THE WINE INDUSTRY TRANSFORMATION CHARTER

PREPARED BY THE WINE CHARTER STEERING COMMITTEE

CONSULTATIVE DRAFT 1

AUGUST 2006

INVITATION

This document presents the **First Consultative Draft** of the Wine Industry Transformation Charter, whose purpose is to fundamentally transform the wine industry within the context of a growing and profitable wine industry. This draft of the Charter consists of three Chapters and two Annexures. The Wine Charter Steering Committee (WCSC) has deliberated at great length on the contents of Annexure 1, and is satisfied that the information contained there represents a balanced and up-to-date view of the South African wine industry, and the context within which it operates. From this analysis, the WCSC has identified the main challenges facing the industry (Chapter 1) and proposed a vision for the transformation of the industry, along with the principles upon which such a process must be based (Chapter 2).

Chapter 3 presents the **initial views of the WCSC** on the Balanced Scorecard for the wine industry. It is important to note that the final Wine Industry Scorecard will in all likelihood differ from that proposed here, because:

- The Balanced Scorecard for the wine industry will have to be aligned with the AgriBEE scorecard, and will have to be synchronised with the Liquor Industry Scorecard.
- The final dti Codes of Good Practice, expected to be available only in the second half of 2006, will provide further guidance on the Scorecard.
- Inputs from the consultative process described below will be incorporated into a final Charter.

Nevertheless, the WCSC intends to motivate to dti to have this Charter gazetted under Section 9 of the Broad-Based Black Economic Empowerment Act, which will give the Charter the same status in law as the Codes of Good Practice.

The main reason for the release of this First Consultative Draft is to provide stakeholders in the industry with the opportunity to comment on the initial proposals of the WCSC. In this regard, the WCSC welcomes comments and advice on two aspects:

- Comments on the draft Scorecard, the expected contribution that it could make to transformation of the industry, and the problems that can be anticipated in the adoption of strategies for transformation as guided by the Scorecard.
- Advice on the next steps that should be taken to arrive at a final draft of the Charter. This will include further chapters on:
  - ⇒ a) Industry strategies to support transformation projects and programmes across all the elements of the Scorecard; and
  - ⇒ b) The institutional structuring of the Wine Charter Council, institutions to implement the support strategies, and institutions to monitor progress with the implementation of the transformation strategy.

To this end, the Wine Charter Steering Committee invites all stakeholders who wish to comment on this First Consultative Draft Charter to send their comments in writing to:

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Preamble

At a path-breaking meeting on 30 October/1 November 2003, a representative Consultative Conference on Black Economic Empowerment in the South African wine industry, staged by the South African Wine Industry Trust (SAWIT) in coordination with the South African Wine & Brandy Company (SAWB), mandated these two bodies to proceed with the drafting of a WineBEE Charter. To this end, the Wine Charter Steering Committee, an independent body, was established, with broad representation from all directly affected groups in the wine industry. The WCSC elected Gavin Pieterse to Chair the process.

A Business Plan, adopted by the WCSC in March 2005, directed this process. The organisational structure for the WCSC is presented in Figure 1c in this Charter document.

The following directly affected groups have participated as full members of the WCSC:

Agricultural Workers Association of SA (AGRIWASA)	Black Alliance for the Wine and Spirits Industry (BAWSI)
Cape Winelands District Municipality	Cape Women's Forum
Disabled groups	Food and Allied Workers Union (FAWU)
Independent Unions Group (ITUF)	National African Farmers Union (NAFU)
National Union of Food, Beverages, Wine and Allied Workers (NUFBWSAW)	Olifants River Black Economic Empowerment Forum (ORBEEF)
Rural Development Network (RUDNET)	Siyanda District Municipality
SA Liquor Brandowners Association (SALBA)	SA Vintners Association (SAVA)
VinPro	Wine Cellars SA (WCSA)
Winelands District Municipality	Wine Tourism
Wholesale Merchants Forum	Women in Wine
Women on Farms Project (WFP) Centre for Rural Legal Studies	Youth Groups

Technical support to the process has been supplied by:

- South African Wine and Brandy Company (SAWB)
- South African Wine Industry Trust (SAWIT)
- Wine Charter Technical Team
- Wine Charter Advisory Council

The Technical Team included:

Dr CJ van Rooyen (Chair)
Dr G van Wyk (Secretariat)
Prof N Vink (Editorial and Drafting)
Prof WE Kassier (Baseline study)
E Mouton (HR Task Team)
R Kennedy (Preferential Procurement Task Team)
S Hobson (Ownership Task Team)
Prof F Kotzé (Residual Task Team)
B Stemmet (Social and HR Issues)
Dr ASM Karaan (Economic Issues)
Sharron Marco-Thyse

The Technical Team was able to draw on the expertise of an Advisory Panel:

Anzill Adams	Independent Winemaker
Sharron Marco-Thyse	CRLS
Kevin Lester	Cliffe Dekker
Santi Basson	NGO's
Chris van Wyk	EXCEED Consultants
Christiaan v/d Merwe	Exceed
Kunyalala Maphisa	Jan S de Villier Attorneys
Martin van Zyl	Minerals & Energy: consultant
W E Kassier	Agri consultant
Tobias Doyer	AgriBEE
Achmat Chippendale	Ithemba Labs: Water specialist
Vukile Mafilika	SAWB
John Barnardt	Nedbank

Context

The purpose of this First Consultative Draft of the Wine Industry Transformation Charter is to provide the strategic framework and the initial Scorecard for the wine industry. To ensure coherent and integrated benchmarking, target setting and implementation, this Charter has been calibrated with the Codes of Good Practice as released by dti, as well as with other relevant BEE Charters, such as the proposed AgriBEE Charter and the proposed Liquor Industry Charter.

During its deliberations, the WCSC has produced **seven working drafts** of this Charter. This **First Consultative Draft** will be followed by at least two further consultative drafts, as the WCSC is able to take on board a) the comments on the draft Charter from stakeholders in the industry; and b) the final Codes of Good Practice as they are released by dti.

It is important to note that Black Economic Empowerment in the Wine Industry (WineBEE) is part of a wider process that is being undertaken in terms of government strategy as spelled out in the Broad-based Black Economic Empowerment Act, No 53 of 2003, whose purpose is to achieve broad-based economic empowerment of black persons, "a generic term, which means indigenous Africans, Coloureds and Indians". In this Act, BEE is defined as a process that "brings about significant increases in the numbers of black people that **manage, own and control** the country's economy …" This includes ownership and management of "community and broad-based enterprises … and cooperatives". The aim of the Act is to achieve **"accelerated and shared economic growth".** While the programme encompasses the whole South African economy, the focus is on the priority sectors that the government has identified in its micro-economic reform programme. These priority sectors include agriculture and agro-processing.

These aspects must be seen within the context of the WineBEE Charter as a mechanism to grow the industry to its fullest potential rather than only as a programme to redistribute current assets. The emphasis, therefore, falls on the 'redistribution of opportunities' to ensure that the industry has access to its fair share of the entire pool of human, financial, and institutional capital available in the South African economy. In this sense, the WineBEE Charter gives full effect to the Broad-based Black Economic Empowerment strategy of South Africa.

1. THE BEE CHALLENGES IN THE WINE INDUSTRY

The WCSC has conducted a detailed analysis of the South African wine industry (reported in Annexure 1 to this Charter). This shows clearly that the following unique characteristics of the industry should drive the transformation agenda:

- **A highly skewed ownership regime:** The wine industry is characterised by a relatively large number of *ad hoc* land reform and other BEE initiatives at firm and industry level, and an inventory of these projects is available. Nevertheless, effective black involvement in the industry is limited, with, for example, less than one percent of the land under wine grapes under black ownership, management or control. Land reform and the transformation of primary production in general will, therefore, be an important element in BEE in the wine industry, but should not be the only dimension of asset ownership transformation, nor should it be accomplished to the exclusion of the other elements of the broad-based empowerment strategy.

- **A history of problematic labour relations:** This is an issue that always has the potential to divide an industry, yet few can argue the need to change the nature of labour/management relations, to improve the level of skills of workers and hence their productivity, capacity and social capital development, to combat alcoholism among workers, to improve their standard of living and quality of life, and to provide opportunities to enhance ownership and participation. The experience of the wine industry has furthermore shown that successful empowerment amongst workers requires investment in the nurturing and building of social and economic networks and the institutional bases that are needed for communities to function and be representative at industry level strategy development.

- **The current reality of farm evictions:** The analysis has shown that permanent farm workers are becoming more skilled, and are therefore better paid. However, the permanent farm worker force has been reduced in a process of the casualisation of labour. In addition, farm dwellers are vulnerable to evictions from farms when a worker retires, dies, is dismissed, or the farm is sold. In these cases the entire family suffers.

- **Economically viable and market driven BEE:** The industry was controlled by statute for decades and is, since the early 1990's, still in the process of adapting to market forces. While this has not been a painless process, few in the industry argue for a return to the controls that existed. Global change and South Africa's renewed access to the international market have created exciting new opportunities for the industry. Black Economic Empowerment legislation focuses on the creation of an entrepreneurial class amongst historically disadvantaged South Africans. By implication, empowerment and transformation programmes in the wine industry must, therefore, be market based and business driven.

- **The importance of becoming integrated into the value chain:** Experience has shown that the future success of the wine industry depends on the extent to which it succeeds in managing the entire value chain in order to enhance the global competitiveness of the industry. This means that value chains have to be developed as an integrated network rather than as a series of functions with a linear connection. The liquor licensing process for trade and manufacturing will, for example, trigger responses throughout the wine industry. Coordination between the Wine Industry Charter and

Liquor Industry Charter will therefore be important. Benchmarking and target setting in each sector of the wine value chain should thus be coordinated and integrated to synchronise all triggers and possible overlaps. It is also important that reinforcing empowerment programmes are implemented in all spheres of the value chain if they are to result in meaningful change. This will include farming, wine production, trade and distribution and all related services. The various avenues for empowerment that result from this comprehensive approach have the added advantage of catering for the different needs and capacities of the participants in empowerment programmes.

- **The need to support human social capital development and to mobilise knowledge, business acumen and capital:** The wine industry is capital, skills, knowledge and management intensive, and it is becoming increasingly technology intensive. Sustainable empowerment programmes demand support to the participants. In this regard, State programmes should be seen as only part of the support required by participants, and industry initiatives should aim to complement State programmes and fill gaps. Mentorships and learnerships will play an important role in this process. Human and social capacity development through training, education, networking, representation and social upliftment should drive and sustain the BEE process.

2. THE VISION FOR ACHIEVING BEE TARGETS AND TIMETABLES

By taking all the unique characteristics of the wine industry into account, the industry is declaring its belief and intent that it needs to address transformation in the context of economic development, equity and social development issues comprehensively in order to build its global competitiveness, and hence the economic base to achieve racial and social balance and environmental sustainability. In situations of conflict the focus should always be directed towards a "win-win" solution. A shared vision, principles, goals, strategies and mechanisms to support such outcomes should guide the application and implementation of the programme. Where the wine industry interacts with other sectors, it is equally important to establish a shared vision.

2.1 The Vision for Wine-BEE

In line with the "Broad-based BEE" legislation, the Wine Industry Strategy Plan (WIP) and the AgriBEE policy statement, the **Vision** for BEE in the wine industry is **"sustainable economic and social black empowerment through growth in the South African wine and brandy value chain to achieve a representative, united and prosperous wine industry"**.

The objectives of WineBEE are to:

- Actively facilitate meaningful, equitable access to and participation in the entire wine industry value chain;

- Contribute to the deracialisation of the political economy of the South African wine industry;

- Contribute meaningfully to gender equality in the South African wine industry;

- Transform the wine industry by substantially increasing Black ownership, control and management of land and enterprises throughout the wine industry value chain;

- Enhance the power of diversity by unlocking the full entrepreneurial and skills potential of all for vibrant growth and development of the wine industry;

- Encourage and facilitate structural realignment in the financial, research, information, educational, extension, etc. support system in order to make them better able to assist black South Africans in owning, controlling, establishing, participating in and managing wine industry enterprises;

- Make a significant contribution to the alleviation of poverty and eradication of related social pathologies, which as a consequence will lead to upliftment and the restoration of human dignity; and to

- Establish industry benchmarks in order to (a) lower access barriers to resources and support services for the benefit of the target group; and to (b) provide the rationale and cogent argument for effective partnerships, mentorships and ventures between existing operators and new entrants.

2.2 Design principles for the WineBEE Charter and Industry Scorecard

The purpose of the Wine Industry Charter and Scorecard is to facilitate the vision and the achievement of the goals and to align and focus all sectors of the wine industry value chain into coherent strategic activities, to create synergies within the industry and to provide a measurement of progress.

The ten key principles of such a Charter and Scorecard are:

1. A focus on the creation of growth and new business opportunities rather than the redistribution of existing opportunities only.

2. Encouragement of local participation as a vehicle to form meaningful partnerships in the industry.

3. A focus on the specific characteristics of the wine, brandy and grape juice concentrate sectors of the industry and on the entire value chain.

