German discounters have been very successful in making consumers very price conscious: the low-end segment of wine, which is led by discounters, now represents the majority of the market.

[91] Ponte and Evert, Which Way is "Up" in Upgrading? Trajectories of Change in the Value Chain for South African Wine, World Development Vol. 37, No. 10, pp. 1637–1650, 2009

[92] CBI, Market channels and segments for Wine in German, 2014

[93] Zhang & Bouzdine-Chameeva, Wine distribution channel systems in mature and newly growing markets: Germany versus China, BEM-Bordeaux Management School, 2012



Market segments for wine in Germany per distribution channel
Source: BASIC, based on CBI (2014)

As shown in the above diagram, **high volume trade is dominant in Germany**, with discounters and supermarkets (Aldi, Lidl, Rewe, Edeka, etc.) accounting for more than 70% of wine volumes sold.[94]
At the lower end of the market, discounters' sales account for 55% of wine sales in Germany, primarily made up of their own brands (private label) with an average price of 1.75 Euros per bottle.
Additional price surveys on South African wines were conducted for this research in January and March 2015. They indicated that prices for this origin were higher than the average consumer price for wine: South African wines reached 4.4 Euros per bottle in supermarkets (compared to 2.45 Euros on average) and 2.8 Euros per bottle in discounters' stores (compared to 1.75 Euros on average).

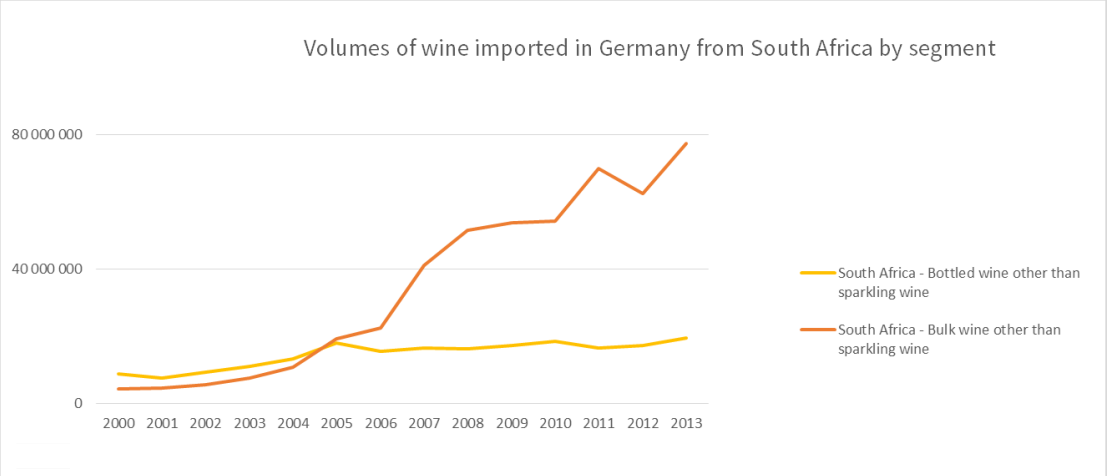
The German "off-trade" wine market is thus characterised by **strong price competition**: much of the sales takes place during promotions at discounted prices. In this context, discounters and supermarkets ask their suppliers to provide support (such as print, media, and point of sale promotion) if they want to remain listed. Wine companies can be asked to **make payments for shelf-space, for end-of-aisle promotions or for mentioning a wine in the in-store magazine**.[95]
In addition, market entry costs for bottled wine producers are significantly higher in Germany than in other European countries because of the **high listing fees charged by German supermarkets and discounters**. This fee, which can take the form of kick-backs and discounts, can reach 24-28% of the retail price of bottled wine (either as a fixed amount or as a proportion of sales).[96]

More recently, some retailers have started to purchase wine through '**reverse internet auctions'**[97], which further squeeze margins upstream in the value chain. Many wine producers, despite all the problems, accept these conditions in order to 'have a presence' or to 'move stock'.[98]
Working with German supermarkets also involves high risks, as retailers, especially discounters, look for high volumes. In basic wines the value chain is highly driven by retailers, which also set all elements of the quality profile.[99]

[94] Ibid.
[95] Ponte and Evert, Trajectories of Change in the Value Chain for South African Wine, 2009 op. cit.
[96] CBI, Market channels and segments for Wine in German, 2014
[97] A reverse internet auction is a mechanism by which a given buyer calls for a bid to suppliers via the internet, on the basis of technical specifications for a given product, and selects the cheaper offer at the end.
[98] Anonymous interviews with experts of the German and European wine markets conducted in March 2015
[99] Ponte and Evert, Trajectories of Change in the Value Chain for South African Wine, 2009 op. cit.

In this context, **importers are in a better position** than individual wine producers to comply with the requirements of retailers. This segment of the value chain is quite concentrated in Germany as **high volume trade is in the hands of a few large importers** such as Hawesko, Schenk, Mack & Schühle, Owen/Teck, Tophi and Racke Eggers & Franke.[100]

In order to keep up with the price pressure on the German wine market, **importers and retailers have increasingly imported bulk wine in recent years**, especially from South Africa (see below).



Evolution of the volumes of wine imported from South Africa in Germany by segment 2000-2013
Source: BASIC based on Comtrade data

This has been possible thanks to the **development of "flexitanks"** for transportation of wine in bulk (big bag-in-box with a capacity of 16.000 to 24.000 litres which replaced steel containers). This innovation has had strong consequences not only in Germany, but for the international wine trade in general. Starting in 2005, it has triggered a **gradual substitution** of bottled wine with bulk wine imports in the main consumer countries and in some of the major wine exporting countries such as Australia, the US and South Africa. The use of flexitanks has **completely changed the competitive structure of wine trade**.[101]

While this innovation has definite environmental benefits in terms of greenhouse gas emissions[102]**, the overriding driver of bulk wine trading is cost reduction**.[103]
As the quality does not deteriorate in flexitanks (i.e. no wine oxidation, better preservation of organoleptic characteristics), it is possible to transfer wine from production areas, and to bottle it near to consumption areas, with significant cuts on freight costs: **importing wine in bulk from any origin has become almost twice cheaper than importing wine in bottles** (average shipping costs are 0.16 US$/Litre for flexitanks instead of 0.34 US$/ Litre for steel containers of wine bottles).[104]

[100] Meininger's WBI, 2013

[101] COGEA S.r.l., Study on the competitiveness of European wines, 2014 op. cit.

[102] In a standard shipping of 13,200 bottles of wine (9,900 litres) weigh as much as a flexitank of 25,000 litres of bulk wine. Therefore, the "carbon footprint" is cut by half for a litre of wine in bulk compared to a litre of bottled wine.

[103] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, Industry Note, January 2012

[104] COGEA S.r.l., Study on the competitiveness of European wines, 2014 op. cit.

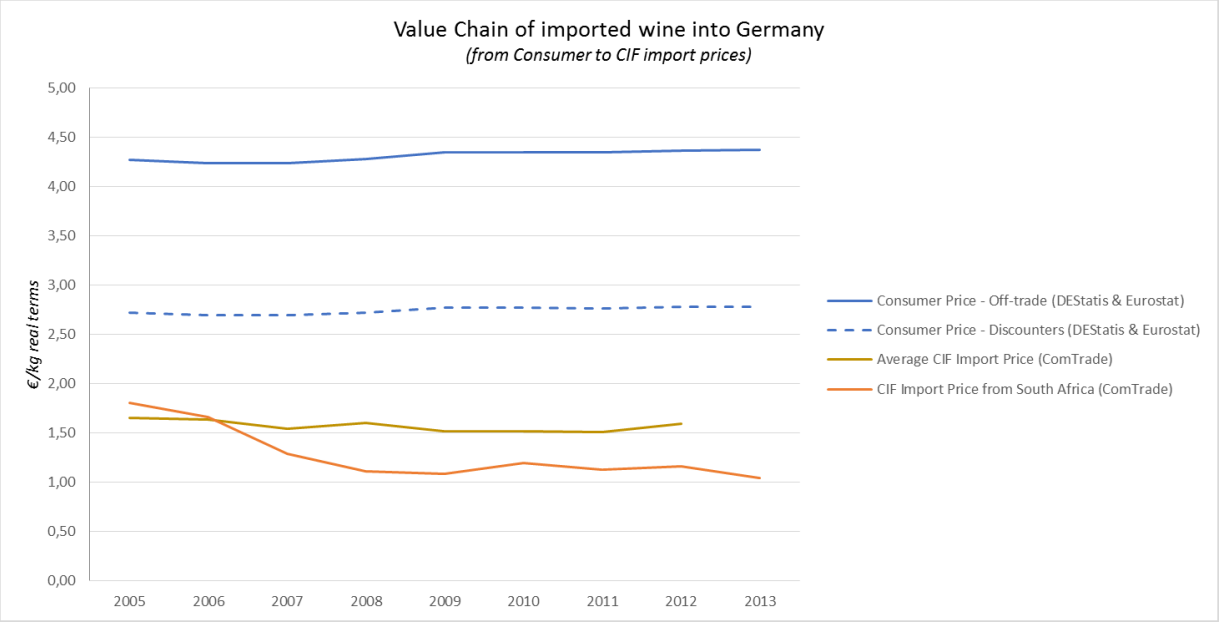
In addition, wine buyers often save on import duties, glass and bottling costs, working capital and foreign exchange exposure due to the cost of packaging being assumed in the destination-market currency.[105]

Since Germany is a wine producing country itself, and bottling facilities are already present, **most large German buyers (including retailers) increasingly bottle wines at destination and the demand for high volumes of bulk wine is growing**, especially for discounters' own-brand wine (a thousand hectolitres is usually the minimum required quantity). This private label market creates additional risks for producers as buyers can more easily switch suppliers to make up their blends.[106] **In wine producing countries, this has generated a significant loss of activity in the bottling industry** and a transfer of bottling operations from wine producer to consumer countries. In South Africa, the non-profit association Wines Of South Africa (WOSA) has estimated a loss of 107 jobs for every 10 million litres of wine exported in bulk, due to reduction of bottling operations.[107]

The strong development of imports of bulk wine from South Africa to Germany has resulted in a growing dependence of producers towards buyers, in turn increasing risks and resulting in a **tougher bargaining position due to the high concentration of retailers and importers in the German wine market** (see the following chapter for more details)**.**[108]

Value breakdown of South African wine imported in Germany

The value breakdown of wine chains between South Africa and Germany is a result of the strong influence achieved by importers and retailers – especially discounters.



Value Chain of Wine imported in Germany
Source: BASIC, based on DEStatis, Eurostat and Comtrade data

[105] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, 2012 op. cit.

[106] Ibid.

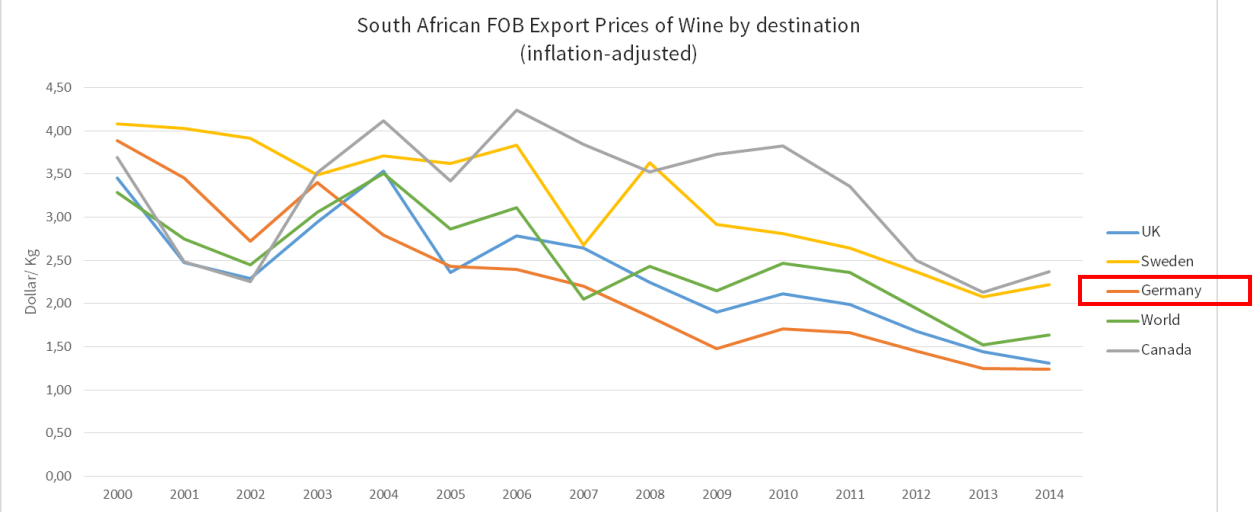
[107] COGEA S.r.l., Study on the competitiveness of European wines, 2014 op. cit.