4. A focus primarily on designated black groups in the industry to enable broad-based empowerment.

5. The creation of investor confidence by establishing a growth with equity focus, ensuring greater transparency and clear "rules of the game".

6. A focus on human development as a key driver of sustainable economic empowerment.

7. The establishment of partnerships between industry and Government.

8. Establish industry level benchmarks and "Codes of Good Practice", to facilitate implementation, measurement and evaluation.

9. The establishment of complete alignment between related industry and sector charters.

10. The provision of flexibility within the industry by allowing stakeholders to set their own targets and pace, in consultation with the stakeholders in that enterprise and within agreed guidelines and industry benchmarks. This is especially important in an industry where firm size varies from small farms to large corporations.

These principles are aligned with the five key values of the formal BEE strategy, namely:

- BEE is broad-based
- BEE is an inclusive process
- BEE is associated with good governance
- BEE is part of the country's growth strategy
- BEE is a voluntary commitment by the participants

3. THE BALANCED SCORECARD FOR THE WINE INDUSTRY

The purpose of this Chapter is to present the initial Balanced Scorecard for the Wine Industry Transformation Charter, including arguments for deviations from the dti Codes of Good Practice where relevant. In the first section, the scope of the wine industry is defined. This is followed in section 5.2 by the argument regarding the identification levels for exempted microenterprises (EMEs) and qualifying small enterprises (QSEs). The next seven sections start with a summary statement on the reasons for deviations from the Codes for each of the seven elements, and then present the proposed Scorecard for that element.

In summary, the WCSC has deviated from the Codes in the following manner:

1. Allowing for voluntary participation by EMEs;
2. Including land reform in the Ownership Scorecard;
3. Changing the name of the Management Control Scorecard to the Control Scorecard, reducing the weight to 5 points, and restricting the indicators to Board representation only;
4. Including the scores for Senior and Other Top management in the Employment Equity Scorecard rather than the Control Scorecard;
5. Reducing the target for Skills Development spend to 2% and adjusting the score for this indicator to account for the levels of literacy amongst workers; increasing the target for Learnerships to 10%, and including Skills Programmes under this indicator; and adding bonus points for support to qualifying mentorship programmes (also in the case of QSEs).
6. Using Net Profit after Tax as the numeraire instead of EBITDA in the Enterprise Development Scorecard, and adding a multiplier for Enterprise Development initiatives that include land reform;
7. Increasing the weight for the Rural Development and Poverty Alleviation element to 15 points (taken from the control element). Distinguishing between enterprises with and without a resident farming community in the Scorecard for Rural Development and Poverty Alleviation, and changing the indicators, weights and targets for the Scorecard for enterprises with a resident farming community.

3.1 The scope of the wine industry

The wine industry encompasses the entire supply chain, which consists of a number of processes: a) enterprises that support the growing of grapes, including the suppliers of the vines, the pesticides, insecticides and fertiliser, the machines and the fuel and maintenance they need, as well as the advisors and other suppliers of support services to wine grape farmers; b) enterprises whose function is the growing of grapes; c) enterprises involved in the processing of grapes into wine; d) enterprises that support the making of wine, including providers of chemicals, maintenance services, etc.; e) enterprises involved in adding value to the wine, including those involved in the provision of bottles and other containers and of packaging materials, distributors, retailers, service suppliers such as financial institutions, marketers, exporters, etc.; and f) enterprises involved in ancillary activities such as wine tourism.

Most of these businesses will participate in BEE programmes through industry-specific Charters or through the generic Scorecard described in the Codes of Good Practice. To this end, the enterprises that will be subject to the Wine Industry Transformation Charter are defined as those whose **core business is focussed on any activity in the wine supply chain, and that has earned more than 50% of their turnover from these activities on average over the three financial years prior to being scored by a rating agency.**

3.2 QSEs and EMEs

The Codes of Good Practice define EMEs as enterprises with a turnover of less than the level at which registration for VAT is compulsory, i.e. currently less than R300 000 per annum. According to the Codes, EMEs will be exempted from filling in a Scorecard, and will automatically be regarded as a Level 4 contributor, meaning that when a measured enterprise purchases from an EME it's spend will count on a Rand for Rand basis. However, if the EME is black-owned, it will move up one level (i.e. every Rand of procurement from such an EME will count as R1.10 for the measured enterprise).

The Codes of Good Practice stipulate that QSEs will be subject to the simplified QSE scorecard. In this case, the seven elements each achieve a weight of 20%, and the enterprise can choose any five elements on which to be scored. Should they elect to be measured in all seven elements, or if they include the Ownership element as one of the five, they are effectively eligible for bonus points. The identification level for QSEs differs between different industries. According to the Codes, the identification level in agriculture is R2 million or 50 employees, while it is R10 million or 100 employees, for example, for the catering, accommodation and other trades sector (which would include many enterprises in the wine tourism sector).

The WCSC has come to the conclusion that several characteristics peculiar to the wine industry are not adequately catered for in the Codes of Good Practice, and certain deviations are therefore required:

1. The most recent Agricultural Census (for 2001) shows that some 52% of all commercial farms in South Africa have a turnover of less than R300 000, i.e. the proposed identification level for EMEs. While these farms produce less than 14% of the total value of agricultural production, they employ around 25% of all farm workers (at lower than the average wages paid in agriculture) (see Table 1). While the exact distribution of production is not known in the wine industry, it is known that some 77% of wine farmers produce less than 100 tons of wine grapes, i.e. they have a turnover from wine grapes of at most between R85 000 and R400 000 depending on the wine region.[1] This means that in the wine industry, too, a relatively large proportion of workers are employed in EMEs. **Nevertheless, the WCSC has adopted the identification level as proposed in the Codes as an interim measure, and will reconsider its position once the final Codes have been gazetted.**

   Given the expected large proportion of enterprises that will fall under the definition of EMEs, the historical backlogs, and the desire of the industry to allow everybody to contribute, the WCSC proposes that EMEs be afforded the opportunity to **voluntarily comply with the Skills Development and Rural Development and Poverty Alleviation elements of the Scorecard for QSEs. In this event, each element will have a weigh of 50, and if the enterprise reaches a score of 30, it will achieve BEE status as a level 2 contributor.** The rule that black-owned EMEs rate one level higher will still apply.

[1] At the average prices recorded in the different wine grape producing regions for 2005 by VinPro. This does not represent the total turnover of the farms, as most farms in the wine industry produce more than one product.

Table 1: The distribution of production and employment

Agriculture			Wine farmers		
Turnover	**Value of production**	**Employment**	**Production**	**Turnover**	**Employment**
< R300 000	14%	25%	< 100 tons grapes	R85000-R400000	Unknown, but estimated at 25%

2. The WCSC believes that the identification level for QSEs should be the same for all industries, or at least for all related industries. It is not desirable, for example, to have one level for the wine industry and a different level for, say, the Liquor Industry or for the agricultural sector as a whole under the proposed AgriBEE Charter. **Nevertheless, the WCSC has adopted the identification level as proposed in the Codes, and will reconsider its position once the final Codes have been gazetted.**

3.3 Ownership

The WCSC believes that the Codes of Good Practice do not adequately address the need for land reform in the industry. While land reform is important to agriculture generally, in the wine industry farming is characterised by high capital intensity and relatively low levels of profitability, hence additional support is required. Without special additional incentives to support land reform, the wine industry cannot be transformed.

To this end, the WCSC proposes that, in order to encourage land reform, Bonus Points be added. Hence, the Ownership Scorecard for measured enterprises in the wine industry will be as follows:

PROPOSED OWNERSHIP SCORECARD (20 points)

Indicator category	Indicator	Weight	Target
Voting rights	Exercisable Voting Rights by black people	3	25% + 1 vote
	Exercisable Voting Rights by black women	2	10%
Economic Interest	Economic Interest in the Enterprise to which black people are entitled	4	25%
	Economic Interest in the Enterprise to which black women are entitled	2	10%
	Economic Interest in the Enterprise to which black designated groups, deemed participants in distribution schemes or employee schemes; or participants in co-operatives are entitled	1	3%
Realisation points	Ownership Fulfilment	1	No Restrictions
	Net Equity Interest	7	10% of Target (Year 1) 20% of Target (Year 2) 40% of Target (Year 3-4) 60% of Target (Year 5-6) 80% of Target (Year 7-8) 100% of Target (Year 9-10)
Bonus points	Involvement in the ownership of the enterprise of black new entrants; black deemed participants of broad-based ownership schemes, or black participants in cooperatives	3	Bonus per each level of five percent
	"Effective black land ownership". This is the value of the land component as a percentage of the value of the total transaction multiplied by the % black ownership.	5	12.5%

PROPOSED OWNERSHIP SCORECARD FOR QSEs (20 points)

Indicator category	Indicator	Weight	Target
Voting rights	Exercisable Voting Rights by black people	5	25% + 1 vote
Economic Interest	Economic Interest in the Enterprise to which black people are entitled	7	25%
Realisation points	Ownership Fulfilment	1	No Restrictions
	Net Equity Interest	7	10% of Target (Year 1) 20% of Target (Year 2) 40% of Target (Year 3-4) 60% of Target (Year 5-6) 80% of Target (Year 7-8) 100% of Target (Year 9-10)
Bonus points	Involvement in the ownership of the enterprise of black new entrants; black deemed participants of broad-based ownership schemes, or black participants in cooperatives	3	15%
	"Effective black land ownership". This is the value of the land component as a percentage of the value of the total transaction multiplied by the % black ownership.	5	12.5%

In scoring the land component, it is evident that the equity value has to be calculated to score for any ownership deals (direct or associated). It is therefore relatively easy to isolate the "land component" and reward people more for participating in projects with a larger land component. The advantage is that people firstly do sustainable business deals and then get extra points for land as opposed to encouraging people to do land deals that are not necessarily based on a sustainable business. The mechanism is illustrated in Table 2 below.

Table 2: Scoring land reform

Assumption: Land as % of transaction (1)	**Assumption: % Ownership (2)**	**Calculation: % Land achieved (by value) (3) = (1) x (2)**	**Target (4)**	**Weight (5)**	**Bonus points (6) = ((3)/(4))*(5)**
30%	25%	7.5%	12.5%	5	3
50%	25%	12.5%	12.5%	5	5
80%	25%	20%	12.5%	5	5
30%	15%	4.5%	12.5%	5	1.8
50%	15%	7.5%	12.5%	5	3
80%	15%	12%	12.5%	5	4.8

3.4 Management control

WCSC recommends substantial changes to this element because the small business nature, family business character, and relative lack of suitable candidates make it problematic for enterprises to comply, at least in the short term. It is therefore proposed that:

- The name ‘Management control’ should be abbreviated to ‘Control’, and this part of the Scorecard should apply to appointments at Board level only, i.e. all management levels will be scored under the Employment Equity element.
- As a result, the **overall weight** for this indicator should be decreased to 5 points (these weighting points are moved to the Rural Development and Poverty Alleviation Scorecard).

However, the weighting automatically reverts to 20 points for QSEs. Hence, the Control Scorecards for measured enterprises in the wine industry will be as follows:

PROPOSED CONTROL SCORECARD (5 points)

Management control criteria	**Weighting points**	**Compliance Target**
Board participation		
Percentage of exercisable Voting Rights held by Members of the Board who are black people to the total of all Voting Rights exercised by all members of the Board	3	50%
Executive Members of the Board who are black people	1	50%
Executive Members of the Board who are black women	1	25%
Bonus points Percentage that black people who are Independent Non-Executive Board Members constitute of the total number of Independent Non-Executive Board Members	1	40%

PROPOSED CONTROL SCORECARD FOR QSEs (20 points)

Management control criteria	**Weighting points**	**Compliance Target**
Black representation at Owner Manager level	20	25.1% Owner Manager representation
Bonus Points: black women representation at Owner Manager level	2	10%

3.5 Employment Equity

The WCSC has commented extensively on the proposals made under the dti Codes of Good Practice, and awaits the formally gazetted Codes before making final proposals on this element. Until then, the WCSC adopts the Employment Equity Scorecard as proposed in the Codes, with the inclusion of the indicators Senior Top Management and Other Top Management into the Senior Management level in the Employment Equity Scorecard. Therefore, the Employment equity Scorecard for measured enterprises in the wine industry will be as follows:

PROPOSED EMPLOYMENT EQUITY SCORECARD (10 points)

Employment equity criteria	Weighting points	Compliance Target
Black people with disabilities employed by the Measured Entity as a percentage of all full-time employees	2	4%
Black people employed by the Measured Entity at Senior and Top Management level as a percentage of employees at Senior Management level	2	60%
Black women employed by the Measured Entity at Senior and Top Management level as a percentage of employees at Senior Management level	2	30%
Black people employed by the Measured Entity at Professionally Qualified, Experienced Specialists and Mid-management level as a percentage of employees at Professionally Qualified, Experienced Specialists and Mid-management level	2	75%
Black women employed by the Measured Entity at Professionally Qualified, Experienced Specialists and Mid-management level as a percentage of employees at Professionally Qualified, Experienced Specialists and Mid-management level	1	40%
Black people employed by the Measured Entity at Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foremen, and Superintendents as a percentage of employees at Skilled Technical and Academically Qualified Workers, Junior Management, Supervisors, Foremen, and Superintendents level	1	80%

PROPOSED EMPLOYMENT EQUITY SCORECARD FOR QSEs (20 points)

Employment equity criteria	Weighting points	Compliance Target
Black representation at manager-controller level	6	40%
Black women representation at manager-controller level	6	20%
Black employees as percentage of total employees	4	70%
Black women as percentage of total employees	4	35%

3.6 Skills Development and organisational transformation

The WCSC is generally in accord with the Scorecard proposals in the Codes. However, the WCSC notes the following trends within the wine industry:

- Substitution of permanent workers with part time/casual/seasonal workers;
- Increased use of labour contracting; and
- An increase in the number of woman farm workers that are employed

Having sketched the above, the WCSC proposes the following amendments:

- The WCSC notes that the target for Skills Development spend has been increased to 3%. However, there is concern that this target cannot be justified with respect to international comparisons. For this reason, the WCSC will ensure that the impact of different targets on the wine industry will be carefully modelled during the course of its scenario planning.
- The WCSC proposes that the score for Skills Development spend be adjusted to account for the levels of literacy amongst workers. The score for the measured enterprise will be adjusted downwards up until the point where 80% literacy is achieved.