[108] CBI, Market channels and segments for Wine in Germany, 2014

As shown by the data recorded by DEStatis and Comtrade over the past decade (cf. diagram above):

- the **average consumer price of wine has stagnated in the off-trade market (in real terms), so as the average CIF import price** of wine regardless of the country of origin,
- **in contrast, the CIF import price achieved by South African exporters has significantly decreased by more than 40%** in real terms (which may indicate that importers and retailers, who are key for gaining access to the German market, have increased their profit margins since 2006). The underlying causes of this specific evolution of South African wine import prices are explored hereafter.

When analysing more in details the unit value of South African wine exported overseas, **this evolution is more pronounced in Germany than in other destination markets**.



FOB Export Prices of South African Wine by destination country
Source: BASIC, based on Comtrade data

As illustrated above, the Comtrade data demonstrates the decreasing trend of the average FOB price of South African wine and shows that the **export price to Germany has become the lowest of all major buying countries of South African wine**, reflecting the prevalence of bulk wine exports to this destination.

The buyer driven nature of the South African–German wine chain, and the large economic power gained by retailers (in particular discounters), has resulted in an unequal allocation of profits and a restructuring of value chains.
These dynamics also **illustrate a global trend toward "commoditisation" of wine in the world market** since the late 1990s (i.e. a move towards cost reduction, standardisation and interchangeable products).[109]

The advent of **new wine production technologies and the varietal wine style** has stimulated the growth of wine industries on a global scale. Greater supply availability combined with marketing practices that are more geared to consumer demand have led to the democratisation of wine over the past two decades.[110]

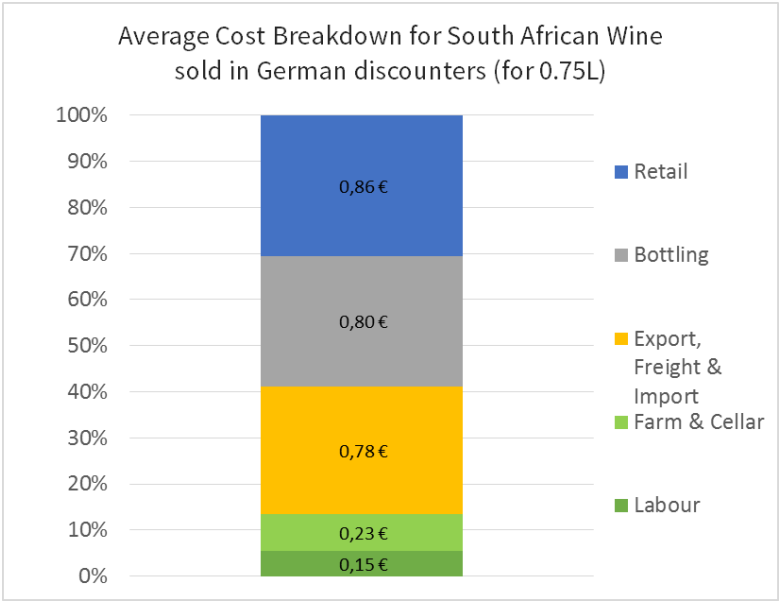
[109] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, 2012 op. cit.
[110] Ibid.

They have **enabled to supply consumer markets with high volumes of premium commercial-quality wines of a common variety** (e.g. Merlot, Cabernet Sauvignon, Grenache, Pinot, etc.) **which have become comparable and easily substitutable even though they are produced in different countries**.[111]
With an increasingly similar style and lack of regional distinction, **commercial wine is becoming more like a commodity than a differentiated good**, although local differentiations are core to historical wine producing regions in Europe (as shown by the longstanding Protected Denominations of Origin and Protected Geographic Indications developed in these regions).

The commoditisation of wine has opened up a new world of supply strategies for retailers and global wine companies seeking new ways to "flexibilise" the production cycle and lower their product costs. Many of them have initiated **global wine sourcing strategies** for their commercial brands, taking advantage of the fact that consumers in the popular premium segment have more regard for the price, the variety and the quality promise of the brand than for the origin of the wine (and supported by laws which permit a certain portion of blending without affecting label claims, and the added realisation).[112]

This evolution has increased the price pressure down to wine producers over the past decade as oversupply has coincided with the stagnation of wine consumer demand and grocery retail consolidation around the world. The poor state of the economy in countries such as Germany has fuelled these already challenging market dynamics: households have become increasingly value conscious and moved from on-premise to off-premise consumption. To address this, German retailers are chasing them down-market and **prices are being driven down to levels that are extremely challenging for wine producers to match**.[113]

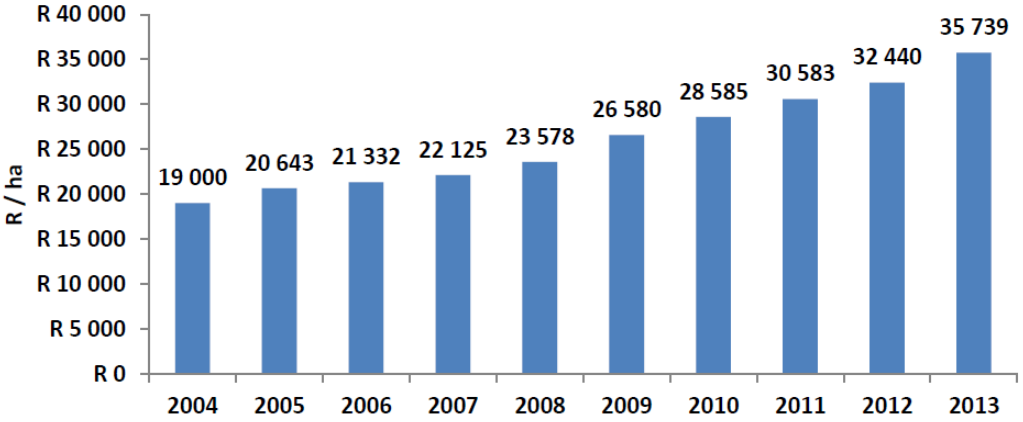
This translates into the following average value breakdown for South African wine sold in Germany:



Cost Breakdown of South African wine sold in German discounter stores
Source: BASIC, based on SAWIS, PWC South Africa, Rabobank data and ad-hoc price surveys

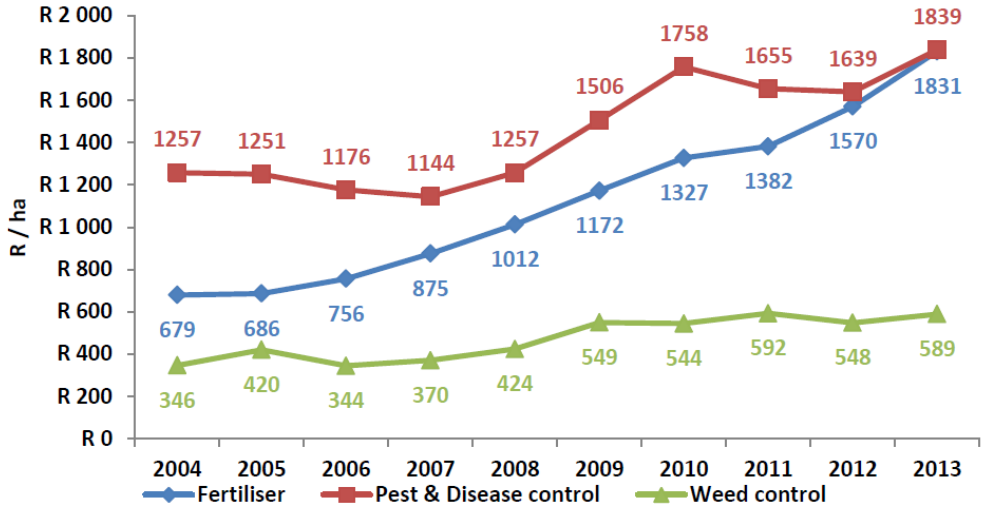
[111] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, 2012 op. cit.
[112] Ibid.
[113] Ibid.

South African wine producers are squeezed between the price pressure of buyers and ever increasing production costs.



Per hectare production costs in wine production, 2004-2013
Source: Vinpro, 2014

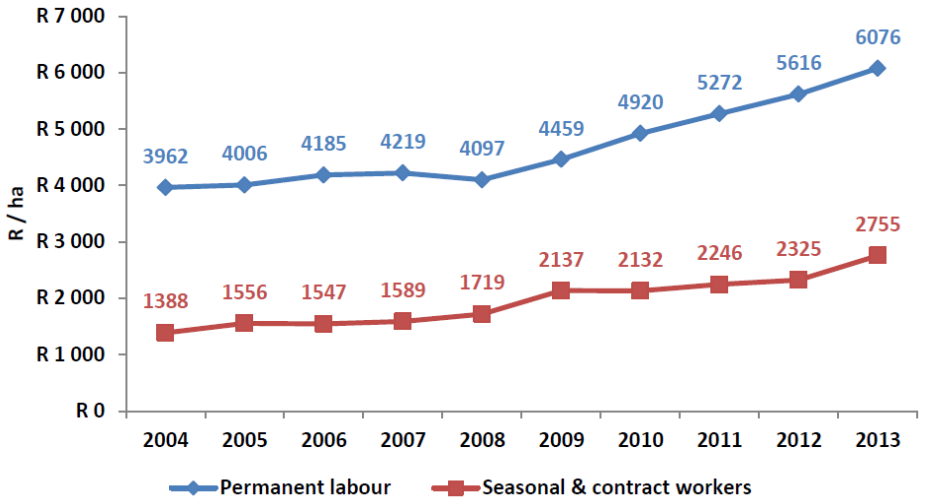
According to VinPro, while the total income of wine farms per hectare has increased marginally since 2004, **production costs per hectare have increased by 88% over the same period (see above), which has caused net farming income**[114] **to decline by 31% between 2004 and 2013**.



Per hectare production costs in wine production by input category, 2004-2013
Source: Vinpro, 2014

As shown in the diagram above, the increase in production costs can be primarily attributed to the growing costs of fertiliser and pests and disease control which have increased by 170% and 46% respectively since 2004.

[114] Net farming income (NFI), a measure of profitability, is computed as total income (R/ton x ton/ha) minus the total production costs, but excluding foreign factor costs (i.e., rent, management and interest) and tax.



Trends in the per hectare costs of seasonal and permanent labour in wine production, 2004-2013
Source: Vinpro, 2014

In addition, the global increase in wine production costs can also be related to the rise of labour costs on a per hectare basis, which increased by 53% and 98% for seasonal and permanent labour respectively. [115]

This is linked to the **introduction and gradual increase of the minimum wage** for farmworkers determined within the agricultural sector since 2003. This has enabled a significant increase of rural workers' incomes (which used to be very low until the early 2000s), but also led to numerous job losses in agriculture and strong casualization of labour, especially in South African wine production (this trend is further explored and analysed in the last chapter of this report)[116].
This has also fostered fragmentation and vertical disintegration in the South African industry, as described in the following section.

c) Situation and evolution of the wine industry in South Africa

Wine making is deeply rooted in South Africa's history and was marked by profound changes since the 1990s.

South Africa is often classified as a ''New World" wine producer (alongside Australia, New Zealand, Chile, Argentina, and USA) and seen as a new comer in international wine markets, following the recent (re)opening of its export markets and the end of sanctions against the apartheid regime in the early 1990s.
However, the first vineyards were planted in the Cape peninsula by Dutch settlers as early as 1655. In 1684, the union of the "Vryburghers" created the first type of co-operative in South Africa by agreeing not to sell their wines to buyers under a certain value.[117]

[115] However the share of cost of labour and inputs in total production costs stayed fairly constant from 2010 to 2013 for the top 50 wine producers as well as for the South African wine industry as a whole: they respectively amount to 19% and 40% of annual cash expenditure on average.