- While the WCSC has still to conduct research on Learnerships in the wine sector, there are indications that the targets set for learnerships (5% of total employees) may be too low. In this regard, the WCSC suggests that these targets be adjusted and increased and that they include Skills Programmes as well. Hence, a target of 10% is proposed.
- The WCSC also proposes that bonus points be added for support to qualifying mentorship programmes (also in the case of QSEs).

PROPOSED SKILLS DEVELOPMENT SCORECARD (20 points)

Indicator category	**Criteria**	**Weighting points**	**Compliance Target**
Skills Development	Skills development spend on black employees (The score in this element will be adjusted directly proportionate to the level of literacy and numeracy in the measured enterprise until a level of 80% literacy and numeracy (ABET level 3 or Grade 7) is attained)	6	2%
	Spend on skills for black women employed	2	1.4%
	Spend on black employees with disabilities	1	0.3%
Learnerships and or Skills Programmes	Number of black employees on SETA-accredited learnerships and or skills programmes as percentage of total employees	2	10 %
	Number of black women employees on SETA-accredited learnerships and or skills programs as a percentage of total employees	2	2.5%
	Number of unemployed and/or rural black youth on learnerships and or skills programs as a percentage of total employees	1	1%
Organisational Transformation Index	Existence of a comprehensive and fully institutionalised BEE strategy which is being implemented	1	Yes
	Employment of a skills development facilitator with the authority to give effect to transformation	1	Yes
	Existence of a policy on non-discrimination widely published within the company and ongoing facilitation of external diversity management training	1	Yes
	Compliance with relevant employment related legislation	1	Yes
	Implementation of an effective human resource management plan	1	Yes
	Existence of a program designed to give practical effect to the stated policies and programmes	1	Yes
Bonus points	Support Black persons to create sustainable businesses through the transfer of specialized skills in qualifying mentorship programmes as accredited by the relevant SETA.	5	Yes

PROPOSED SKILLS DEVELOPMENT SCORECARD FOR QSEs (20 points)

Criteria	Weighting points	Compliance Target
Application submitted to the National Skills Fund	5	Yes
Quantifiable skills development spend on black employees in addition to Skills Development Levy as a percentage of the leviable amount (The score in this element will be adjusted directly proportionate to the level of literacy and numeracy in the measured enterprise until a level of 80% literacy and numeracy (ABET level 3 or Grade 7) is attained)	15	2%
Support for Black persons to create sustainable businesses through the transfer of specialized skills in qualifying mentorship programmes	5	Qualifying mentorship programmes as accredited by relevant SETA

3.7 Preferential procurement

The WCSC is in agreement with the basic Scorecard as proposed in the dti Codes of Good Practice, but has commented to dti on the appropriateness of the targets, and will reconsider its position once the final Codes have been gazetted. As a result, the Scorecard is proposed as follows:

PROPOSED PREFERENTIAL PROCUREMENT SCORECARD (20 POINTS)

Criteria	Weighting points	Compliance target
5.1.1 BEE Procurement Spend from Suppliers based on the BEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	15	70%
5.1.2 BEE Procurement Spend from Qualifying Small Enterprises based on the BEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	4	15%
5.1.3 BEE Procurement Spend from Exempted Micro Enterprises based on the BEE Procurement Recognition Levels as a percentage of Total Measured Procurement Spend	1	5%

PROPOSED PREFERENTIAL PROCUREMENT SCORECARD FOR QSEs (20 points)

Criteria	Weighting points	Compliance target
BEE procurement spend from suppliers based on the BEE procurement recognition levels as a percentage of total measured procurement spend	20	50%

3.8 Enterprise development

The WCSC proposes the following changes to this element:

- Provisional support for the **indicators, targets, and timing** as set out in the final Codes. This includes the notion of recoverable and non-recoverable support. This element will specifically include aspects such as contributions via group initiatives, mentorship, and financial assistance, specifically in the form of providing guarantees and surety.

- That Net Profit after Tax be used as the numeraire instead of EBITDA.
- Addition of a multiplier namely "Qualifying Enterprise Development contributions which support land reform, including the lease of land or capital assets at below market prices on a long term basis, qualify for recognition at a multiple of 1.5 to the actual Rand value of such contributions".

Hence, the Enterprise Development Scorecard for measured enterprises **(including QSEs)** in the wine industry will be as follows:

PROPOSED ENTERPRISE DEVELOPMENT SCORECARD (10 points)

Enterprise development criteria	**Weighting points**	**Compliance Target**
Cumulative Non-Recoverable Contributions made by the Measured Entity as a percentage of cumulative net profit after tax measured from the commencement/Inception Date to the date of measurement.	6	2%
Cumulative Recoverable Contributions made by the Measured Entity as a percentage of cumulative net profit after tax measured from the commencement/Inception Date to the date of measurement.	4	3%
Bonus points: Qualifying contributions that directly increase employment contributions in preceding year.	1	

The following additional conditions will apply:

Multipliers		
Employment in rural areas or areas identified by govt	1.5	
Contributions to EME's	1.25	
Assist to produce goods or services not previously in SA	1.5	
Contributions to warehousing funds	1.25	
Support to Land Reform	1.5	
If a measured entity elects to make only non-recoverable contributions, then the weighting allocated to non-recoverable contributions shall be increased to 10 and the corresponding target will be increased to 3.3%.		

PROPOSED ENTERPRISE DEVELOPMENT SCORECARD FOR QSES (2 points)

Enterprise development criteria	**Weighting points**	**Compliance Target**
Qualifying enterprise development contributions made by the QSE as a % of net profit after tax	20	2%

3.9 Rural development and poverty alleviation

South Africa's wine industry is characterized by a history of problematic labour relations, while poverty and unemployment are major challenges in the wine farming areas. In addition, the wine industry produces alcohol, which has serious implications in the context of widespread poverty. As a result, many farm workers find themselves in a poverty trap: vulnerable, dependent, and with a lack of self-confidence. Therefore, there is an urgent need for the improvement of the quality of life of farm workers.

Given the scope and extent of poverty in rural areas and its impact on human dignity over many years, it is clear that the indicators, weights and targets identified for the scorecard should contribute actively to the upliftment of people from poverty, and to the restoration and promotion of human dignity. In this manner, the capacity of individuals and of rural communities to participate in broad-based BEE and to contribute to their own development and that of the broader society will be strengthened.

In addition, the Scorecard for Rural Development and Poverty Alleviation makes provision for scoring as a farming enterprise on the one hand and scoring outside of the farming context (such as cellars) on the other hand. In the case of farming enterprises the focus is mainly on the quality of life of the farming community. Enterprises outside of the farming community have a greater responsibility towards the wider society in terms of corporate social investment.

As a result, the Scorecard for measured enterprises (including QSEs) with a resident farming community is proposed as follows:

PROPOSED RURAL DEVELOPMENT AND POVERTY ALLEVIATION SCORECARD (INCLUDING QSEs) (15 points)

Enterprises with a resident farming community

Indicator	**Weighting points**	**Target**
1. Provision of good quality housing at a standard higher than that prescribed in Sector Determination 13, on condition that all the requirements of SD 13 are met. This includes access to drinking water and toilet facilities.	4	Yes
2. Contribution to or provision for sport and recreational/cultural facilities as well as transport to participate in sport and cultural activities measured as a percentage of cumulative net profit after tax measured from the commencement date of this statement or the Inception Date until the date of measurement.	1	0.5
3. Availability and access to health and welfare services, including payment or provision for health services, awareness and treatment for HIV/AIDS, care for the elderly and physically and mentally handicapped, programmes to combat malnutrition, alcohol and drug abuse and Foetal Alcohol Syndrome (FAS), as well as provision for retirement and funeral schemes; measured as a percentage of cumulative net profit after tax measured from the commencement date of this statement or the Inception Date until the date of measurement.	3	0.5
4. Investment in education: support for ABET; the education of children, including support for farm schools, assistance with school fees, pre-school education, after school care, encouragement for post-Matric education and transport measured as a percentage of cumulative net profit after tax measured from the commencement date of this statement or the Inception Date until the date of measurement.	3	0.5
5. Remuneration: specifically remuneration above the minimum wage as specified in Sector Determination 13, on condition that all the requirements of SD 13 are met:	(0.5) (0.5)	10% above 20% above
6. Provision for a safe and healthy environment: measures over and above legal requirements, such as measures against drowning, occurrence of fatal incidences, exposure to danger, access to means of communication.	1	Yes
7. Conservation of the environment: Implementation of programmes in accordance with the Biodiversity and Wine Initiative and the Integrated Production of Wine guidelines	2	0.5

On the other hand, the Scorecard for measured enterprises (including QSEs) without a resident farming community is proposed as follows:

PROPOSED RURAL DEVELOPMENT AND POVERTY ALLEVIATION SCORECARD (15 points)
Enterprises without a resident farming community

BEE Element	Indicator	Weighting points	Target
Rural Development and Poverty Alleviation	Cumulative Rand value of Non-recoverable Qualifying Corporate Social Investment Contributions made by a Measured Entity to Contribution Beneficiaries measured as a percentage of cumulative net profit after tax measured from the commencement date of this statement or the Inception Date until the date of measurement. Contributions should have a special focus on the broader community/society, which includes social development, responsible alcohol consumption, and educational support aimed at promoting the wine industry, bursaries and scholarships to study agriculture and wine sciences.	7.5	**1.5%**
	Cumulative Rand value of Qualifying Industry Specific Contributions made by a Measured Entity to Contribution Beneficiaries measured as a percentage of cumulative net profit after tax measured from the commencement date of this statement or the Inception Date until the date of measurement. Contributions should have a special focus on the broader community/society, which includes social development, responsible alcohol consumption, and educational support aimed at promoting the wine industry, bursaries and scholarships to study agriculture and wine sciences.	7.5	**1.5%**

PROPOSED RURAL DEVELOPMENT AND POVERTY ALLEVIATION SCORECARD (INCLUDING QSEs) (20 points)
Enterprises without a resident farming community

Indicator	Weighting points	Target
Qualifying Rural Development and Poverty Alleviation Contributions made by the QSE measured as a percentage of cumulative net profit after tax, made to Corporate Social Investments and/or Industry Specific Contributions.	20	2%

ANNEXURE 1: THE SOUTH AFRICAN WINE INDUSTRY IN CONTEXT

1. Introduction

The South African wine industry is defined by the various value adding processes starting with the production of wine grapes in the vineyards, and of wine, brandy and grape juice concentrate in the cellar, to the packaging, distribution, trading and marketing of the 'product of the vine' in domestic and foreign markets.

There are two characteristics of the industry that set it apart from the global wine industry, namely the particular nature of labour relations, and a structure of production that has shifted from the (over)production of poor quality wine to a more efficient, market-responsive and highly competitive industry. The aim of the Transformation Charter is to create a strategy that provides the opportunity to align social and economic performance to transform the industry and to set it on a growth path that benefits all stakeholders.

To this end, this section of the Charter starts with a synoptic view of labour relations in the industry in historical context, as well as the attendant consequences, which are best understood in terms of the disempowerment of black people who have been, could have been, are, and will become, stakeholders in the industry. This is followed by a similar discussion and analysis of the production structure of the industry. The fourth section provides information on the current status of the industry, while the fifth and sixth sections address the South African industry in the context of globalisation. In the seventh section the status quo regarding the nature and extent of social transformation of the industry is described.

2. Globalisation, democratisation, and labour[2]

Analyses of change in the wine industry are dominated by an oversimplified account of change as if it were simply the replacement of hidebound production-orientated management styles by 'worker empowerment' and 'world class labour relations'. However, this avoids the complexities of change, fails to deal with the internal power relations in the wine value chain, and ignores the ways in which modernity has affected on-farm social relations of labour.

In this regard, it is important to understand that the South African wine industry is undergoing three interlinked transitions, which have important implications for livelihoods on the ground. These are:

- The process of local industry deregulation and restructuring;
- The increasing integration of the industry into international value chains; and
- The legislative changes that have accompanied democracy in South Africa.