[116] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa: key trends, emergent issues, and underlying and structural problems, International Labour Organisation (ILO), February 2015

[117] Mutango, Determinants of producers' choice of wine grape cultivars in the South African Wine Industry, 2005

'Constantia wine' (which was the name given to South African wine in those years) was very popular in Europe at that time, and apparently a favourite of Napoleon. At the beginning of the 19th century, wine represented almost 90% of exports from the country.[118]
But, **by the end of the 19th century, exports had almost collapsed**. In 1861, the United Kingdom (the main importer of South African wine at that time) and France signed a trade agreement that made French wines cheaper to import. In the late 19th century, the spread of phylloxera destroyed most of the vineyard in the Cape.[119]

In the early 20th century, a new co-operative, the KWV ('Ko-öperatieve Wijnbouwers Vereniging van Zuid- Afrika') **was granted the statutory powers to regulate the industry**. KWV controlled sales and stabilised prices, and later on managed a quota system regulating new plantings, varietal choices and vine material imports. Standard prices were set for wine grapes irrespective of the quality. Though these policies protected farmers' income, they discouraged competition among buyers. This period was characterised by a focus on high yields and volume over quality, and an overall orientation to brandy and fortified wine production. Viticulturists were provided by KWV, giving advice, but working within the regulatory system, leaving little space for innovation.[120]
At the level of primary production, the **co-operative cellars came to dominate South African wine production**. Most of them implemented a 'pool system' through which grapes of a particular cultivar were sold in bulk, with farmers being paid according to the number of tons delivered and the selling price realized for the pool as a whole.[121]

The imposition of international trade sanctions in the 1980s brought the industry almost to a halt. Between 1964 and 1989, official exports fell by two-thirds, and the industry survived through exports of low-quality wine to Eastern Europe and domestic consumption, particularly of brandy. Farmers and their co-operatives sold most of their wine in bulk to the KWV and other wholesalers. Although they were guaranteed a minimum price, periodic overproduction and the limited size of the domestic market globally favoured the wholesalers.[122]

With the end of apartheid and the re-opening of the export market **in the 1990s, a renaissance of the South African wine industry took place**. The country benefited from the (relative) novelty of South African table wine, and a weak Rand. Major product and process upgrading took place.
Following the lifting of sanctions, the wine quota system was abolished and the KWV found their power base eroded. The amended price system intended to allow market forces to function freely while keeping in place the basic stabilizing mechanisms.[123]

The task of regulating production was transferred to the cooperatives and they were encouraged to define, limit and even charge their members' rights to crush grapes. In the second half of the 1990s, **some cooperatives begun the process of turning themselves into shareholders companies, introducing a « business orientation » in the industry**. These processes continued until the early 2000s.[124]

[118] Vink, Williams, & Kirsten, 2004

[119] Ewert et al., 2002 ; Joachim Ewert & du Toit, 2005

[120] Williams 2005; Williams and Vink 1999

[121] Ewert & Henderson, 2005

[122] Ponte, Governance in the Value Chain for South African Wine, Tralac working paper, October 2007

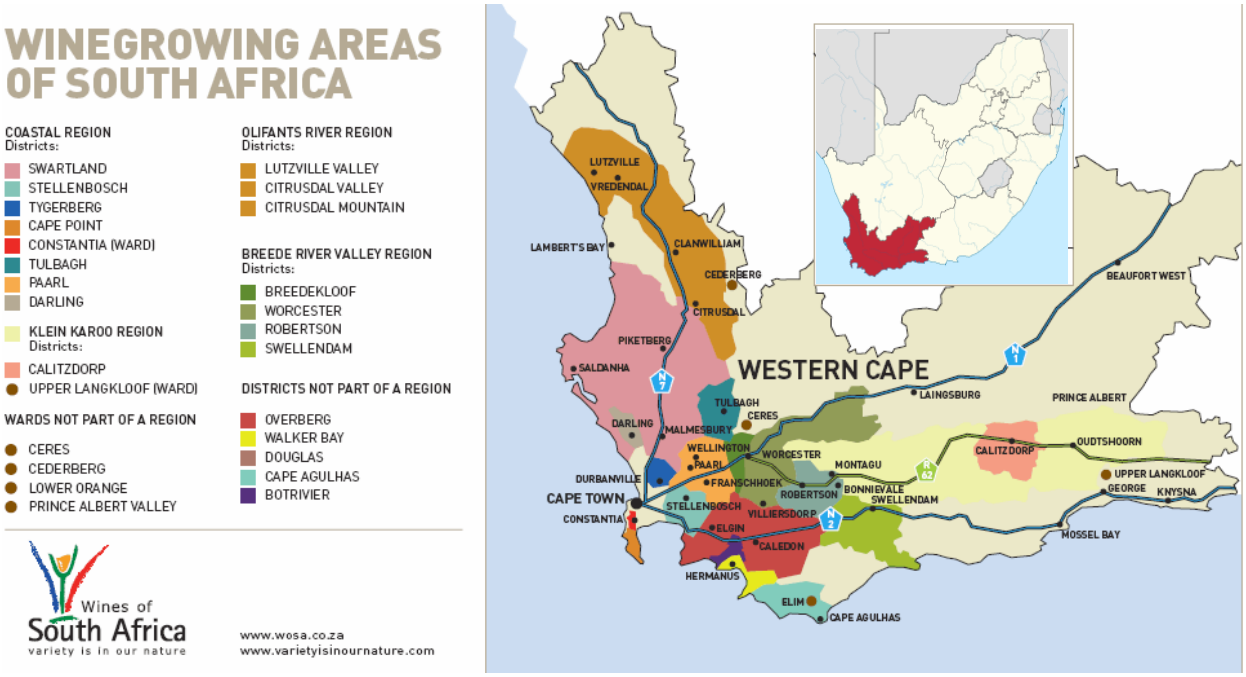
[123] Ibid.

[124] Ibid.

In parallel, since 1998, there has been an **explosion in the number of new cellars and wholesalers buying wine in bulk**, including specialist exporters. Many cellars have merged and/or converted into companies to be able to source grapes more flexibly and develop their own brands and marketing strategies.[125]

South African wine production: towards vertical disintegration

Today, the South African wine industry encompasses wine (natural, fortified and sparkling), wine for brandy, distilling wine, and grape juice (concentrate) for use in non-alcoholic products (the majority of South African wine producers concentrating mainly on natural wine production).[126]
Its major traditional markets include the United Kingdom, Germany (the second world destination for South African wines), Russia, Sweden and the Netherlands.
South Africa's viticulture originated and still mainly takes place at latitudes of 27°-34° south **in an area with a mild Mediterranean climate**.



Map of winegrowing areas in South Africa
Source: Wines of South Africa, 2014

The wine industry is overwhelmingly based in the province of Western Cape that enjoys a cooler climate than its latitude might suggest, with good conditions for growing a wide range of grape varieties for winemaking (see map above). Some additional production takes place in the Northern Cape and (very little) in Kwa-Zulu Natal in the East.[127]
Wine grapes are cultivated within the winter rainfall region of the Western Cape and under-irrigation along the Olifants and Orange Rivers.[128]

[125] Ponte, Governance in the Value Chain for South African Wine, 2007 op. cit.

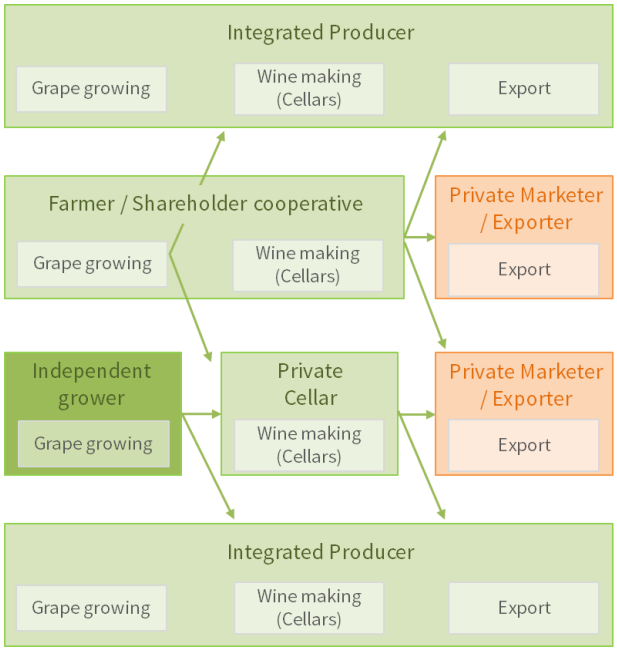
[126] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, A profile of the South African Wine market value chain, 2013

[127] Ibid.

[128] Ibid.

Most wine producers market their grapes to **50 producer cellars who receive 70 % to 80% of the total wine grape harvest** and sell it mostly in bulk to **57 wholesalers and 43 exporters**. Wine grapes not delivered to the producer cellars is processed by **25 producing wholesalers**, such as Distell, KWV and DGB and a large number of private wine cellars.[129]
Since deregulation of the wine industry, the number of producer cellars, which used to be operated mostly as cooperatives, has decreased from 69 to 50, while the number of private cellars have more than doubled from 218 in 1997 to 493 in 2013.[130]
In comparison with other wine producing countries outside Europe (e.g. Chile, Argentina…), **multinational wine marketers and drinks conglomerates have not made substantial investments in South Africa so far**, because of the high fragmentation and small average margins of the wine industry.[131]

The South African sector can be **segmented according to 3 main patterns** (see below)[132]:



Main patterns of the South African wine industry
Source: BASIC, based on Republic of South Africa, Department of Agriculture (2013)

Firstly, there are the growers who are members of a **cooperative or a shareholding company** (usually, an ex-cooperative); in this configuration, members of coop cellars are supposed to deliver all their crop to their cellar while shareholder growers can (do) also sell in the open market to private cellars.

Then, there are **independent grape growers** that do not have wine-making facilities and are not members or shareholders of a cellar; they sell their grapes to ex-coop cellars or private cellars (the latter can be fully independent or partly-integrated from wine-making to export);

[129] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa: key trends, emergent issues, and underlying and structural problems, International Labour Organisation (ILO), February 2015

[130] Private wine sellers are represented by Wines of South Africa (WOSA), a company representing all South African producers of wine who export their products. The wine producing wholesalers (e.g. KWV, DGB and Distell) are represented by the SALBA (South African Liquor Brand owners Association), a non-profit organisation.

[131] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, 2012 op. cit.

[132] Ibid.

Finally, there are the **vineyards that are owned by private cellars** which may also be part of a vertically-integrated producer-exporter configuration.

This segmentation is the result of a **process of vertical disintegration which currently takes place, by which wineries and vineyard owners began to sell off their land to grape growers to later buy in their grapes** in order to reach larger economies of scale**.**[133]
Even the largest and historically most important producer-exporters/wholesalers began to move away from grape growing on own farms and in some cases even winemaking, thus becoming pure marketers. In comparison, South African top quality wine companies tried to keep more control over the winemaking process.[134]

This process was triggered in the late by 1990s by the state deregulation, and accelerated in 2005, by a red wine ‘‘glut” in the global market, decreasing exports, bankruptcies, and a general decrease in profitability and competitiveness of the South African wine sector.[135]
To address this crisis, South African wine actors developed bulk sales in order to survive in the short run through cost reduction. However, the producers who now mostly make low quality tend to be stuck in the price sensitive and low margin market segments (known as the ‘‘**Aldi effect**”).[136]

While bulk wine quickly gained share of total South African wine exports, **pricing and grower gross margins have remained extremely low**. Pressures in core markets and a lack of market diversification have squeezed pricing for South African wine companies and growers.[137]
In 2013, according to VinPro, only 15% of wine producers in its study group (a selection of more successful producers) met economic sustainability - which corresponds to a total income of at least 55,739 Rands (3 850 Euros) per hectare and a net farming income of at least 20,000 Rands (1 400 Euros) per hectare. [138]

In this context of re-configuration of the functional division of labour along the chain, **winegrowers find themselves at the lowest end of the supply chain again**, with brokers, traders and merchants being the main benefiters.[139]

Inventory responsibilities and risks are pushed upstream (in terms of volume and time) all the way up to cooperatives and other large cellars, and eventually to grape growers. This, among other things, has led to **squeezed margins and higher risk among grape growers, which increases pressures for further casualization of labour, pressure on wages, and trimming down other workplace benefits** (see more details in the last chapter of the report).[140]

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[133] N. Gwynne, Strategic Evolution of Chilean Wine Firms, 2012

[134] Ponte, Governance in the Value Chain for South African Wine, 2007 op. cit.

[135] Ibid.

[136] Ibid.

[137] Rabobank, The Incredible Bulk: the rise in global bulk wine trade, 2012 op. cit.

[138] Visser and Fesser, Farm Workers’ Living and Working Conditions in South Africa: key trends, emergent issues, and underlying and structural problems, International Labour Organisation (ILO), February 2015

[139] Bezuidenhout, South African producer and cooperative wineries, January 2014

[140] Ponte, Governance in the Value Chain for South African Wine, 2007 op. cit.

KEY FINDINGS

- Germany is the 4th wine consumer in the world in 2014 and an historical wine producing country. Its market is very price-sensitive, quite liberal and open to foreign origins. Discounter chains are very powerful in the sector: this channel accounts for 55% of wine sales in Germany, fostering strong price competition.

- In order to keep up, large importers and retailers, who dominate wine value chains in Germany, have increasingly imported bulk wine – especially from South Africa - and developed wines of common varieties in order to manage volumes and keep costs down. As a result, wine is becoming more like a commodity than a differentiated good, especially on the German market.

- South African wine imports in Germany have achieved strong steady growth over the past decade, the country becoming the first overseas supplier, far ahead of other origins. However, the price of South African wine on the world market, especially in Germany, have been driven down - because of the price pressure and development of bulk exports - to levels that are extremely challenging for wine producers to match.

- At the same time, producers have to face ever increasing production costs (labour and inputs) which has severely impacted their profitability. Combined with the deregulation of the sector initiated by the government, this has fostered a dynamics of fragmentation and vertical disintegration within the South African wine industry. In 2013, according to VinPro, only 15% of wine producers in its study group (a selection of more successful producers) met economic sustainability.