These transitions have had complex effects. On the one hand, the 'product mix' produced by the industry has changed radically over the past decade, and there has also been some lateral expansion. This has been accompanied by a sustained rise in exports. On the other hand,

[2] This section draws heavily on Joachim Ewert and Johann Hamman: 'Why Paternalism Survives: Globalisation, Democratisation and Labour on South African Wine Farms', *Sociologia Ruralis*, Vol. 39 No 2, April 1999, and on Joachim Ewert and Andries du Toit, 2005. 'A Deepening Divide in the Countryside: Restructuring and Rural Livelihoods in the South African Wine Industry'. *Journal of Southern African Studies* Vol. 31 No 2 (forthcoming) with the permission of the authors.

many producers have found it difficult to break away from the industry's historic orientation towards bulk wine production. By and large, though, farmers have an incentive to go beyond management strategies based on cheap, expendable, and low-wage labour. This has resulted in improved wages, higher levels of training and modernised management approaches, required not only by law, but by the imperatives of survival in an increasingly competitive sector. However, selective modernisation and partial compliance with labour laws has resulted in strategies that rely on elements of both traditional paternalist and modern capitalist management approaches. Not all workers have benefited, as this 'triple transition' has accelerated the divide between a shrinking core of permanent, better skilled and better paid workers[3] and the seasonal, casual and contract workers, a new class of rural poor who often reside in rural, peri-urban or metropolitan shanty towns. As a result, the notion that the majority of workers' best hopes lay with modernisation is proving to be ill founded.

After the initial period of slavery, labour arrangements on South African wine farms could be described as authentic, undiluted paternalism until the system started to become modified in the 1980s. In more recent times, therefore, it could be argued that paternalism has come to be undermined, diluted and redefined. During the 1980s the major force behind this change was a form of "reform from above", chiefly through the initiatives launched from within the industry itself and spearheaded by the Rural Foundation.

Funded by the apartheid government, overseas donors and farmers, its programmes were aimed at promoting health and social stability amongst farm worker families living on the farm. "Community" or "liaison committees" of worker representatives, in regular consultation with the farmer, served as the main vehicle towards this end. The Foundation also appealed to farmers to train workers on a more systematic basis and to improve labour relations. To promote the latter, existing "farm rules" were formalised, sometimes accompanied by newly established grievance and disciplinary procedures. The initiative neatly highlighted the main objectives of the new approach: social development would not only reduce social costs, but also improve productivity and the poor image of the industry in the face of looming sanctions.

While it may not have done much to open overseas markets to South African wines, the Rural Foundation did succeed in achieving some of its objectives. For instance, there is evidence that its efforts were instrumental in reducing the fertility, teenage pregnancy and infant mortality rates on a number of farms in the Western Cape[4]. It also significantly contributed to increasing the average school exit level of farm worker children. Nevertheless, these changes were not sufficient to change the dominant paternalism that bound employer and employees on Western Cape wine farms.

Legal industrial action on the part of farm workers first became a possibility with the passing of the 1994 Agricultural Labour Relations Act. This Act protected workers against unfair dismissal and conferred collective bargaining rights. Replaced by the 1995 Labour Relations Act, farm workers now have the explicit right to strike and better access to mediation services, while the sector determination for agriculture, promulgated in terms of the Basic Conditions of Employment Act of 1997, has brought in minimum wages and a whole slate of

[3] Ewert and Hamman (1999) quote studies undertaken in 1994 and 1996 that found that the permanent labour force was almost exclusively coloured and Afrikaans speaking, with very few African workers employed on a permanent basis, while their own research showed that some 75% of cellar workers are African, and both male and female Africans feature much more prominently in the seasonal labour force.

[4] C.J. Groenewald: 'The Social Development of the South African Agricultural Labour Force', paper presented at the Conference on Comparative Research on Welfare States in Transition, 9-12 September 1993, Oxford, England.

prescriptions about working conditions.

Together with labour legislation, new tenure laws have also given farm workers more security of occupation. For instance, under the Extension of Security of Tenure Act, 1997 (ESTA), landowners can only conditionally terminate the permission to occupy, and pensioners and disabled people who have worked on a farm for longer than ten years may not be evicted. Even when the requirements for termination of residential rights have been met, a court may only grant an eviction order if it is fair and equitable under the circumstances.

To argue that power relations on the average South African wine farm have remained unequal is not to suggest that the labour regime has not changed at all. The question is rather whether relations between farmer and farm worker have changed to the extent that is has become something qualitatively and unmistakably different. In this regard, though, the ability of farm workers to benefit from these rights has to be questioned when seen against the background of the historical legacy of the industry. The Centre for Rural Legal Studies, a Stellenbosch-based NGO concerned with 'legal, land, labour and other problems experienced by disadvantaged individuals or groups in the rural areas of South Africa' summarises the effects as follows:

Most of the farm workers in South Africa do not have effective access to labour rights (basic conditions of employment, employment equity, minimum wages, etc.), tenure security and due process, due to one or more of the following factors:

- Some of the instruments meant to protect farm workers do not prioritise their real needs and create a set of unintended consequences. For example, the Unemployment Insurance Fund (UIF) benefits permanent workers more than seasonal or casual workers, having an indirect gender effect; and the rights granted under the ESTA are procedural and not substantive, and tenure security reinforces rather than redresses racial disparities in access to land and economic opportunity; and provision of basic needs such as transportation, water, housing, education to farm workers has not been supported by government;

- Where legislation does attempt to meet the needs of the poor, there are obstacles to implementation, e.g. there is little capacity on the part of government to educate rural workers and to enforce labour and land laws in the agricultural sector and in rural employment because of low budgets, low numbers of inspectors, lack of capacity of inspectors to understand conditions of farm workers, etc.; in the case of ESTA there is a lack of coordination at local government level in terms of the mandatory provision of alternative accommodation, people do not know their rights, and magistrates do not understand ESTA;

- Rural employers do not comply with the law either because they are ill informed of the law and its practical implementation, they are misinformed by labour consultants, they refuse to comply with the law, they lack expertise and the will to comply, they lack an understanding of the benefits of complying, or they are unable to comply with the law.

- Rural workers and dwellers do not have adequate legal representation because they cannot afford legal costs, Legal Aid attorneys are not willing or able to draw their payment from the Legal Aid Board, Justice Centres are not accessible to many rural workers due to distance, lack of capacity, and the fact that labour dispute management and labour justice is not a priority due to high criminal caseloads;

- Many rural advice offices and community based paralegals serve non-unionised farm workers and dwellers. Too few farm employees are effectively by paralegals in labour issues because paralegals carry a heavy case-load arising from the large numbers of disputes presented, many of which could have been avoided by worker and employer education or resolved through alternative dispute resolution; there are no litigation models to support paralegal preparation of cases; and many paralegals have not developed the required legal knowledge and skills;

- There are many obstacles to litigating public interest cases for farm workers, including no access to legal representation, lack of social power in order to proceed as a litigant against a powerful employer, lack of self-confidence in presenting a case and trusting the judiciary to proceed, a conservative judiciary, and assumption of litigation between peers and no regard for power imbalances between litigants.

- Farm workers lack leverage to improve their conditions, even when they do have job security. In this regard, rural worker poverty and literacy levels, and geographical isolation do not give farm workers and dwellers access to knowledge of the law and their rights, marginalise women, and inhibit their capacity to organise themselves;

- Women do not benefit from labour legislation in the same way as men. Neither are their independent tenure and housing rights protected.

Neither market forces nor the legal empowerment of farm workers have fundamentally changed the labour regime in the South African wine industry. Instead of being a force for social change, favourable market conditions may have taken the pressure off farmers to revise the labour regime. Growing exports create a margin of security and postpone, rather than encourage, the search for new labour arrangements that are more equitable and productive.

3. The historical context to the South African wine industry[5]

The South African wine industry first reached maturity as a slave economy during and after the Napoleonic wars, although the first vines had been planted and the first wine made in the mid-seventeenth century. The number of vines planted had increased from 15 million in 1808-1810 to 32 million in 1823-25 (compared to 314 million vines in 2000) and wine production increased by 8% p.a. during this period. Between 1810 and the 1820s wine was responsible for some 90% of the Colony's exports. Under imperial preference, the duties payable on Cape wines were a third of those levied on Iberian wines, their main competitor, and Britain became the largest market for the industry.

When imperial preference was abolished in 1825, exports to Britain fell by 75%, and the industry plunged into depression. Despite continued complaints about the quality of the wine the industry revived sufficiently to export wine to the value of more than £120,000 annually to Britain in the late 1850s. Then the industry had to face a new series of disasters during the second half of the nineteenth century, starting with the 1860 trade treaty between Britain and France, and from 1885 the spread of phylloxera. This disaster was averted once farmers were able to plant American rootstock; however, local consumption remained low. The government provided loans to finance the creation of nine co-operative cellars to improve the quality of Cape wines.

[5] This section draws on a paper by Nick Vink, Gavin Williams and Johann Kirsten, (2004). 'South Africa'. In Anderson, Kym (ed.) (2002), *op cit.*.

By 1918 there were 87 million vines, an increase of 25% over seven years. Farmers had to sell their wine at the close of the season for whatever prices they could get in order to make space for the next vintage. In the same year, KWV was registered as a company. Its members had to sell all their wine through KWV and contribute a levy of 10% on their sales. KWV would declare an annual 'surplus', which it would remove from the market. Some 90% of the wine farmers in the Cape signed the constitution of KWV, with a few Stellenbosch farmers and most of the Constantia farmers refusing to join.

By the end of 1923, KWV could no longer sustain its control of the market, and saw no way out other than to resort to a scheme for compulsory co-operation. Political pressure saw the promulgation of the Wine and Spirits Control Act 5 of 1924, under which the KWV would fix a minimum price for distilling wine, where sales could only be made 'through or with the consent of KWV'. The 1924 Act laid the foundation on which the institutional structure and patterns of production of the industry were built for the following 73 years.

Imperial preference was re-established in 1919 and increased in 1924. At the same time, however, domestic demand increased more slowly than production so that a rising share of the vintage had to be taken off the market as 'surplus' distilling wine. From 1929, the directors of KWV warned their members that continuation of surplus production would lead to a fall in producer prices. In 1931, they set up the first of a series of committees, and supported a bill in parliament, which sought to produce a scheme for discouraging surplus production.

The 1934 Commission on Co-operatives and Credit argued that the KWV's minimum pricing policies had encouraged overproduction and discouraged quality and objected to its refusal to discount the price of spirits for export to the UK. It recommended that a statutory board take control of distilling and of good wine. The Commission agreed that the buying of the surplus by KWV encouraged expansion of production and that a producer co-operative should not exercise statutory control over an industry.

Nevertheless, the Wine and Spirits Control Act 23 of 1940 empowered KWV to set an annual minimum price for 'good wine', and for 'quality' wine of which wholesalers had to buy a minimum percentage. Thus, KWV had maintained and extended its control of the industry, acquired the powers to set prices for distilling good and quality wine, and secured, in principle, powers to limit production.

Demand for brandy during the war solved the immediate problem of surplus disposal. The number of co-operative cellars increased from 6 to 19 between 1939 and 1944, to 30 by 1950 and 46 by 1955. This initially suited the merchants to whom the co-operatives now supplied wine rather than grapes. Wine production peaked in 1944 and only reached that level again ten years later. From 1954 to 1963, increased production led to rising surpluses. Act 47 of 1957 made new provision for planting quotas, which were introduced in 1960. They were set above current output and expanded ahead of supply and thus encouraged people to increase production to justify their quotas.

During this time, the expansion of demand for urban labour and the restriction of African migration to the Western Cape created a shortage of farm labour. This led both to increased use of prison labour and to the building of farm prisons, partly financed by the farmers themselves, yet also to policies to improve conditions for Coloured rural communities and to subsidise farm housing. In 1963, the supply of liquor to Africans was legalised and grocers were licensed to sell natural wine but not beer. The *dop* system of providing wine rations to farm workers was outlawed, in law if not in practice.

The system by which KWV unilaterally set uniform prices for distilling, good and even quality wines protected farmers' incomes but discouraged competition among buyers; wholesalers' ties to retail outlets discouraged competition among sellers. This facilitated the process of concentration of control of markets for wines by Stellenbosch Farmers Winery (SFW) and for spirits by Distillers. They sustained their domination of the market by building brand loyalty to familiar, established trademarks.

In 1956, the country's three main breweries merged and in 1960 South African Breweries (SAB) took control of the Stellenbosch Wine Trust, which controlled SFW. Subsequently, the 'KWV Act', 47 of 1970, replaced and consolidated previous legislation. In 1973, Rembrandt acquired control of the renamed Inter-Continental Breweries (ICB) to try to challenge SAB's domination in the beer market. In 1975, government allowed SAB to take full control of SFW, while in 1978 Rembrandt acquired all the shares in ICB and Oude Meester (Distillers); at the same time government agreed to Oude Meester buying 49 per cent of Gilbey's. Subsequent to this, the dominant beer interests were separated from the two leading wine and spirits companies, which would be amalgamated.