5. Rooibos Case Study

a) Characteristics and evolution of the rooibos tea market in Germany

According to the UN Food and Agriculture Organization (FAO), world tea production has reached an estimated 4 million tons in 2010, with black tea accounting for 2.5 million tons, green teas for 1.2 million tons, and herbal/fruit teas for about 300,000 tons.
Almost 56% of all tea produced worldwide is consumed locally. For example, India and China consume 81% and 73% of their respective tea production. Local production and consumption is dominated by green teas.[141]
Around 4% of the world's total tea is consumed by the UK, and 6% in the rest of EU. The United Kingdom is by far the largest tea consumer in the EU, accounting for 51% of total tea consumption in the EU, followed by Germany (12%).[142]
Germany, the 3rd biggest market in Europe and the world's largest importer of herbal tea products has a mature tea market with intense competition. Consumer purchasing decisions of herbal tea are mainly driven by health factors (e.g. properties such as caffeine free) and exotic tastes.[143]

In 2013, the German herbal and fruit tea trade association (WKF) reported an all-time record of nearly 13 billion cups of herbal tea consumed in Germany. **The country is the largest importer, processor and consumer of medicinal and aromatic plants in Europe**. The 2013 sales of herbal and fruit teas in Germany was about 2.8% higher than previous year. 46.2% of the herbal teas were mixtures of herbs while 53.8% were single-herb teas of which the top three were peppermint leaf, fennel fruit, and chamomile flower[144].

As an herbal tea with interesting health properties, **rooibos is increasingly claiming its share of this growing market**, with international demand expanding since 2001. Rooibos tea constitutes less than 0.3% of the global tea market, but almost 10% of the global herbal tea market. It accounts for roughly 7.7% of Germany's herbal market.[145]
Rooibos is the fermented and dried leaves of the plant *Asphalathus linearis* that is mainly used as a pure herbal tea or in many different types of blends. It is unique to the South African Cedarberg Mountains of the Western Cape Provinceand the Bokkeveld Plateau for the Northern Cape Province. It is of reddish colour and is **considered to be a good substitute for black teas and coffee, due to its health benefits**. Rooibos is also used as an ingredient, especially in the cosmetic industry.[146]
It is packaged in, and available as, loose leaves, various tea bags and powders, ready-to-drink products, self-brewed iced teas, cosmetics and shampoos. New innovative product applications include green (unfermented) rooibos.[147]

[141] CBI, Product Factsheet: Tea in Europe, 2014

[142] Ibid.

[143] Republic of South Africa, Department of Agriculture, Forestry and Fisheries, A profile of the South African Rooibos Tea market value chain, 2013

[144] Wirtschaftsvereinigung Kräuter- und Früchtetee e.V. (WKF). Pressemitteilung: Rekord in der Kräuter und Früchtetee- Tasse. Knapp 13 Milliarden Tassen bescheren höchste Absatzzahlen aller Zeiten, Mai 2014:

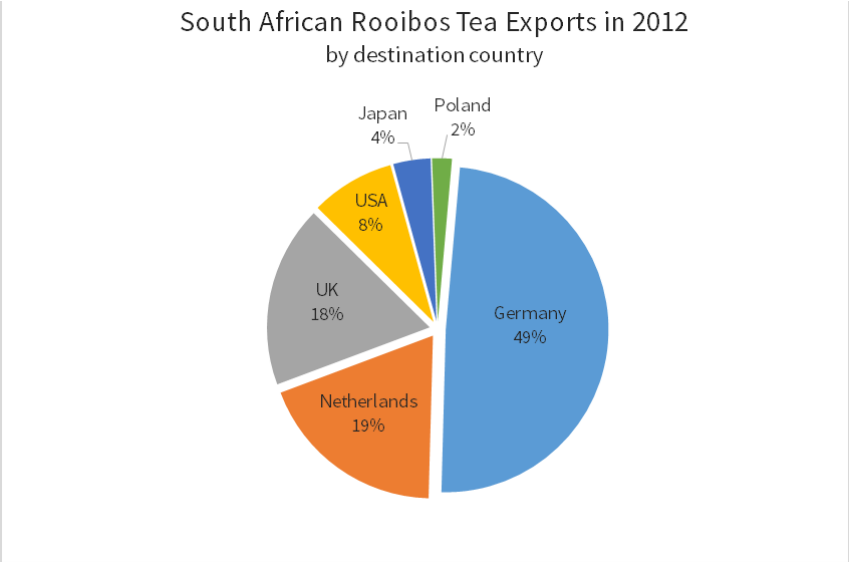
[145] Republic of South Africa, A profile of the South African Rooibos Tea market value chain, 2013 op. cit.

[146] Bienabe, Bramley & Kirsten, An economic analysis of the evolution in intellectual property strategies in the South African agricultural sector: The Rooibos Industry, 2009

[147] Ibid.

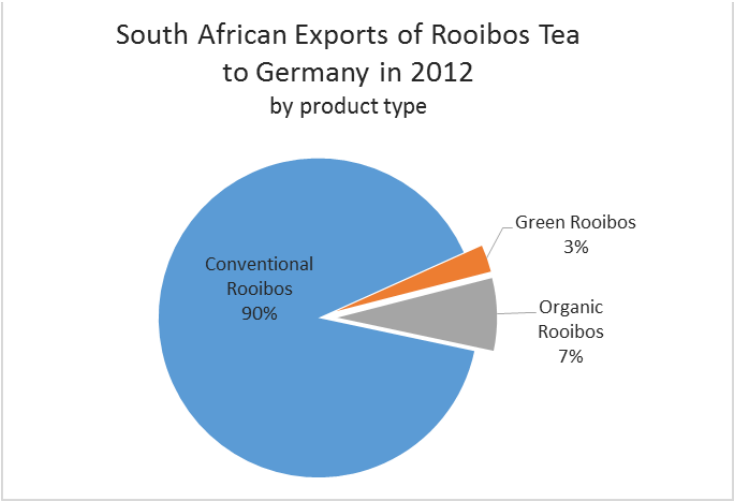
Price surveys on rooibos tea were conducted for this research in January and March 2015. They indicated that prices ranged **from 0.99 Euros for 50 grams packaging (especially in discounters' stores) to 2.49 Euros for 35 grams packaging in supermarkets**.

South Africa is the only exporter of rooibos tea in the world; it exports it to more than 30 countries across the globe. The export market represents roughly 60% of the production compared to 40% for the domestic market.[148]
The main importer is Germany, well before the Netherlands and UK (see below).



Exports of South African Rooibos Tea by country of destination in 2012
Source: BASIC, based on data from the RSA Department of Agriculture

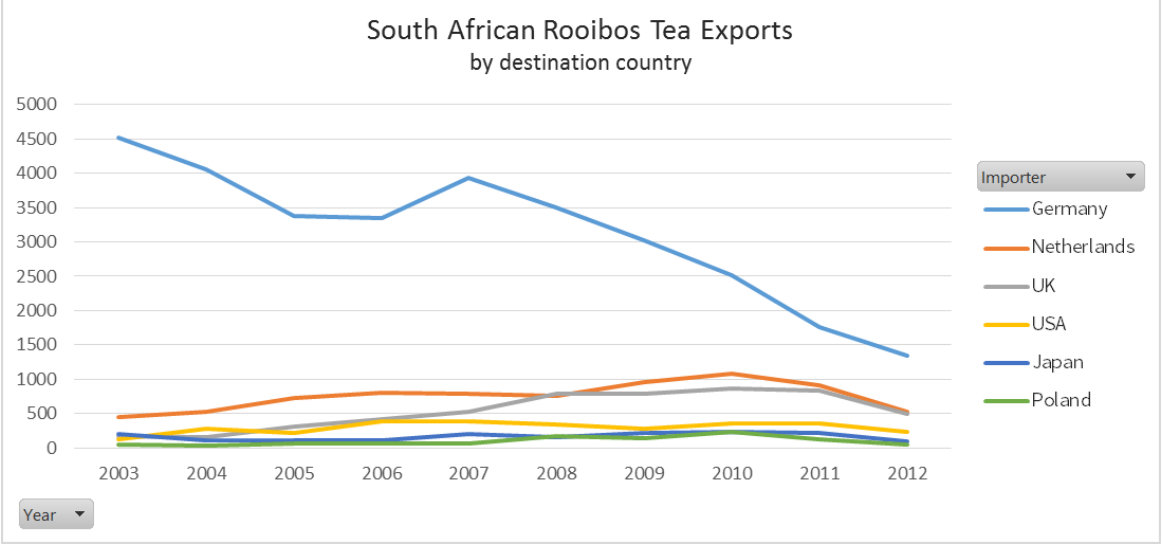
As shown by the statistics of the Department of Agriculture of the Republic of South Africa, the majority of exports to Germany are made up of conventional rooibos (90% of volumes), the rest being organic rooibos (around 7%) and green rooibos (around 3%).



Exports of South African Rooibos Tea to Germany by segment in 2012
Source: BASIC, based on data from the RSA Department of Agriculture

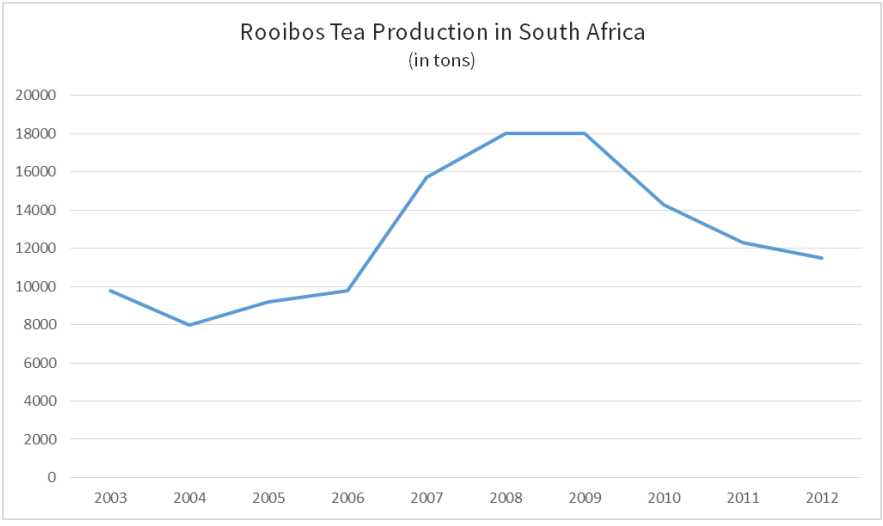
[148] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

Contrary to the domestic market which has remained quite stable, the export market has seen strong growth until 2007 (albeit for a short decrease period from 2003 to 2005). The export growth can, to a large extent, be attributed to new consumer trends in the main export markets, especially in Germany, and to the marketing initiatives of new business entrants. The popularity of rooibos among consumers appears to be strongly linked to its health attributes. In addition, the rise of rooibos exports can also be related to the fact that **most of it is exported in bulk loose leaf format (approximately 90 %),** which made it easily usable by importers and retailers.[149]
However, in recent years, the exports of rooibos have been sharply decreasing, especially to Germany which is the historical consumer market for rooibos (see the statistics of the Department of Agriculture of the Republic of South Africa below).



Exports of South African Rooibos Tea by country of destination 2003-2013
Source: BASIC, based on data from the RSA Department of Agriculture

This is partially correlated with the significant decline in production of rooibos tea since 2009.

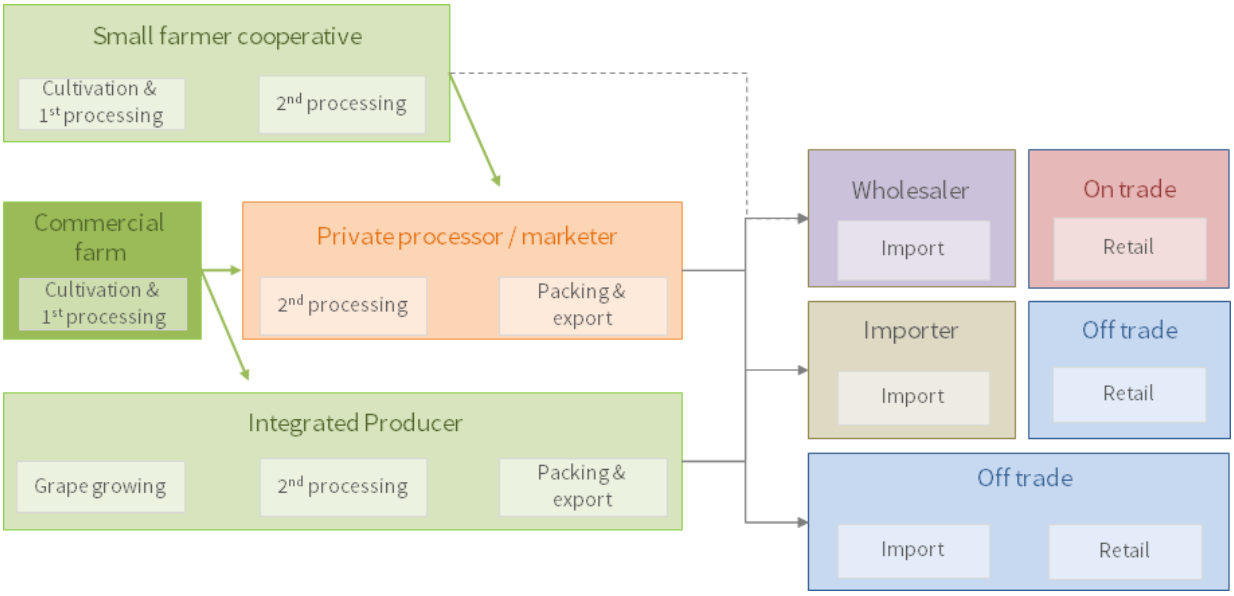


Production of Rooibos Tea in South Africa, 2003-2012
Source: BASIC, based on data from the RSA Department of Agriculture

[149] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

b) Rooibos tea value chains between South Africa and Germany

The supply chains pattern of rooibos tea imported in Germany can be sketched as follows:



Main patterns of South African Rooibos tea value chains imported in Germany
Source: BASIC

The German tea consumer market is relatively fragmented with many different companies offering a multitude of different teas. (Among market leaders for branded teas in Germany, specialized tea companies include Teekanne GmbH and the Ostfriesische Teegesellschaft GmbH (OTG) with their brands Messmer and Milford). In addition, **25% of the market consists of trademarks or private labels produced for supermarket or discounter chains**.[150]

In contrast, the German wholesale market for tea is dominated by 10 to 15 trading companies, who are the largest tea brokers in the world, the most prominent being Martin Bauer GmbH, Haelssen & Lyon, Gebr. Wollenhaupt GmbH and Kräuter Mix GmbH. They buy tea directly from the producer and add value to the product through blending, flavouring and packing**. More than 90% of the rooibos tea they buy is imported in bulk**, which further increases their market power and captation of margin along the rooibos chain.
Given this **monopsonistic situation faced by the South African rooibos tea producers** on the German market, competition is tough and the market is very price sensitive.[151]

A huge volume of rooibos is sold in bulk on annually negotiated contracts within existing commercial relationships. In addition, bilateral agreements can take place on a case-by-case basis. Importantly, there is **no significant market determining the price and there is generally a lack of transparency in the transactions**. New relationships are being established as new markets are opening in other countries (e.g. Argentina), but these markets are still very small and import limited quantities compared to the German market.[152]

[150] Arnold et al., 2007
[151] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.
[152] Ibid.

On the South African side, distribution, both on a local and international scale, is done by roughly 25 enterprises within South Africa. Most of these enterprises are also involved in business with other natural products, ranging from honeybush, other herbal teas and medicinal herbs to wine and cosmetics. In addition to the herbal tea industry, several other types of actors and companies are using rooibos as an ingredient, thereby using the name "Rooibos" in one sense or another.[153]

Looking at the export market of rooibos, three South African players account for more than 80% of annual export volumes.

Today, Rooibos Ltd. dominates the industry and retains the biggest market share domestically and at the export level. It controls over 60 % of the export market and more than 90 % of the domestic market.[154]

After Rooibos Ltd., **the second biggest processor is the Khoisan Tea Company[155]** with approximately 15 % of market share, followed by Coetzee & Coetzee[156] with about 10 % of market share. Khoisan Tea mostly sells Rooibos in bulk in particular to German importers who represent its major outlet.[157]

At the processing stage, the South African rooibos tea chain is currently dominated by 8 large processors equipped with the facilities to undertake secondary processing: Rooibos Ltd., Khoisan Tea, Coetzee & Coetzee, Cape Natural Tea Products (CNTP), King's Products, Red T Company, Big Five Rooibos Company and Maskam Redbush.[158]

Together, the 8 major South African players control an estimated 90 % of total annual production and are involved in all levels of the supply chain in South Africa to some extent. They collect and transform Rooibos, and either sell it to intermediaries or market it directly. Most second-level processors have also positioned themselves as marketers. Four of the processors have their own in-house packing facilities and also offer contract packing services[159], namely Rooibos Ltd, Red T Company, Khoisan Tea, and King's Products.[160]

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[153] Snyman (2007) indicated that there are currently three main manufacturers specializing in value-added products like extracts, instant powders, flavors, etc. (i.e. Afriplex (Pty) Ltd., Benedict Technology Holdings (Pty) Ltd., Cape BioCeuticals (Pty) Ltd.). In cosmetics, the market leader is Annique Skincare Products (Pty) Ltd. which is affiliated with Forever Young (Pty) Ltd., the company which sold the "Rooibos" name to Burke International and which was central in the US dispute. Generally, Rooibos cosmetics, toiletries, iced teas, etc. are contract manufactured and only form a small portion of suppliers' operations.

[154] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

[155] The Khoisan Tea Company consists of 3 separately registered companies: Khoisan Farming, Khoisan Tea and Khoisan Tea Import Export. Together they form a full service business, capable of farming rooibos, fulfilling primary and secondary production, and distributing bulk Rooibos and Rooibos products globally. Although the company farms some Rooibos itself, it buys its largest share from approximately 100 contracted farmers.

[156] Coetzee & Coetzee Distributors Company is supplied by contracted farmers from across the Western Cape and exclusively distributes and markets its products. Its customers include tea traders and importers and has its own agent/broker in Germany, who acts as a contact with the importers.

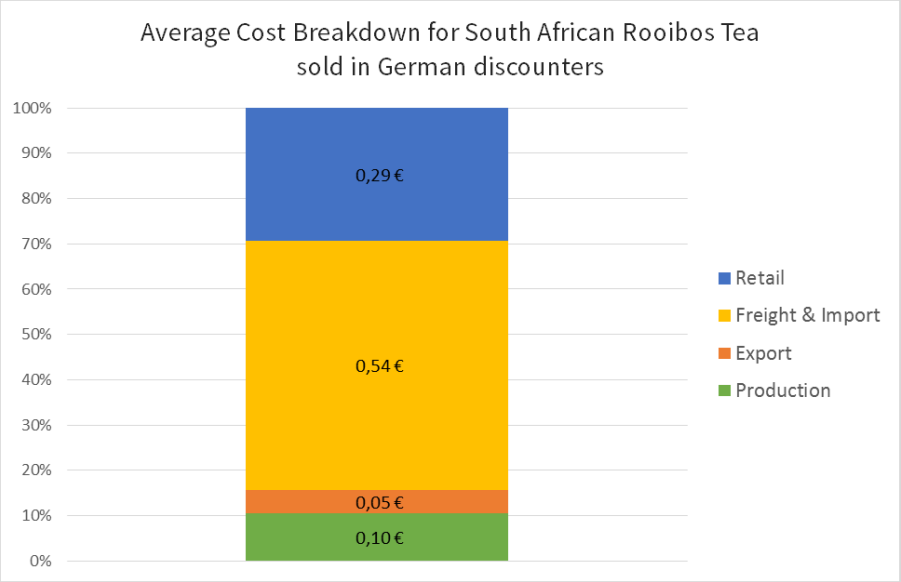
[157] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

[158] Ibid.

[159] There also exist packers, which are companies that specialize in end-consumer packaging. The larger is National Brands Ltd., a wholly-owned subsidiary of Anglovaal Industries. One new Black Economic Empowerment (BEE)

There are also few independent farmers who market rooibos under their own brands. Among these, the largest is the Big Five Rooibos Company which specializes in farming, processing and distributing only Rooibos from its own farm and is promoting its product as being "estate" Rooibos, using the concept of estate wines as a sign of quality.

This value chain analysis translates into the following average value breakdown of rooibos tea produced in South Africa and sold in Germany:



Cost Breakdown of South African rooibos tea sold in Germany
Source: BASIC, based on Rachel Wynberg, University of Cape Town

packing plant, Fair Packers (Pty) Ltd., was recently established in Cape Town for packaging tea from the small-scale farmers' cooperatives for the fair-trade market as previously mentioned.

[160] Snyman, 2007

c) Situation and evolution of the rooibos industry in South Africa

Rooibos is endemic to the Western and Northern Cape Provinces of South Africa and grows nowhere else in the world. Rooibos has been used since pre-historic times to produce a beverage. **This know-how has been passed down by the first people of South Africa, the KhoiSan to their descend people of the Suid Bokkeveld** (a harsh and dry land region situated in the Northern Cape Province of South Africa, at the Western edge of the Great Karoo plateau). Discriminated against because of the colour of their skin, the people of the Suid Bokkeveld spent the colonial and apartheid years at the margins of society.[161]

Originally collected in the wild, rooibos began to be cultivated on a commercial basis in the early 1900s. The first marketing of the product took place in 1904 in Europe under the Eleven O'Clock brand which is still in use. However, **the development of the Rooibos industry really started with its cultivation in the 1930s.**[162]
Because of its unique soil and climatic requirements and its association with other components of the local ecosystem, **rooibos has not been successfully cultivated anywhere else in the world**. The demand for it is therefore supplied from its only production area in the Western and Northern Cape Provinces, which is approximately 200 km long x 100 km wide only.[163]

In the context of apartheid, the coloured people of the Suid Bokkeveld provided the labour to establish the huge plantations of rooibos upon which most of the industry is still based today, while being prevented from participating in any benefits of the industry by racially discriminating policies and legislation.[164]
In 1948, in reaction to a crisis in the marketing of Rooibos, the Clanwilliam Tea Cooperative was established forming the basis of the Rooibos Control Board, which was appointed by the Minister of Agriculture in 1954. Until the 1990s, this state organization was the only actor engaged in processing and marketing Rooibos.[165]

The dissolution of the Rooibos Control Board in 1993 opened a deregulation period which transformed the industry from a regulated monopoly into a liberalised industry:[166]

- On the one hand, a public company still mostly owned by producers was established based on the physical and intellectual assets of the control board.
- On the other hand, many farmers broke away to form their own firms with King's Products (Pty) Ltd. being the first to establish a processing plant in 1996.

The chain of actors in South African rooibos tea is organised around 4 technical stages of production (see diagram below)[167]:

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[161] Orlando, Voice Consciousness and Space: The Suid Bokkeveld farmers and the Rooibos Tea Global Value Chain, University of Cape Town, 2013

[162] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

[163] Orlando, The Suid Bokkeveld farmers and the Rooibos Tea Global Value Chain, 2013 op. cit.

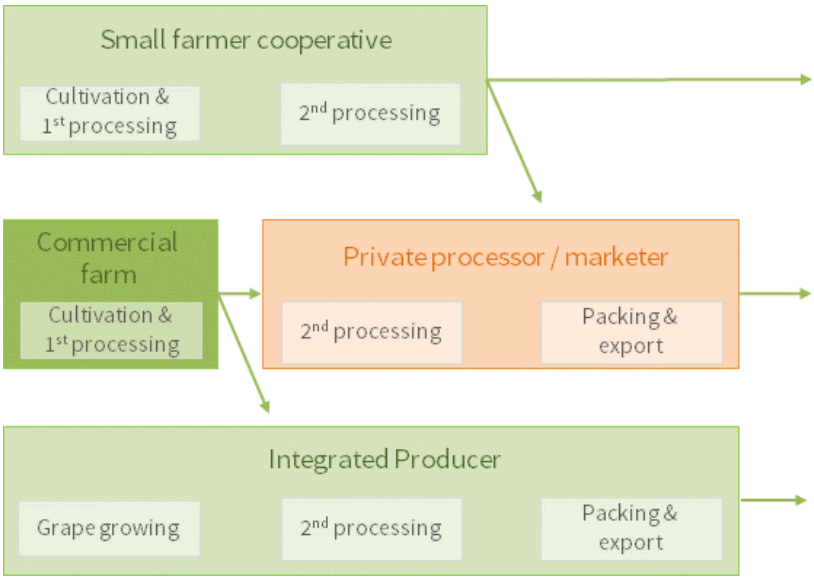
[164] Ibid.

[165] Bienabe, Bramley & Kirsten, The Rooibos Industry, 2009 op. cit.

[166] Ibid.

[167] Ibid.

- cultivation and harvesting of the plant;
- first-level processing that transforms the wet unfermented tea into red-brown tea at the tea court and is predominantly done at the farm level;
- second-level processing that includes pasteurization, sieving, dust extraction and is done at a processing plant by the processors;
- finally packing which is done by different actors in South Africa (or in consumer countries).