In November 1979, the Cabinet announced their approval of a restructuring of the liquor industry. SAB would again become a 'temporary sole supplier' of malted beer. SFW and Oude Meester (Distillers) would be amalgamated into Kaapwyn (CWD), in which Rembrandt, KWV and SAB would each hold 30 per cent of the shares. Rembrandt then formed a joint holding company with KWV to control CWD. A Cabinet Committee subsequently ratified these decisions.

Exports to the UK, mainly of fortified wines and brandies, were reduced by formal sanctions from 1985, with declared exports falling by about two-thirds between 1964 and 1989. In 1984 KWV conceded a limited market in quotas within wine regions.

In the 1980s, the industry set up the Rural Foundation with government support to improve the social conditions of workers in the industry. Production continued to increase to reach a peak in 1992, while domestic demand stagnated and exports were blocked. Nevertheless, critical changes began to take place in the 1980s. These changes in turn created conditions that made possible the response of the industry to the opening of export markets in the 1990s and the collapse of the system of regulation.

On 9 October 1996, KWV announced its intention to apply to the Western Cape Division of the Supreme Court to change from a co-operative to a company. However, the Minister of Agriculture asked the court to delay the application to enable him to examine the future regulatory framework of the industry, to ask which assets acquired for KWV's regulatory functions were to be distributed among members, and to consider the unresolved issues of competition in the liquor industry. The Minister subsequently appointed a Committee, chaired by Prof. Kassier, to investigate the regulatory framework of the industry.

The Committee completed its deliberations by the end of January 1997. Its report recommended that the industry be deregulated and that remaining statutory powers (e.g. levies to collect information and fund research; maintenance of quality standards) be placed under the control of a body that represented the whole industry. KWV agreed to contribute R200 million over ten years and to provide services, valued at R227 million for five years, to the South Africa Wine Industry Trust (SAWIT), directed by nominees of the Minister and KWV.

Thus, by the end of the twentieth century the South African wine industry was no longer subject to the restrictive structures of regulation that had sustained farm incomes but inhibited innovation. While the industry clearly has a bright future ahead of it, it has to date only partly escaped the legacy of a) producing large quantities of standard, high-yielding, grapes on irrigated vineyards to make large quantities of cheap wine for which demand is declining, b) dependence on unskilled workers within a highly paternalistic employer/employee relationship, and c) lack of opportunities for new entrants to the industry.

The major challenge facing the industry is the knowledge that it needs to build its future competitiveness through the process of facing up to this legacy. In the modern world archaic labour practices and skewed access to opportunities that keep the best and the brightest out of the various stages of the supply chain are a guarantee that the industry will lose whatever competitive advantage it ever had in global markets.

4. The South African wine industry in the local context

Industry structure

In 2004, some 3800[6] producers and 500 cellars in South Africa, mostly in the Western Cape province, but also including producers and cellars in the Northern Cape and the Free State, produced 1 billion litres of wine, brandy and grape juice concentrate from a harvest of 1.3 million tons of grapes, placing it as the 8th largest producer in the world. About 700 million litres of drinking wine were produced from this harvest, of which 36% was red and 64% was white wine, compared to a yield of 12% red wine as late as 1995. While the domestic market has been relatively stagnant over the past few years, exports have grown vigorously since the advent of democracy in 1994, from 20 million litres in 1992 to more than 250 million litres in 2003. Exports even showed an increase of 20% by volume in the year to July 2004, while the Rand was strengthening against most foreign currencies.

Table 3 shows the current structure of the South African wine industry. It is interesting to note that almost half of the wine producers in the industry produce less than 100 tons of grapes, while only 294 producers produce more than 1000 tons. This is due to the fact that most commercial farms in South Africa are mixed farming enterprises, and that most farms are small or medium scale enterprises[7]. This will influence the definition of which farms to include in the Wine Industry Scorecard.

Table 4[8] contains the monetary values of each successive stage of the value adding process of wine making and selling for 2003. Table 4 shows that total turnover amounted to R10675.27 million, based on a primary production base of R2597.44 million, thus the industry contribution was some 4 times the initial value of the raw materials produced in the vineyards. Of the total contribution, R3153,40 million was exported directly. Furthermore, it is estimated that an additional amount of R 4198.37 million was generated indirectly through tourism.

Table 3: The structure of the South African wine industry

NUMBER OF PRIMARY WINE PRODUCERS	PER PRODUCTION CATEGORY	
	TONS	NUMBER OF PRODUCERS[1]
	0	1039[2]
	1 - 100	1648

[6] SAWIS gives the number of registered members as some 4400. VinPro data show 4810 registered members, but of these 1039 produced no grapes, giving 3771 wine grape producers.

[7] The 2002 Census of Agriculture shows that half of the commercial farms in South Africa have a turnover of less than R300 000, leaving the owner/operator with an income of less than R30 000 per year.

[8] Table 6 and the subsequent discussion come from Conningarth Economists, 2004. The macroeconomic impact of the wine industry on the Western Cape. Paarl, SAWIS

	> 100 - 500 > 500 - 1 000 >1 000 - 5 000 >5 000 - 10 000	1 421 432 265 5
		4810
NUMBER OF WINE CELLARS WHICH CRUSH GRAPES	66 477 18	CO-OPS PRIVATE WINE CELLARS PRODUCING WHOLESALERS
	561	
NUMBER OF BULK WINE BUYERS	76 27	WHOLESALERS (Including producing wholesalers) EXPORTERS (Buy wine for export only)
	103	

Source: Adapted from SAWIS
Note:
[1] Source of number of producers: VinPro
[2] Registered members of VinPro who have delivered no wine grapes for two years

Each of these distinctly different but related sets of activities and interactions are integrated with other economic processes at the farm level, in agribusiness processes, input provision and service systems, manufacturing, logistics, and trade, with substantial economic multiplier effects. It is estimated that the industry contributed R16,3bn to South African GDP in 2003 (R22,5bn when the tourism industry is included). Employment generation was also substantial with ±260,000 job opportunities throughout the economy (including 20% through wine tourism). The industry employs capital to the value of more than R50bn in support of its' activities.

Table 4: Economic structure and the flow of goods and services, (R million, 2003)

		Market Segment / Economic Sector	R million, 2003					
			Turnover added at each Phase	**Exports**	**Domestic Sales**	**Current Import Level**	**Potential Import Source of Business**	**Western Cape [1] local Business**
			(1)	(2)	(3) = (1)-(2)	(4)	(5)	(6) =(3)
1		Primary Agricultural Production						
2		Cellars		(191.74)				
		Total Primary	**2,597.44**	**191.74** [2]	**2,405.70**			**2,405.70**
3	3.1	Manufacturing [3]	3,274.27	1,701.08	1,573.19	116.05	5,847.20 [6]	1,573.19
	3.2	Total Trade & Transport	3,910.45	1,260.58 [4]	2,649.87	77.29 [5]		2,649.87
	3.3	Taxes	893.10		893.10	81.12		893.10
		Sub-total	**8,077.83** [7]	**2,961.66**	**5,116.16**	**274.46**	**5,847.20**	**5,116.16** [8]
		TOTAL (1+2+3)	**10,675.27**	**3,153.40** [9]	**7,521.87**	**274.46**	**5,847.20**	**7,521.87**
4		Tourism [10]			1.303			
	4.1	Foreign	913.90	913.90				*913.90*
	4.2	Local	3,284.47		3,284.47			3,284.47
		Sub-total	4,198.37	913.90	3,284.47	-	-	4,198.37
		GRAND TOTAL (1+2+3+4)	**14,873.64**	**4,067.30**	**10,806.34**	**274.46**	**5,847.20**	**11,720.23**

Source: SAWIS 2000 structures used unless otherwise indicated.

Notes:

See Annexure to Part 1 for more detail on specific sources and statistical calculations to arrive at figures reported in the table.

1 Including Orange River production (export activities not considered).

2 The production of estate wines as a percentage of total production was applied to total exports to obtain exports by cellars. Exports of cellars of drinking wine is shown as a contra entry since the amount involved is too small to isolate manufacturing and trade & transport elements thereof.

3 Defined as processing, packaging, bottling and labelling (including grape juice).

4 A trade & transport margin, excluding indirect taxes (VAT & Excise), was applied to total exports.

5 The Trade & Transport margin was obtained from the 1993 Input Output Table (CSS).

6 See Annexure to Part 1, note 4.

7 See Annexure to Part 1, note 1.

8 These figures represent the value of domestic sales (columns (1)-(2))

9 Primary data from Statistics South Africa, as obtained from the Department of Customs and Excise.

10 Data based on 2000 structures provided by Wesgro.

Social structure[9]

The Western Cape is by most measures either the most developed or the second most developed province (after Gauteng) in South Africa. The Human Development Index, for example, was 0.77 in 2002, compared to 0.68 for the country as a whole. Yet such a statistic obscures the intra-regional inequalities that characterize the province. In an earlier study, the Development Bank of Southern Africa remarked, for example, that (Erasmus 1994:41)[10]:

> *"The Western Cape exhibits the highest HDI in South Africa. At the same time there are severe inequalities between various race groups. The White population reflects an HDI that would compare with that of the five most developed nations in the world while coloured people in rural areas reflect an HDI comparable to the lowest in the world."*

A wide range of studies have also identified farm workers in the province as a group whose development status is particularly low. The following data are illustrative:

- **Low levels of education and literacy:** In 1996 the median level of schooling amongst farm workers was less than 6 years, while illiteracy was estimated to be 20% among the province's adult farm workers.

- **Housing conditions:** In 1995 less than 50% of worker households had indoor running water and even fewer (45%) has access to a flush toilet.

- **Poor health conditions**: The incidence of infectious diseases, especially tuberculosis, is considered to be abnormally high among farm workers. The tuberculosis incidence rates for the Western Cape farming areas exceeds 1,000 per 100,000 of the population, rates two to three times higher than those found in urban areas.

- **Poor working conditions:** There is poor compliance with legislation pertaining to labour rights. For example less than a third of all women farm workers had a written contract and 48% claimed they did not get sick leave.

- **Low wages:** The average remuneration per full-time farm employee in the Western Cape was R1189 per month. However, this average hides considerable gender inequality: for example during a survey conducted in 1999 more 56% of women farm workers interviewed reported that there was a difference between the wages of men and women for equal work.

At the same time, the main trends in farm labour in the province can be summarised as follows:

- **Substitution of permanent labour with temporary/part-time/seasonal labour**: Research shows that there has been a marked shift from the employment of permanent workers towards the employment of temporary workers. Reasons cited by farmers as factors inducing this shift include the Extension of Security of Tenure Act (ESTA) and rising labour costs due to the Basic Conditions of Employment Act, including minimum wages.

- **Increased use of labour contracting**: More than 53% of the farmers interviewed in a recent study indicated that they make use of an agricultural labour contractor/broker. While this

[9] This section is based on Tregurtha, Norma (2005). An approach to human development in rural Western Cape with specific reference to farm workers. University of Stellenbosch, Unpublished MComm thesis.

[10] Full details of sources in this section can be found in Tregurtha, 2005.

externalization of labour offers producers certain advantages such as the ability to control costs and risks, for farm workers this holds serious implications in terms of livelihoods and income.

- **Relative increase in the number of women farm workers employed**: Research shows a significant increase in the number of women farm workers in the Western Cape. The main reasons are employers' attempts to maximise the utilization of the existing on-farm labour pool (and thereby control housing costs). The shift towards mixed farming systems has helped flatten the sharp seasonal labour demand peak and enabled farmers to employ women throughout the year.

- **Job shedding as a result of minimum wages:** Six months after minimum wages had been implemented in agriculture, research found that the net employment effect was less than 1%. The most important consequence of minimum wages was not wholesale labour shedding, but a slowdown in job creation for permanent workers at a time when output was expanding.

Farm evictions[11]

One of the most pernicious consequences of these changing trends in employment is the number and nature of farm evictions that have taken place.

The Extension of Security of Tenure Act 62 of 1997 (ESTA) was promulgated to address arbitrary, unfair or illegal evictions from farms. According to national figures issued recently by Nkuzi Development Association and Social Surveys Africa, farm evictions are continuing and have in fact increased since the promulgation of the ESTA legislation in 1997. According to this survey:

During 1984 – 1993

- 1,832,341 persons were displaced from farms
- 737,114 persons were evicted from farms

During 1994 – 2004

- 2,351,086 persons were displaced from farms
- 942,303 persons were evicted from farms.

Between 2003 and 2004 a total of 195,121 farm workers were evicted countrywide. The survey further disclosed that there is currently "….no provision or planning for the proper accommodation of people from farms" and there are almost no planned "settlements for farm dwellers in farming areas".

Despite the shortage of housing in the Western Cape and ESTA, evictions seem to continue in this area. According to the Security of Farm Workers Project of the Lawyers for Human Rights (Stellenbosch), there has been an increase in evictions within the areas of Boland/Grabouw, Drakenstein and the West Coast. During the period 20 January – 28 June 2005, 164 farm workers and/or their families (some 37 households) faced evictions in these areas. During the 3-month

[11] This section is based on Kotzé, Prof. Frans, 2005. Report on evictions to the Wine Charter Steering Committee. Stellenbosch, WCSC

period July –September 2005, 188 farm workers and/or their families (also 37 households) faced evictions.