Main patterns of South African Rooibos Tea chains
Source: BASIC, based on Bienabe, Bramley & Kirsten (2009)

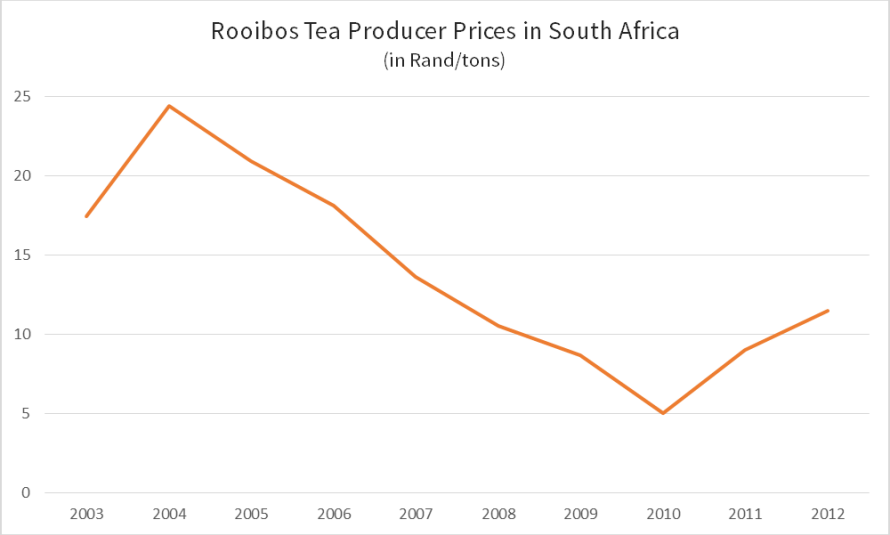
At the cultivation stage there are between 350 and 550 Rooibos farmers[168]:

- **On the one hand, there are a few large farmers** who cultivate up to 5000 hectares. Among these large-scale farmers, some are marketing their Rooibos directly under their own brand names.
- **On the other hand, there are a number of small-scale farmers**, with many of them being organized into two tea cooperatives that account for about 100 members actively involved in Rooibos farming. Each of these cooperatives owns 33.3 per cent of shares in a Rooibos packing facility in Cape Town. These cooperatives have been specializing in marketing organic and fair-trade Rooibos for exports. The combined output of small-scale farmers, including the two cooperatives, is estimated to account for 2.5 % of South African total production.

Around two thirds of Rooibos farmers (i.e. approximately 250) deliver their crops to one processor, Rooibos Ltd., being both shareholders and suppliers.

This monopsonistic pattern of the rooibos Tea chain in South Africa has translated in a **constant and sharp decline of producer prices for South African growers since 2004** (see diagram below) while the export volumes were in sharp increase. However, according to the RSA Department of Agriculture, rooibos tea average producer prices experienced a substantial increase since 2011, apparently due to the steady decline in production of rooibos tea during the same period.

[168] Snyman, 2007



Producer Prices of Rooibos Tea in South Africa (inflation-adjusted), 2003-2012
Source: BASIC, based on data from the RSA Department of Agriculture

KEY FINDINGS

- As an herbal tea with interesting health properties, rooibos is increasingly claiming its share of this growing market, with international demand expanding since 2001. However, Germany which is the historical market for rooibos tea outside South Africa, and accounts for almost half of its exports, has been in sharp decline over the past decade.

- While the German consumer market for tea is globally fragmented, wholesalers are highly concentrated. 10 to 15 trading companies dominate tea value chains in Germany which follow monopsonistic patterns.

- In South Africa, which is the only producer and exporter of rooibos tea in the world, 3 exporters make up 80% of annual exports and 8 processors (some of which belong to the previous exporters) control 90% of annual production. On the South African side too, the sector is monopsonistic and highly concentrated. This has resulted in strong price pressure on growers, at least until 2012 when rooibos production reached its lowest point since 2006.

6. Impact on farmers and workers in South Africa

In the post-apartheid era since 1994, the country has enjoyed steady economic growth. Government investment has contributed to notable social developments such as low-income housing and improved access to education, electricity, water and sanitation and social grants. These initiatives have had a positive impact on reducing poverty in the country.[169]

However, even if South Africa is considered as a 'middle income' country (ranked 32nd out of 190 countries in terms of Gross Domestic Product (GDP), **it continues to face significant human development challenges rooted in the legacy of South Africa's apartheid history**.[170]
These social development challenges include:[171]

- High unemployment rates over 20 %;
- Lack of widespread access to basic social services such as education and healthcare;
- The highest number of people living with HIV/AIDS (5.5 million);
- Life expectancy at birth of 51.5 years in 2008, ranking lower than other African countries such as Malawi (52.4) and Uganda (51.9);

Inequalities of income and wealth across race, gender and location also persist (with the wealthiest 10% of the population earning 58% of total national income) and poverty in townships and in rural areas continues to generate widespread alcohol and drug abuse and violence.[172]

a) The very difficult land reform and transition to farm co-ownership

Apartheid left behind a legacy of racial divide and economic inequality. **In the agricultural sector, most of the arable land was held by white people and export oriented agriculture was undertaken on large commercial farms, exclusively owned by some of them**. Small-scale black and brown ('coloured') persons were engaged in subsistence cultivation, situated on the margins of commercial lands or in the African homeland areas.[173]
When the South Africa's apartheid system came to an end in 1994, **85% of agricultural land was held by the minority of white farmers,** leaving the majority of black peoples limited to the former homeland areas and dependent on wage employment, rather than small-scale agricultural activities, for their livelihoods.[174]

To address this critical issue, the post-apartheid government decided to address this imbalance by strategically withdrawing from the economic regulation of the agricultural sector, but actively intervening in the social sphere to foster the re-entry of black farmers[175]:

[169] Fairtrade Foundation, Impact of Fairtrade in South Africa, June 2010

[170] Ibid.

[171] World Bank Country Brief: South Africa. http://go.worldbank.org/GSBYF92330.

[172] Leibbrandt, M. et al. Trends in South African Income Distribution and Poverty since the Fall of Apartheid, OECD Social, Employment and Migration Working Papers, No. 101, 2010

[173] Sustainable Livelihood Consultants, Impact Study of Fairtrade in South Africa, Synthesis Report, June 2010

[174] Fairtrade Foundation, Impact of Fairtrade in South Africa, 2010 op. cit.

[175] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

- On the one hand, the government initiated state deregulation in agriculture through the abolishment of marketing boards, the end of subsidies and the phase out of protective tariffs;
- On the other hand, the state launched a land reform, aiming to transfer 30% of commercial land to black people by 2015, but also extended labour and social rights to farm workers.

More specifically, the policies of land reform and black economic empowerment (BEE) put in place were the following ones[176]:

- **The land reform** established a legal framework and initiated a threefold reform strategy: land restitution (returning land to the dispossessed), land reform (purchasing land for black people) and land tenure reform. The objective of the government was to facilitate the transfer of 30% of commercial land by 2014 to historically disadvantaged individuals (HDI), including small-holder farmers.
- The **black ownership and empowerment** policy for the agricultural sector required all enterprises above a certain size to comply with measures to ensure a transfer of wealth and opportunities to HDIs. The government also sought to improve conditions for workers on commercial farms through specifying minimum wages and basic conditions of employment. All commercial farmers – regardless of size – were required to adhere to this Sectoral Determination for agricultural workers, issued by the Department of Labour.

However, the land reform didn't fulfil its promises. The sustained economic growth in the country's commercial agricultural sector over the past decade has pushed up land values so that the majority of farms for sale could only be afforded by existing wealthy land owners. As a result, many historically disadvantaged groups still have limited land ownership and very little control of agricultural production.[177]

Regarding the BEE, the South African Wine Industry was one of the first private sectors to adopt an equity-sharing scheme. The idea was to provide opportunity for farm workers to purchase equity and become beneficiaries of the farm where they were employed. The farm workers were also supported by the capital provided from the land redistribution grant or other development funds. The principle objectives of the scheme were to ensure greater income and sustainable capital assets to farm workers so as to close the gap between farm owners and workers.[178]
In 2007, the South African Wine Industry Council recognized that there had been **very limited impacts of BEE**: **less than 1 % of the wine land were under black ownership, management, and control**. This very slow empowerment of black people in the wine industry is often explained by the opening up of the South African export markets, causing the prime focus to be on 'getting the business going'. Even though major players such as KWV and Distell have completed Broad Based BEE transactions, these deals have been criticised for not representing any real empowerment in terms of uplifting the black farm workers in the industry with the lowest incomes and the poorest opportunities. Regarding small and middle enterprises, evaluation reports show they have largely adopted a wait-and-see strategy with regard to the BEE policy.[179]

[176] Ibid.

[177] Fairtrade Foundation, Impact of Fairtrade in South Africa, 2010 op. cit.

[178] Gray, Lyne, & Ferrer, 2004

[179] Melkeraaen, Black Economic Empowerment in the South African Wine Industry: Fair Trade, Power Relations and Socio-economic Rights, 2009

Regarding the **deregulation of the agricultural sector by the South African government,** it was initiated in a period of increasing integration of the country into global markets and agro-food restructuring fostered by global retailers at the international level. This has resulted in a much more fragmented producer base that is now bargaining with increasingly consolidated supermarket powers for a fairer deal.[180]

b) The situation of rural workers in South Africa, and its evolution

Today, around a million people work in the South African agricultural sector.

Alongside domestic workers, farm workers employed on South African farms remain among the most vulnerable and poorest section of the country's population.
Although labour law has been strengthened considerably since 1994, for example through policies specifying minimum wages and basic employment conditions, **many workers still face substantial social and economic challenges**, including[181]:

- **Salaries below the living wage level** which are often insufficient to provide a sustainable livelihood. As a result, most workers rely on government social grants to supplement their income.
- **Lack of job security and employment benefits**; workers are often employed on an informal basis without formal contracts nor entitlements such as maternity pay or sick leave.
- **Unsafe and difficult working conditions** as many of them are required to work long hours of overtime to meet demanding delivery schedules. In addition, workers are often exposed to harmful pesticides without adequate protection, especially in table grape and wine farms.
- **High levels of worker illiteracy, poor quality housing and lack of access to running water and electricity**. In addition, cases of eviction of farm dwellers by owners are being regularly reported (a 2005 study estimated that over 930,000 people were evicted from South African farms between 1994 and 2004)
- **A highly paternalistic approach** which creates tensions over black empowerment and provide black workers with little ability to negotiate on employment terms, to express grievances and to progress to managerial roles or take advantage of business ownership changes linked with Black Empowerment.
- **Gender inequality and discrimination** is also widespread on South African farms although women contribute to a very significant part of agricultural production.
- **Limited trade unionism in commercial agriculture**, as farm owners and managers are, in general, perceived to be hostile towards trade unions and workers are often fearful of dismissal to join one. **Estimates of union "density"** (i.e. the percentage of workers represented by trade unions) **in the Western Cape agricultural sector is as low as 3 %, compared to 30 % in the country's formal sector as a whole.**

[180] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[181] Human Rights Watch, Ripe with Abuse: Human Rights Conditions in South Africa's Fruit and Wine Industries, August 2011; Fairtrade Foundation, Impact of Fairtrade in South Africa, 2010 op. cit.
South African Human Rights Commission, 2008
Ponte & Ewert, 2009; Barrientos and Kritzinger 2004; du Toit and Ewert 2002; Kritzinger et al. 2004; Mather and Greensberg 2003

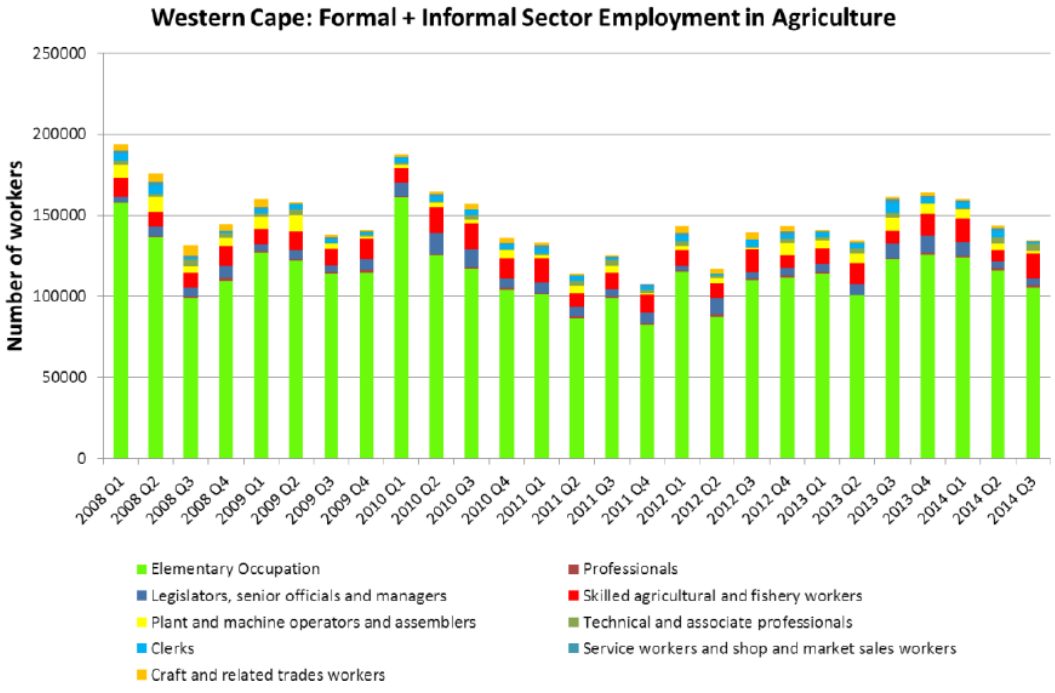
- **Vulnerability of seasonal and contract labourers** who are engaged for relatively short periods of time and often denied statutory employment benefits and formal contracts.