Table 5 shows the number of Section 9(2)(d) notices from January 2004 to September 2005 for the relevant Magisterial Districts. According to Section 9(2)(d) of ESTA, notice is given to the farm worker, the Department of Land Affairs and the District Municipality of the intention to evict the occupier.

Table 5: Section 9(2)(d) notices, January 2004 – September 2005

2004													
Magisterial District	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Total**
Bonnievale								1					1
Ceres			1	4	1	6	5	5		3			25
De Doorns	5									5			10
De Wet			3										3
Mc Gregor										1			1
Paarl	8	3	8	1	8		6	1	2	4	1	4	46
Rawsonville						2				1			3
Robertson	5		1	1		4				2		1	14
Stellenbosch	1	4	6				4	1		1			17
Tulbagh	1										1		2
Wellington		1	3						1				5
Worcester	2		16	1		2	2	2	1	2	4		32
TOTAL	**22**	**8**	**38**	**7**	**9**	**14**	**15**	**10**	**5**	**20**	**6**	**5**	**159**

2005									
Magisterial District	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sept**	**Total**
Bonnievale									7	7
Ceres		5	2		1			4		12
Paarl	1		3	6	3	2	1	1	8	25
Robertson	1	6	2							9
Stellenbosch		1	3		4	5		7	1	21
Tulbagh					2					2
Wellington			1			1	10	10		22
Worcester	4		1	3	3	5	1	3	1	21
TOTAL	**6**	**12**	**12**	**9**	**13**	**13**	**12**	**25**	**17**	**119**

Source: Department of Land Affairs, Stellenbosch

In terms of Section 9(3) of ESTA, the Department of Land Affairs is requested to investigate and evaluate the situation and provide a report and recommendation to the magistrate. This report provides a profile of the farm worker as well as advice on legal aid. The Department makes contact with the municipality to enquire about alternative accommodation for the farm worker and his/her family. The official doing the assessment also consults with the farm owner and gathers information from him/her. A recommendation is then made based on the information obtained and the stipulations of the law. If the correct procedures were not followed, the applicant will have to re-apply for an eviction. After the judgment of the magistrate, the matter is referred to the Land Claims Court for review. The number of requests is shown in Table 6.

Table 6: Section 9(3) requests, January 2004 – September 2005

2004													
Magisterial District	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Total**
Bonnievale								1					1
Ceres			1			4	3	5					13
De Doorns								9	5	1	1		16
De La Hay									2	1			3
De Wet						1							1
Mc Gregor											1		1
Montagu							1						1
Paarl	7	1	3		1		8	1		4			25
Rawsonville					1	1	1		2				5
Robertson		2	1			5	1					1	10
Stellenbosch		2	1	2	1		2		4	4			16
Tulbagh	1												1
Wellington										2		1	3
Worcester	1	6	5			1		3	8	3	1	4	32
TOTAL	**9**	**11**	**11**	**2**	**3**	**12**	**16**	**19**	**21**	**15**	**3**	6	128

2005										
Magisterial District	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**July**	**Aug**	**Sept**	**Total**
Bonnievale					1				6	7
Ceres		4			2			4		10
De wet			1							1
Paarl		1	2	6		1	1	2	6	19
Robertson					2					2
Stellenbosch		12	1	1	4	1	1	4	5	29
Tulbagh		1		7		2				10
Wellington			1	1						2
Worcester		1		4	5	3	2	1	3	19
TOTAL		**19**	**5**	**19**	**14**	**7**	**4**	**11**	**20**	**99**

According to the national survey conducted by Nkuzi and Social Surveys Africa, two thirds of evictions are work related: decisions about evictions of farm workers are made for economic reasons. Also, farmers don't want people who are not working on the farm to be on the farm as they bring no benefit and are seen as a security risk. The following causes are cited for evictions:

- Main worker is fired
- Main worker died
- Farm is sold
- Minimum wage/ wage disputes
- Farm liquidated
- Drought
- ESTA.

Evictions make farm workers vulnerable because farms operate as an economic unit as well as a residential unit. When the farm worker loses his/her job, housing is also in jeopardy.

Institutional structure

Figure 1 below shows the institutional structure of the three main wine industry representative bodies, namely the South African Wine Industry Trust (SAWIT), the South African Wine and Brandy Company (SAWB), and the Wine Charter Steering Committee (WCSC). This also emphasises the independence of the WCSC as a free-standing and representative body.

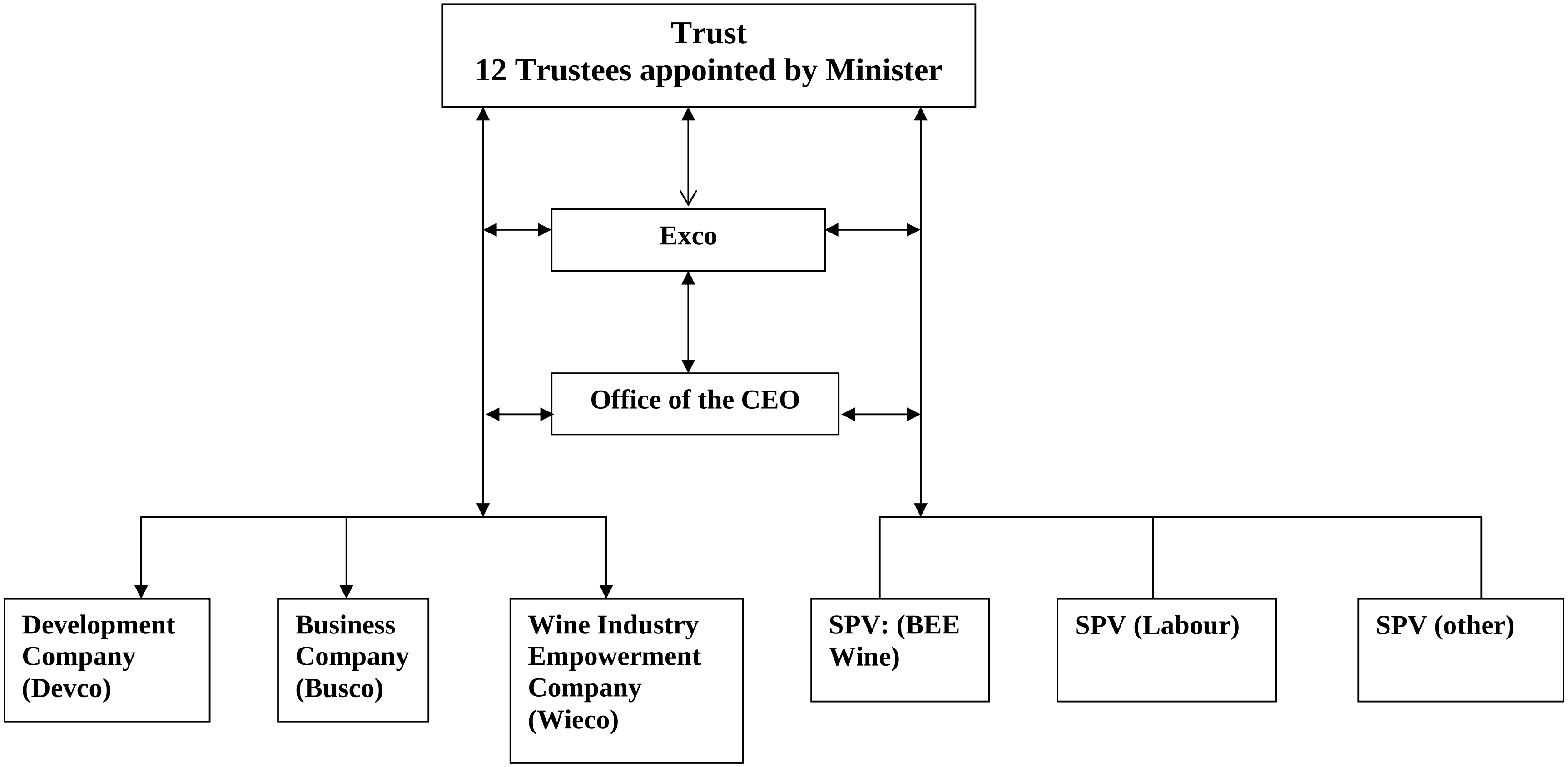

Figure 1: Institutional structuring of the wine industry

Figure 1a: The South African Wine Industry Trust (SAWIT)