In the 1990s, the deregulation of marketing of agricultural produce, dismantling of state marketing bodies and reduction of state support to agriculture have resulted in substantial changes in the employment strategies used by commercial farmers.[182]

The extension of basic human, social and economic rights to farm workers - labour and employment legislation was brought to a minimum International Labour Organization (ILO) level and beyond - **resulted in increased levels of casualization and externalization** which were undertaken by commercial farms to mitigate the consequences of increased labour costs and growing costs of compliance with the labour legislation.[183]
This move was further fuelled by the development of new technologies which was triggered by the restructuring of the agricultural industry and the opening of new export market.[184]

As a result, many agricultural farms have reduced their workforce to a core of highly skilled permanent workers (who usually live on farm) **supplemented with less skilled off-farm seasonal and temporary labour.** This situation has been exacerbated by the recent global financial crisis.[185]

This resulted in a **net reduction of employment** in the agricultural sector since 2008, especially in the Western Cape Province that concentrates the majority of grapes and wine farms in South Africa (see below).



Employment in the agricultural sector in the Western Cape by main occupation group, 2008-2014
Source: Quarterly Labour Force Survey, 2008-2014

[182] Fairtrade Foundation, Impact of Fairtrade in South Africa, 2010 op. cit.

[183] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[184] Ibid.

[185] Ibid.

Seasonal and contract labourers are commonly employed on piece-work rates to do unskilled and physically demanding work. Many of them are recruited from traditional homeland areas or townships on the outskirts of towns through labour brokers or gang masters. Since the economic implosion of Zimbabwe, a stream of migrant workers has been brought into the labour market who, along with migrants from Malawi and Mozambique, are in some cases displacing further South African workers.[186]

A global process of minimization of the permanent labour force and casualization of low-skilled labour is therefore taking place in South Africa, especially in the labour-intensive sectors of table grape, wine and rooibos. [187]

This process has created a double divide: between farmers (who benefit from these changes and those who lose out) but also between workers (i.e. between permanent, on-farm workers versus seasonal, off-farm workers). The circle of "winners" – in both producer and workers communities - is increasingly shrinking, while the ranks of the "losers" are swelling. [188]

c) Conditions of farm workers in the grape and wine sectors

Workforce reduction, casualization and externalisation: the key trends in grapes and wine sectors

In order to cope with the economic pressures of international buyers, the dominant strategy of grapes and wine producers has been to **expand production to benefit from economies of scale, which increased subsequently the labour demand**, as a substantial proportion of harvesting activities of fruits and wine cannot be mechanised and is heavily dependent on manual labour. [189]

To offset this situation, grapes and wine employers have resorted to three main strategies[190]:

- they have made **substantial investments** to increase their productivity and **reduced their labour need** in the production process.
- they have **casualied their workforce**, employing more seasonal workers. While the bulk of seasonal workers are still employed only during peak production periods, a growing section is employed beyond the peak period, sometimes for more than nine months of the year.
- a third strategy has been to **externalise labour** in order to cut costs, to improve efficiencies, and to avoid the transaction costs of having to manage low-skilled workers.

In the wine industry, owners have managed to cut their permanent work force through **mechanisation**, and restricted the security of occupation on farms by hiring younger workers. These practices are gradually becoming the norm of labour management in wine farms.[191]

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[186] Ibid.

[187] RSA Department of Agriculture, A profile of the South African Table Grape market value chain, 2013 op. cit., RSA Department of Agriculture, A profile of the South African Rooibos Tea market value chain, 2013 op. cit. and RSA Department of Agriculture, A profile of the South African Wine market value chain, 2013 op. cit.

[188] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[189] Ibid.

[190] Ibid.

A survey conducted in 1997 on 104 wine farms found that 36% of producers made use of mechanical harvesters. By 2011, a VinPro discussion group put the use of mechanical harvesting at 51%. It is estimated that in the wine industry **one harvesting machine can replace as many as 70 workers per 12 hour shift** while offering important advantages for product quality management. However, mechanical harvesters are expensive and only major wine growers can usually afford these machine[192]

For perishable crops such as table grapes, the scope for mechanisation is limited and still very much in its infancy. Nevertheless, **the table grape industry has also suffered from important job losses** over the past decade. This is mainly related to the adoption of seedless grape varieties which require less labour as they can be chemically thinned by spraying gibberellic acid - a natural plant growth regulator - which cuts out the manual preparation work needed before harvesting. [193]

Beyond employment reduction, the **trend of casualization in table grape** is illustrated by the decline of permanent workers in this sector which fell from 28% in 2007 to 20% in 2010/11 (see table below):

	2008/9	2009/10	2010/11	2011/12
Region	**Ration of seasonal workers : to permanent workers**			
Berg	16:84	16:84	16:84	16:84
Hex River	**61:39**	**33:67**	**35:65**	**34:66**
Northern Province	33:67	33:67	22:78	22:78
Olifants River	18:82	17:83	19:81	18:82
Orange River	15:85	15:85	12:88	11:89
Average	**27:73**	**22:78**	**20:80**	**19:81**

Ratio of seasonal workers to permanent workers in table grape production by production region, 2008/9 - 2011/12
Source: SATI statistical year books: 2008/9 to 2011/12

In the wine industry, a research work commissioned by the ILO in 2014 found that among case study wine farms[194], the majority of **'seasonal workers' seemed to work for nine months of the year or more.** Similarly to table grape, **the ratio of permanent to seasonal workers on half of the farms was 20% or less.** [195]

The usual explanation of employers was that there were gaps of 2 to 3 months between key production periods when seasonal workers were not required. By appointing workers on long-term seasonal contracts, employers also avoided the costs associated with permanent employment and prevented more workers from acquiring ESTA rights (Extension of Security and Tenure Act). This appears to be an unforeseen consequence of the government's efforts to effect land reform and to promote security of tenure rights, which has exacerbated the process of casualization.[196]

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[191] RSA Department of Agriculture, A profile of the South African Wine market value chain, 2013 op. cit.

[192] Ibid.

[193] Ibid.

[194] the findings presented in this study are not necessarily representative of the entire sector, but aim to present a series of "snapshots" from across the country to highlight key pressures impacting on labour relations in the sector and how these are playing out in the work place. Case studies were chosen to gauge to what extent a range of factors have had an impact on labour management strategies.

[195] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[196] Ibid.

Emerging issues in grape & wine industries are labour brokering and use of migrant labour

Another significant evolution is the **increasing use of labour brokering on grapes and wine farms.** Among the Western Cape case study farms researched by the ILO in 2014, 6 of the 14 farms made use of labour brokers (two of which were certified by the ethical trade organisation WIETA and did much more extensive checks on their labour brokers than the others).
Farms using labour brokers most often mentioned the following benefits[197]:

- they could secure labour at short notice (which is a considerable advantage when a producer has to get his/her fruit harvested at optimal ripeness and is experiencing a shortage of labour due to adverse weather conditions);
- they do not have to provide housing to workers nor to contend with their social problems;
- they can "pick" only productive workers by looking at their track record for previous seasons.

This study also found that **some grapes and wine farms in the Western Cape made use of migrant labour** (4 out of the 14 case studies conducted by the researchers commissioned by the ILO), a tendency which is on the rise. Migrants came predominantly from the Eastern Cape, Lesotho and Zimbabwe and a small percentage from the Northern Cape.[198]
The use of migrant workers is somehow perplexing as farms are in most cases fairly close to areas of high unemployment; yet, they consistently complain that they struggle to find local workers prepared to do farm work. A third of producers interviewed expressed a preference for employing workers from Lesotho and Zimbabwe, claiming that they were more willing to work and more reliable than locals who "could fall back on social grants" and "were unreliable".[199]

The ILO research also gave indications that some migrants have begun to settle permanently in nearby communities, so as to enable their families to join them and to have better access to social services. **The perception that migrants accept lower wages than locals and that the so-called "inkommers" are taking away the jobs of locals is causing a lot of tension in rural towns**. The starkest example is the 2009-attack on Zimbabweans in the table grape town called 'De Doorns', when 7 people were killed.[200]

The **situation of migrant workers employed on farms** is quite complex.
On the one hand, **producers have a lot of control over them**, especially because they keep their IDs for the duration of the season, and do not have to build individual housing for them neither to provide them ESTA rights.[201]
On the other hand, **employers run the risk** of corporate visas being terminated by the Department of Home Affairs if one of its migrant workers is found working in another workplace. Across the case

[197] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[198] Ibid.

[199] Ibid.

[200] Ibid. "The majority of workers employed in the Hex River Valley are still South African. Foreign nationals respectively comprised 26% and 20% of the seasonal work force in season and out of season. When it came to permanent workers, foreigners made up about 4% of the workforce."

[201] According to a trade union organiser of FAWU interviewed by the ILO: "Producers have a lot of control over workers: they fetch them, they stay in compounds; they take them to the shops; they give them credit at the beginning of the season to buy food; they keep their IDs for the duration of the season as an insurance; and then they decide when the workers will go back again."

studies conducted by the ILO, producers who used migrant labour reported having stepped up controls to curb the use of illegal migrants, but complained that they struggled to identify who was local and who not, and that many migrants had false IDs.[202]

Wages and working conditions in the grape and wine sectors

In 2013 the Western Cape's Department of Agriculture commissioned a study to assess farm workers' welfare **in the Western Cape: among the 925 employed workers interviewed, 69% of participants had an income between 1,500 Rands (105 Euros) and 3,000 Rands (210 Euros) per month, corresponding to 3.5 to 7 Euros per day**.[203]

In the case of grape and wine sectors, the study commissioned in 2014 by the ILO found the following results among the farms researched:

Type of farm	ID	% workers earning more than R4500/month (i.e. 300€/month)	% of workers who earn more than R150/day (i.e. 10 Euro per day)
Wine farm	Farm1	44%	81%
	Farm 2	20%	38%
Table grape farm	Farm 5	3%	15%
	Farm 6	0%	25%
	Farm 10	7%	7%
	Farm 12	0%	0%
	Farm 13	1%	3%
Wine and fruit farm	Farm 8	0%	3%
	Farm 14	4%	6%

Spread of wages across case study farms in the Western Cape
Source: BASIC based on Visser and Fesser, ILO, 2015

As detailed in the above table, only one farm which produced a high quality, niche product and invested in its corporate image, maintained a high wage premium. This farm was however the exception. In all other cases, the **majority of permanent workers only earned the minimum wage** (2420 Rands per months in 2014, following a 52% increase in March 2013).
Research indicates that this wage level is insufficient: a BFAP study conducted in 2012 found that a four-person household, where both adults earned 150 Rands (10 Euro) per day, would not be able to buy enough food to provide its family with a nutritionally-balanced daily food intake.[204]
Across the case studies, the researchers also found that skilled positions were better remunerated (such as supervisors, tractor drivers, chemical sprayers, workshop mechanics and lorry drivers).

Many producers interviewed for the ILO study argued that they paid a range of bonuses and benefits on top of base wage rates (free or subsidised crèches, subsidised medical expenses, community halls, sports fields, free transport to local town, land for workers' livestock or vegetable gardens…), which highly increase the total package received by workers as well as the labour costs.

[202] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[203] Ibid.

[204] Bureau for Food and Agriculture Policy (BFAP) Farm Sectoral Determination: An analysis of Agricultural Wages in South Africa, December 2012

However, farm owners have been reported to **start deducting money from workers' wages for services previously provided for free** in order to cut labour costs following the 52% increase of the South African minimum wage in March 2013.[205]

In addition, while **piece work is endemic to the fruit industry**, the contracts of workers selected for interviews by the ILO didn't mention the piece work rate. Surprisingly, the minimum wage law in the South African agricultural sector (Sectoral Determination 13) does not mention how the piece work rate should be calculated or whether the piece work rate should be agreed upon in writing. In addition, **there is no obligation on producers to pay workers the minimum daily wage, they just need to pay workers the hourly wage** for the number of hours that they have worked.[206]

Where no alternative work is provided, this enables **farm owners to transfer the risks onto the most vulnerable workers** (the ILO study found that one of the common policies adopted by producers was to reduce the number of hours worked per day in order to cut labour costs).[207]

In terms of labour rights and working conditions, the ILO study found that **compliance with key labour and health and safety rights was generally high across all grapes and wine case studies** for permanent as well as seasonal workers. However, seasonal workers were less likely to receive sick leave than permanent workers, and the majority of workers reported that they had to provide a doctor's or clinic note even if they were ill for only two days or less (which created costs for workers that were not always taken in charge by their employer).[208]

Regarding unionisation, the ILO study found that **only 14% of permanent workers and 8% of seasonal workers belonged to a union in the grapes and wine farms under investigation**.
While FAWU is the dominant agricultural union in the country, there are several smaller unions competing with each other in the Western Cape. The fragmented union landscape has been attributed to the absence of a strong, national union focussing specifically on farm workers. In addition, about 10% of the workers interviewed said they were stopped or prevented from joining a trade union. Quite often though, producers did not say or appear to do anything to dissuade workers from joining a union, but workers nevertheless had the perception that dire consequences might follow if they joined a union.

Finally, divisions between workers do not exist only in the union movement, but also in the workplace: during the interviews conducted by the ILO, several workers commented on the hierarchical relationship between permanent workers who stay on-farm, permanent workers who stay off-farm, and seasonal workers. In the Western Cape, there is also a racial split between farm workers due to fact that the majority of permanent workers are still Coloured, while the bulk of seasonal workers are African.

[205] Visser and Fesser, Farm Workers' Living and Working Conditions in South Africa, ILO, 2015 op. cit.

[206] Ibid.

[207] Ibid.

[208] Ibid.

KEY FINDINGS

- In the aftermath of apartheid, the South African government decided to address discrimination and economic imbalances between the minority of white farmers and the majority of black rural people, by strategically withdrawing from the economic regulation of agriculture, and by actively intervening in the social sphere to foster the re-entry of black farmers.

- These reforms were initiated in a period of increasing integration of the country into global markets and agro-food restructuring fostered by global retailers at the international level. This has resulted in a much more fragmented and vulnerable producer base in South Africa that is now bargaining with increasingly consolidated exporters in South Africa and supermarket chains in Europe, especially Germany.

- These reforms didn't fulfil their promises, especially in the grape and wine sectors. Global reduction in employment has been taking place over the past decade; casualization and externalization have been developed by commercial farms in order to mitigate the consequences of increased labour costs. Many agricultural farms have reduced their workforce to a core of highly skilled permanent workers (who usually live on the farm) supplemented with less skilled off-farm seasonal, temporary and migrant labour. Finally, the minimum salaries imposed through regulation remain below living wages according to recent studies of public authorities (even with the 52% increase which took place in March 2013).

d) Degradation of the environment

While a third of South Africa receives sufficient rain for crop production, only a third of this area **(approximately 12% of the country) has fertile soil**. Most of this is marginal for crop production and less than 3% of South Africa is considered as high-potential land. The country is also characterised by **water scarcity and extremely variable rainfall**. Climate change predictions are that rainfall will be more infrequent but more intense, which will shrink the country's arable land and increase agricultural unpredictability.[209]

Declining farming profitability and water scarcity (drought, declining rainfall or over-demand for water) has left South Africa with less than two-thirds of the number of farms it had in the early 1990s. The remaining **farms have generally increased their irrigation** (only 1.5% of the land is under irrigation but it produces 30% of the country's crops), **fuel, fertiliser, mechanisation and genetically modified seed inputs**. In many cases, advisory services provided by fertiliser companies and agribusinesses have entered the vacuum of the under-resourced government extension services.[210]

[209] WWF, South African Agriculture: Facts and Trends, 2010

[210] Ibid.

More than 5 million hectares (more than double the size of Kruger National Park) of cultivated land have already been **seriously acidified in South Africa** and an estimated **260,000 ha of irrigated land is affected by salinization** (about 15,000 ha of this is serious enough to limit the choice of crops to salt-tolerant species only and would require costly rehabilitation).[211]

In this context, **grapes and wine production exert a strong pressure on the limited natural resources of South Africa** because they demand significant amounts of water and irrigation as well as high levels of chemical inputs due to their monoculture production model.

e) Responsibility of German value chains regarding social and environmental impacts in South Africa

If the impacts detailed in this section cannot solely be attributable to German buyers and value chains, **the strong pressure on price generated by the German retailers, especially discounters (and to a lesser extent by German importers), has nurtured and strengthened many of these negative social and environmental consequences**. Moreover, the practices of German major buyers have fostered profound structural changes in the value chains studied (table grape, wine and rooibos), which in turn are likely to make these impacts long-lasting.

Reversely, the existing dynamics at stake in the South African agricultural sector (deregulation, industrialisation of agricultural production, concentration of market power, abuse of workers' rights and discrimination, etc.) have **enabled and encouraged the low price demand of German large retailers and importers.**

[211] WWF, South African Agriculture: Facts and Trends, 2010 op. cit.

7. Alternatives to conventional trade and their impact on the ground

Since 1994, **successive South African governments have faced the ethical and developmental challenges of post-apartheid transformation**, and tried to dismantle the racially delineated disparities that rank the nation amongst the most unequal in the world.[212]
As detailed in the previous chapter, **both NGO reports and academic research continue to reveal** high levels of exploitation, including low wages, poor working conditions, increasing use of casual labour, an absence of black people in managerial and ownership positions, and discrimination against women. In spite of legislation aimed specifically at black economic empowerment, **the deeply conservative character of the table grape, wine and rooibos tea industries, and the fact that they are capital and skills intensive, means that transformation still lags behind other sectors**.

Despite this, and probably also because of it, the table grape, wine and rooibos tea industries have witnessed a **proliferation of voluntary codes and standards aimed at driving transformation**.

These cover a wide spectrum of aspects of labour conditions, production, processing, and quality management. They include technical codes and standards, including **ISO 9000** (quality management) and **ISO 14000** (environmental management) and Hazard Analysis and Critical Control Point (**HACCP**) systems for food safety. They also include social codes, such as the Wine and Agricultural Ethical Trade Association (**WIETA**) code, **Fairtrade** certification, internal industry-wide audits and 'awards', such as the Rural Development Network's (**RUDNET**) Farm Health Award Programme, and the **Wine Industry Charter**. Voluntary standards also cover **organic and biodynamic** certifications as well as **Protected Geographical Indications**.[213]

a) Regulatory codes and certification schemes

Food standards have become particularly important and growers have become increasingly subject to retailers' efforts to reassure consumers about food safety and quality. The most significant technical standards within the South African industries studied are the Global GAP (for table grape), the BRC (for table grape and wine), plus the national Integrated Production of Wine (IPW) Scheme. More recently, Wines of South Africa (WOSA) has developed a marketing initiative called "Variety is our Nature", which follows on the Biodiversity Wine Initiative (BWI) and the integration of biodiversity guidelines in the IPW scheme.[214]

In particular, the IPW is a very good illustration that even when initiatives emerged from within the local industry, the main imperative is conformity with Northern-defined international standards. Originally a semi-regulatory system providing guidelines that conform to international standards for 'Good Agricultural Practices' for farms and 'Good Manufacturing

[212] Bek et al., 2007

[213] Bek and Mc Ewan, The political economy of alternative trade: Social and environmental certification in the South African wine industry, 2009

[214] Ibid.

Practices' for processing facilities (Cellars for wine, Processors for Rooibos), the IPW eventually became a technical code and market-based instrument, which reinforces the systems management approach to food safety and environmental and social protection.[215]

However, these technical codes concerned with food safety and environments do not address social development outcomes of employment. In this context, the South African legislative imperatives requiring transformation have played a role in the **emergence of industry certification schemes based on social codes**. Again, the requirements of the North are significant, since South African produce is still vulnerable to consumer sensitivities towards survival of apartheid working practices.[216]
These schemes address issues such as labour practices and working conditions (WIETA), poverty, alcoholism, limited education and poor health on farms (RUDNET) and empowerment of farmers and workers (Fairtrade). **They operate within the context of the limited role currently played by the South African government in enforcing labour standards in agriculture through BEE legislation**. In the absence of legislative requirements to transform the industry, social codes and civic conventions are likely to remain of significance. One of their main challenge remains not to reflect the entrenched paternalistic attitudes of farmers towards their workers.[217]

As a result of these dynamics, **the South African industries studied (table grape, wine and rooibos tea) are currently replete with competing technical, social and environmental certification schemes**, some of which are driven by external agents (in particular Northern retailers) and involve third-party certification, and others that have emerged from within the local industry and are largely self-certifying systems. Certification is thus becoming a site of struggle over who defines quality standards and how these become codified in conventions, who determines certification practices, and who controls commercial channels through which certified goods are distributed to consumers.[218]

More recently, the South African agricultural sector is currently witnessing **important convergences between social and environmental concerns**. Northern consumer pressure require sustainability to encompass both social and environmental sustainability, with the latter also being closely linked with organics. **Ethical, fair trade, organic and environmentally-sustainable initiatives are beginning to overlap. It remains to be seen which of these schemes can maintain sufficient distance and impetus to create meaningful transformation in workers' lives and truly sustainable agricultural production.**[219]

[215] Bek and Mc Ewan, The political economy of alternative trade: Social and environmental certification in the South African wine industry, 2009

[216] Ibid.

[217] Ibid.

[218] Ibid.

[219] Ibid.

b) Focus on the impact of Fairtrade certification

As with ethical trade, the South African table grape, wine and rooibos tea industries have played a pioneering role in the development of fair-trade in the country over the past decade.
Fairtrade is most developed in the South African wine sector and South Africa is the largest Fairtrade wine producer in the world, exporting in excess of 12 million Litres to over 20 countries (which represented 2% of South African wine volumes exported in 2013).[220]

The independent impact studies conducted in 2008 and 2009 in key certified producers enable to have an overview of the impact of the Fairtrade labelling initiative at that time in South Africa[221].

Regarding small producers in the rooibos tea and raisin sectors, Fairtrade has helped to strengthen the small-farmer agricultural co-operative through:

- providing access to a **high value market** and supportive relationships with a network of buyers
- financing premium projects that have **improved the productivity** and competitiveness of the farmer members (e.g. development of a fair trade packing facility,
- generating **higher prices to small farmers** in the case of rooibos tea
- **deepening democratic procedures** in governance structures,
- providing funds via the Premium to sustain a permanent office and cover the salaries of administrative personnel and leadership,
- leveraging support from various organisations / initiatives to support the farmers,

Fairtrade has **enhanced the self-belief of small-scale farmers** in their ability to produce high quality raisins. Fairtrade has also strengthened the position of co-operatives to bargain with local processors and acquire greater value for the farmers through exporting their product.
However, most small farmers are reliant on non-farm income, whilst those producers with the resources (land, capital and labour) to invest more heavily in agriculture had the tendency to turn to non-Fairtrade products. In addition, the rapid entry of new Fairtrade producers has negatively affected the benefits of already certified producer organisations.

Regarding wage workers in the table grape and wine sectors, Fairtrade has **supported good labour practices** and enhanced social responsibility in the hired labour enterprises. The standards have set a reference point for the improvement of working conditions in terms of contractual relationships and policies, Fairtrade has **reinforced the need for internal control systems and protective equipment** to assure worker health and safety. In all the enterprises studied, wages have been above the statutory minimum.

The Fairtrade **BEE policy has assured workers a shareholding in small and middle enterprises**. However, the evidence indicated that the policy has leveraged limited transformation in terms of workers' empowerment. There have been few HDI managerial appointments and BEE models did not provide workers with enhanced job security or rights protection.

[220] Fairtrade South Africa website, http://www.fairtrade.org.za/content/page/commodities, visited in April 2015

[221] Sustainable Livelihood Consultants, Impact Study of Fairtrade in South Africa, Synthesis Report, June 2010

The workers committees have **created a channel for communication with management** and given workers a unified voice in articulating their concerns. There is evidence that Fairtrade has improved the work culture at some sites. The scale of this benefit correlates to the extent to which the enterprise was engaged in participatory management style prior to entry in Fairtrade.

The Fairtrade Premium has had an indirect, positive impact on worker livelihoods through, inter alia, child care support, subsidies for schooling and education, adult basic education and training. Despite the impact, **the use of the Fairtrade Premium has also created tension** between the development needs of the broader community, the need for investment in the enterprise to effect improvements in worker conditions, and the demands of workers for material gains in accordance with their sense of entitlement.

In environmental terms, Fairtrade has, to varying degrees, bolstered good agricultural practice (especially in soil conservation) and supported a shift towards sustainable production. Fairtrade has had less impact, however, on reducing the continued high dependency on agro-chemicals. It has much greater impacts on environmental issues when combined with organic certification.

As Fairtrade market opportunities and product demand are uneven, those enterprises and organisations which have benefited most have been able to extend their business interests along the value chain (through processing and branding) and have been able to target specialist niche segments (Fairtrade & organic).