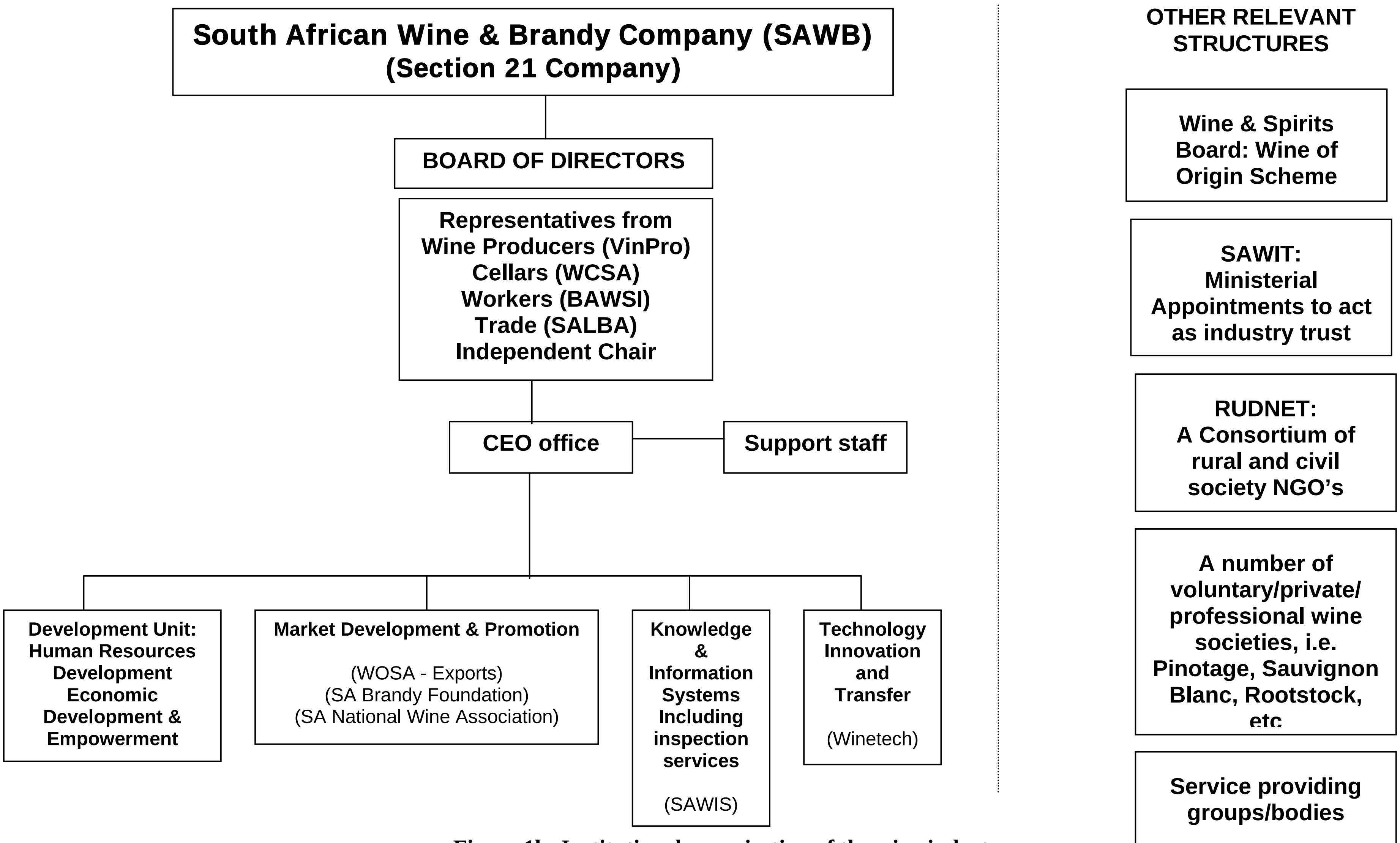

Figure 1b: Institutional organisation of the wine industry

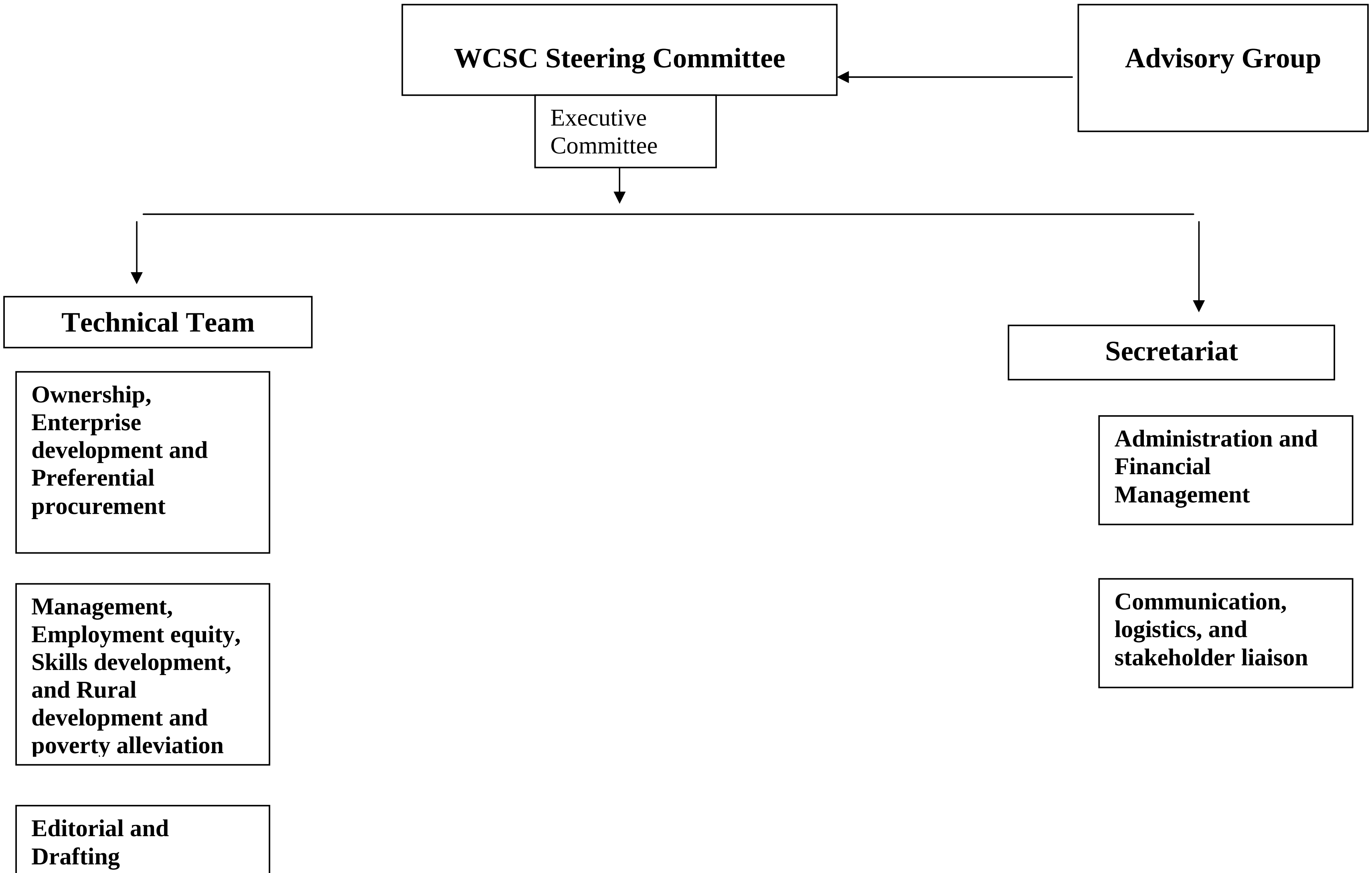

Figure 1c: The Wine Charter Steering Committee (WCSC)

5. The global wine industry[12]

The world wine industry accounts for 0.4% of global household consumption, while wine grape vines cover less than 0.2% of the world's cropland. World wine production has declined over the past two decades. Nevertheless, the industry has grown in importance, largely because since 1980 the share of wine production that is traded internationally has more than doubled.

These trends are evident from the data presented in Table 7. These changes have been brought about by three major trends: shifting per capita consumption trends (generally, a decline in traditional producing countries such as France, Italy, Portugal and Spain, and an increase in the UK, the USA, and the New World producing countries), a shift in production and export market penetration by the New World producers, and a changing consumption mix, with sales of premium bottled wine increasing, and sales of cheaper wine declining.

Table 7: Regional shares in production, consumption and trade, 1988 and 2001

	Production volume	Consumption volume	Exports	Imports
Europe exporters[1]				
1988	52.4	43.0	82.5	7.4
2001	53.6	34.7	71.9	6.1
Other Europe				
1988	7.1	16.6	8.5	62.8
2001	6.7	19.3	6.1	57.8
Transitional economies [2]				
1988	16.5	15.2	5.3	3.7
2001	10.9	15.8	2.9	3.4
North America				
1988	6.7	9.4	1.1	18.5
2001	8.8	10.1	3.7	19.8
Latin America				
1988	11.0	10.6	0.4	1.1
2001	9.5	8.4	5.9	2.6
South Africa				
1988	3.1	1.3	0.1	0.0
2001	2.7	2.2	1.6	0.1
Oceania[3]				
1988	2.0	1.6	1.4	0.9
2001	3.5	1.9	7.0	0.8
China and Japan				
1988	0.5	0.8	0.0	3.2
2001	2.3	5.6	0.0	5.9
Growth rate (% p.a.)	0.0	0.0	6.1	6.1

Notes:
[1] France, Italy, Portugal and Spain; [2] Central and Eastern Europe and the former Soviet Union; [3] Australia and New Zealand
Source: Anderson, 2004: 19

This latter trend has been spearheaded by Australian penetration of the UK market after liquor licensing laws were changed to allow supermarkets to sell wine, but closely followed by Argentina, Chile, New Zealand, South Africa and the USA. As a result, exports have increased from 10% of world wine production in the 1960s to more than 25% today.

[12] This section is based on various papers in Anderson, Kym (ed.) (2004), 'Globalization of the World's Wine Markets', London: Edward Elgar.

6. The South African wine industry in the global context

The production structure of the South African wine industry has changed radically since the run-up to the first democratic elections in 1994. A number of conclusions can be drawn from the data presented in Table 8 and Table 9. **First,** South Africa's wine export growth has been impressive, despite the slower rate of growth over the past year. Export volume and value growth has been considerably above the global average, and are the highest in the world, almost twice as high as the impressive rates of growth recorded by the Australian industry.

Table 8: Growth rates by region, 1990 – 2001

	Export volume	Export value	Vine area	Production volume	Production value
European exporters	4.7	4.7	-1.5	-0.5	-1.3
Other Europe	0.3	3.5	-1.2	-0.3	1.3
Transitional economies	3.4	4.0	-2.6	-2.3	1.3
North America	15.1	16.8	3.2	3.9	2.0
Latin America	16.5	22.7	0.8	1.1	-1.8
South Africa	26.8	26.2	1.6	2.0	3.5
Australia	15.6	17.9	9.0	7.7	2.4
New Zealand	13.6	18.2	8.3	2.6	2.0
China	9.1	11.9	7.2	6.3	6.9
World total	5.4	6.1	-0.8	0.2	0.4

Source: Anderson, 2004: 24

Table 9: Share of the value of exports going to various importing regions, 2001 (%)

Exports to: Exports from	European exporters	Other Europe	North America	Oceania [2]	Asia, Pacific
France	4	62	20	1	9
Italy	6	57	27	1	4
Spain	13	66	10	0	3
Australia	1	56	32	5	6
Portugal	32	43	16	1	2
Germany	7	60	13	1	9
Chile	3	44	28	0	7
USA	2	62	16	0	17
South Africa	2	80	8	1	2
Argentina	2	37	29	0	10
Transitional economies [1]	2	26	3	0	2
World	6	58	20	1	8

Notes:
[1] Central and Eastern Europe and the former Soviet Union; [2] Australia and New Zealand
Source: Anderson, 2004: 23

Second, this growth has occurred despite the fact that the growth in the number of vines planted and in the value of production, while greater than the world average, is low in comparison to other New World Producers. **Third,** while the growth in export value is impressive, it was lower than the growth in export volume, unlike the performance of the USA, Latin America, Australia and New Zealand. Hence, the South African industry has been a relative latecomer in terms of its ability to 'climb the value chain'. **Fourth,** South Africa's exports are still concentrated largely on the wine importing Western European countries (largely the UK, Netherlands and Belgium). Hence, our industry has also lagged in terms of its ability to diversify exports beyond its traditional markets.

A recent study by SAWB[13] has established that there has been a sustained increase in the competitiveness of the industry. This increase in competitiveness is largely related to factors such as the availability of scientific research, the flow of technical information, high regulatory standards, investments in human resources, etc. However, many factors constrain competitiveness, including the strength of the Rand and exchange rate instability, and low trust in political support.

The competitiveness of the South African industry in global terms is reflected in the data in Table 10, which confirms that global consumption of wine has decreased over the past decade. South Africa's per capita consumption of wine has remained constant over this period, and is lower than in Europe, Australia and New Zealand, but on a par with the Americas, and higher than Asia. On the other hand, while the country's exports as a share of total output has increased impressively to 15%, it is still considerably lower than the global average of 26%.

Table 10: Trade orientation in the global wine market

	Consumption per capita (litres p.a.)	**Exports as a % of output**	**Index of revealed comparative advantage**	**Export unit value (US$)**
European exporters[1]				
1988-90	63	21	6.34	1.88
2001	52	33	6.35	2.06
Other European				
1988-90	19	20	0.25	1.48
2001	21	25	0.22	1.83
Transitional economies[2]				
1988-90	8	5	0.36	0.77
2001	10	19	0.58	0.70
North America				
1988-90	8	3	0.08	1.75
2001	8	12	0.23	1.81
Latin America				
1988-90	6	2	0.17	0.73
2001	4	16	1.04	1.96
South Africa				
1988-90	9	1	0.18	1.13
2001	9	15	3.46	1.39
Australia				
1988-90	19	10	1.16	2.17
2001	21	41	6.26	2.40
New Zealand				
1988-90	14	7	0.39	2.61
2001	17	36	2.67	4.33
China				
1988-90	0.1	1	0.02	1.80
2001	0.5	1	0.01	1.45
World total				
1988-90	4.6	15	1.00	1.67
2001	4.0	26	1.00	1.93
Growth rate (% p.a.)	-1.0	5.3	-	0.70

Notes:
[1] France, Italy, Portugal and Spain; [2] Central and Eastern Europe and the former Soviet Union
Source: Anderson, 2004: 28, 29

[13] SAWB, 2006. An inquiry into the competitiveness of the Sou8th African wine industry. Stellenbosch

The revealed comparative advantage measures the share of wine in the country or region's exports as a ratio of the share of wine in the value of global merchandise exports. Obviously, this means that global comparative advantage is unity, and an index of above one means a comparative advantage, and below one a comparative disadvantage. By this measure, South Africa has moved from a comparative disadvantage to a comparative advantage. However, this performance in absolute terms is less impressive than that of the traditional European exporters and Australia, but more impressive than that of New Zealand and the Americas.

Finally, the last column shows the unit value of exports (the average price of a bottle of wine exported in US$), a crude measure of the quality of exports. By this measure South Africa has also performed less impressively than its New World competitors. Nevertheless, the South African industry has succeeded in transforming from a production driven system to a market related and highly competitive sector, even though there is still ample scope for improvement.

7. Transformation in the South African wine industry

The purpose of this section is to provide baseline information on the existing level of Black Economic Empowerment in the wine industry. In this regard, the distribution of production is discussed first, followed by the results of the two surveys that were conducted for the purposes of the WCSC process.

7.1 The distribution of production

First, Table 11 shows the distribution of production among wine farmers in South Africa. The top two panels provide cumulative percentages in descending and ascending order when registered producers who have not delivered any grapes for three years are included. The lower two panels repeat this exercise in the case where these producers are not included.

These data show that 43.7% of active producers (those who deliver between 1 and 100 tons of grapes) produce only 4.8% of the total crop. At the other end of the spectrum, the 270 largest producers, who represent 7.2% of the producers produce 39.6% of the wine grape crop, and 56.3% of the producers deliver 95.2% of the crop. This contrasts with agriculture as a whole, where some 27% of the farmers produced 73% of the total gross value of agricultural production (Agricultural Census 2005). The reason for this difference is apparently the fact that higher quality wines are made from lower yielding grape vines. Nevertheless, it is clear that the distribution of enterprise size in the wine industry reflects the expected skewed distribution that is found world-wide.

7.2 BEE among wine grape producers[14]

The first baseline study as part of the development of the Wine Industry Charter and BEE Scorecard was undertaken in 2004[15]. The survey included the corporate wine sector, all 331 private and 66 co-operative[16] (i.e. a total of 397) cellars, but, to save costs, only a sample of 400 of the total of around 4 000 wine grape producers was targeted. The response of the cellars was good, with 88.2 per cent of the questionnaires returned. Although 172 (43 per

[14] This section is a summary of Kassier, WE, 2005, Black Economic empowerment in the wine grape producer and co-operative wine cellar sectors: Baseline study

[15] Kassier, WE *et al.*, Black economic empowerment (BEE) in the South African Wine Industry. Paper presented at the AEASA Conference, 22 September 2004.

[16] Includes co-operatives that have converted into companies

cent) of the producer questionnaires were completed, this represents only about 4 per cent of the total producer corps. It was mainly due to the low grape producer response (the survey was unfortunately conducted during the harvesting season) that it was decided to repeat the survey in 2005.

Table 11: The profile of production in the South African wine industry

Tons produced	Number of members	Cumulative (No)	Cumulative (%)	Total tons	Cumulative (Tons)	Cumulative (%)
0	1039	1039	21.6	0	0	0
1-100	1648	2687	55.8	57258	57258	4.8
101-500	1421	4108	85.4	351976	409234	34.6
501-1000	432	4540	94.4	304370	713604	60.4
1001-5000	265	4805	99.9	436112	1149716	97.3
5001-10000	5	4810	100	31813	1181529	100
Tons produced	**Number of members**	**Cumulative (No)**	**Cumulative (%)**	**Total tons**	**Cumulative (Tons)**	**Cumulative (%)**
0	1039	4810	100	0	1181529	100
1-100	1648	3771	78.4	57258	1181529	100
101-500	1421	2123	44.1	351976	1124271	95.2
501-1000	432	702	14.6	304370	772295	65.4
1001-5000	265	270	5.6	436112	467925	39.6
5001-10000	5	5	0.1	31813	31813	2.7
Tons produced	**Number of members**	**Cumulative (No)**	**Cumulative (%)**	**Total tons**	**Cumulative (Tons)**	**Cumulative (%)**
1-100	1648	1648	43.7	57258	57258	4.8
101-500	1421	3069	81.4	351976	409234	34.4
501-1000	432	3501	92.8	304370	713604	60.4
1001-5000	265	3766	99.9	436112	1149716	97.3
5001-10000	5	3771	100	31813	1181529	100.0
Tons produced	**Number of members**	**Cumulative (No)**	**Cumulative (%)**	**Total tons**	**Cumulative (Tons)**	**Cumulative (%)**
1-100	1648	3771	100	57258	1181529	100
101-500	1421	2123	56.3	351976	1124271	95.2
501-1000	432	702	18.6	304370	772295	65.4
1001-5000	265	270	7.2	436112	467925	39.6
5001-10000	5	5	0.1	31813	31813	2.7

Source: VinPro

Response rates

'Postal' surveys are known for their relatively poor response and the baseline surveys have been no exception. After the unsatisfactory response from farmers in the 2004 survey, however, considerable effort on the part of WCSA and an article in *Winelands* (see the May 2005 issue, page 8) encouraging potential participants to complete and return the questionnaires, resulted in 599 (18.18%) out of 3294 wine grape producers[17] taking part, as shown in

Table 12. This response is within the bounds of best practice, and can be accepted as representative of the industry as a whole.

[17] SAWIS has registered 4810 members as wine grape producers. However, 1039 of these have not delivered any grapes in the past three years. In addition, the 477 private wine cellars are also counted amongst the wine farmers.

The Table also shows that in the 2004 baseline survey the response from the wine cellar sector was above 90%, hence these data were preferred to those of the 2005 survey, which had a weaker response. Finally, the response from the private cellars was negligible. It was therefore decided not to include an analysis of the private wine cellars in this report.

In terms of wine grape producer numbers, the 2004 baseline survey was characterised by a relatively poor response from the Olifants River and Orange River regions and also Stellenbosch. The situation in the 2005 survey was almost completely the reverse, with relatively good responses from the Orange River and Olifants River and a somewhat better response from the Stellenbosch region. In fact, about 38 per cent and 10 per cent of all the respondents are from the Orange River and Olifants River respectively. The response from the Klein Karoo, Paarl and Malmesbury regions was relatively poor, which obviously introduces some bias into the analyses.

Table 12: Baseline survey response

	Industry total		Number of respondents		% of industry	
	2004	**2005**	**2004**	**2005**	**2004**	**2005**
Wine grape producers	3440	3294	172	599	43.00*	18.18
Co-operative wine cellars	66	66	60	26	90.90	39.39
Private wine cellars	331	477	294	17	73.50	3.56

Note: From a sample of 400

Farm ownership

There is an impression in some circles that the wine industry is characterised by the establishment of 'wine farm dynasties', i.e. farms that have been owned by the same family for generations. It is difficult to interpret the survey data in the absence of comparable data from other sectors. Nevertheless, Table 13 shows that farms had been owned by the current owners for an average of 20 years, and have been under the ownership of the same family for an average of 56 years. Given the probable bias from the over-representation of farmers in the 'new areas' (Orange River and Olifants River), these confirm the stability of ownership in the industry.

Table 13: Details of farm ownership

Item	Present owner		Family	
	Response	**Years**	**Response**	**Years**
Farm ownership	562	20	518	56

Levels of literacy

Assuming that basic literacy requires an educational level of higher than Grade 4, the wine industry faces a considerable challenge, as more than 40% of workers on wine farms have acquired Grade 4 or less (Table 14).

Table 14: Literacy level of employees: wine grape producers (551 respondents)*

	Employees		Employers	
Level of education	**Total**	**Proportion**	**Level of education**	**Proportion**
Total number of employees	8949	100		
No schooling	1659	19		
Grade 1-4	1990	22		
Grade 5-6	2073	23		
Grade 7-8	1803	20		
Grade 9-10	888	10	Grade 12 or less	5
Grade 11-12	431	5	Matric	34
Tertiary	105	1	Tertiary	60
Short courses completed	1345			
Currently studying	126			

Participation by employees in decision-making

Around 13 per cent of the wine grape producers reported that their employees are involved in strategic and policy decision-making. Of these about 81 per cent are black men and 19 per cent black women. Thirty-two per cent of producers involve their staff with management and day-to-day decisions (
Table 15).

Table 15: Participation in decision-making by employees

Level	No. Responded	% Yes	% Black Men*	% Black Women*
Grape producers				
Strategic/policy	592	12.55	80.87	19.13
Management/day-to-day	587	31.52	80.67	19.33

Note: * Of the "Yes" response, the percentage who are black men or women respectively

BEE among wine grape producers

The survey showed clearly that, despite much publicity and information initiatives about the nature and likely application of BEE in general and in agriculture in particular, it is apparently still not clearly understood. Furthermore, there seems to be some confusion between basic conditions of employment (as set out in the *Basic Conditions of Employment Act of 1997)* and (broad based) black economic empowerment.

As far as shareholding is concerned, 5.51% of the producers reported that they have become involved with shareholding schemes for BEE (Table 16). This also includes participation as members of a co-operative in, for example, a grape production venture for their workers such as in the Robertson area.

A further 5.18% of producers have introduced profit sharing programmes. Possibly because they were unaware of such an item in the BEE Scorecard, only a small number of producers have become involved in lease or rental arrangements. On the other hand, almost 17% indicated that they have introduced BEE activities relating to employee housing. There is some doubt as to whether all the respondents did not include initiatives that fall in the category of basic conditions of employment, as alluded to earlier. For instance, some respondents cited 'free housing', but it is not clear whether, according to the rules relating to the Basic Conditions of Employment Act, the employer would qualify to charge (or subtract from employee remuneration) for housing in the first place. However, it is known that a number of housing programmes have been introduced enabling employees to obtain ownership of their houses.

Further, a number of grape producers report that they have involved black employees in management (see also
Table 15). This has been an established practice for quite a long time on a number of farms. The appointment of black people on boards of directors is a relatively new phenomenon, as is the ownership by blacks of trade marks.

Human resource development

As shown in Table 16, employment equity, community development, basic adult education and the support of farm schools form the major BEE activities in the human resource category for wine grape producers. Mentorship is also a popular choice. It is a pity that not many respondents gave details of their programmes, making it difficult to gauge the quantum of the initiatives.

Employment equity programmes are not always easy to implement over the short to medium term on the smaller wine grape farms with a handful of employees. On wine farms such initiatives are concerned mainly with appointments at senior level, as almost all the employees at middle and lower levels are in any case black.

Table 16: Black economic empowerment among wine grape producers

Category	Grape Producers	
	No of cases	% of respondents
Direct empowerment		
Shareholding	33	5.51
Profit sharing	31	5.18
Lease/rental	14	2.34
Employee housing	97	16.19
Participation in management	82	13.69
Seat on board of directors	11	1.84
Ownership of trademark	10	1.67
Human resource development		
Mentorship	68	11.35
Employment equity	197	32.89
Community development	153	25.54
Basic adult education/training	117	19.53
Elimination of illiteracy	45	7.51
Support for farm schools	196	32.72
Indirect empowerment		
Outsourcing	87	14.52
Preferential procurement	35	5.84
Development of BEE business	28	4.67
Access to resources	35	5.84
Industry specific		
Health care	144	24.04
Pre-school programme	62	10.35
Educational programmes	59	9.85
Sport and recreation	85	14.19
Bursary schemes	31	5.18

Indirect empowerment

The practice of outsourcing is on the increase worldwide and is expected to also become more significant with time on wine farms and in cellars. Outsourcing has particular potential for BEE, particularly for smaller businesses that are not in a position to make use of economies of scale. Furthermore, this can be applied in so many ways.

Preferential procurement is an important element of BEE, but a somewhat more difficult issue. First, at the time of the survey this was one of the categories for which the Codes of Good Practice and the directory of the BEE status of suppliers in the wine industry had not yet been published. The issue of *discretionary* purchases and the like had not yet been resolved. It was therefore difficult for wine grape producers to engage meaningfully in preferential procurement. Nevertheless, about 6% of grape producers reported their involvement in preferential procurement. However, it should be borne in mind that many primary producers purchase the major portion of their inputs from co-operatives, which by their nature attract little interest as entities by themselves for BEE initiatives.

The development by wine grape producers of separate BEE business entities has not received much attention. This also applies to the facilitation of access to resources as an empowerment tool.

Use of contract work(ers)

The extent to which wine grape producers make use of contract workers is shown in Table 17. This aspect should be considered in conjunction with outsourcing as discussed above. Seventy six per cent of the wine grape producers and 85 per cent of the co-operative cellars make use of contract workers. The grape producers use contract workers mainly for harvesting and pruning.

Attitude towards black economic empowerment

The attitude of wine grape producers towards BEE is shown in Table 18. About 60% of the respondents are either in favour of BEE or are willing to become involved, but are not sure how to go about it. Some 11% are strongly opposed to BEE, while a further 6% say they would become involved, but only if they were forced to do so. Almost a quarter of the grape producers have a neutral attitude towards BEE. It is possible that much of the negative attitudes can be ascribed to a lack of understanding of the broad based nature of BEE. On the other hand, fully 60% of producers are willing to become involved in BEE.

Table 17: Use of contract work(ers)

Item	Grape Producers
Per cent reporting "YES"	75.99
For:	
Harvesting/pressing season (%)	59.32
Pruning	65.23
Establishing vineyards	21.59
Remove suckers	12.27
Trellising	9.32

Table 18: Attitude towards black economic empowerment

Item	Grape Producers
Number responded	581
	Per cent
Strongly opposed **- overall**	**11.36**
- Years+ < 30	11.24
- Years+ 30 - 45	10.64
- Years+ < 45	12.12
Will do if forced to **- overall**	**6.20**
- years < 30	6.94
- years 30 -35	3.19
- years > 45	6.06
Neutral **- overall**	**23.58**
- years < 30	22.25
- years 30 - 45	27.66
- years > 45	27.27
Willing but do not know how **- overall**	**40.45**
- years < 30	40.43
- years 30 - 45	40.43
- years > 45	36.36
In favour **- overall**	**18.42**
- years < 30	19.14
- years 30 - 45	18.09
- years > 45	18.18
TOTAL **- overall**	**100.00**
- years < 30	76.70
- years 30 - 45	17.25
- years > 45	6.05

Notes: + Number of years under present ownership

Much value and pride is frequently attached to the length of time a business or property has been operated or owned by the same family. One might expect that the longer this period of ownership, the more negative the attitude could be towards BEE, especially because of the false perception that BEE has to do more with ownership of land than anything else. The analysis in Table 18 does not support this.

Capacity of employers to become involved in black economic empowerment

Of the 516 wine grape producers who responded to this question, over 80% maintained that they did not have the capacity to become involved with BEE (Table 19). The main reason given was they believed their farm was too small.

Table 19: Capacity of employer to become involved with black economic empowerment

Item	Grape Producers (%)
Respond YES	19.89
Respond NO	81.11
Reasons why answer is "NO"	
Farm too small	45.88
Poor profitability in wine industry	24.35
Lack of capital	18.91
Lack of knowledge/training	5.43
Other/no response	5.43
TOTAL	100.00

It is evident that the perception still remains that BEE involves only land and that they are expected to 'forfeit 30 per cent of their land by 2014' and that they are already finding it difficult to make ends meet. The second most important reason why the wine grape producers contend that they do not have the capacity to become involved in BEE is the poor profitability of the wine industry and as a corollary the lack of capital. Almost all agricultural industries in South Africa are experiencing difficult times at present, mainly because supply has outstripped effective demand. It is interesting to note that fewer than 6% of the grape producers gave 'lack of knowledge and/or training' for not having the capacity to engage in BEE programmes. This is in contrast with the response shown in Table 18 where 40% of the wine grape producers answered that they would be willing to become involved in BEE activities, 'but do not know how'.

Corporate social responsibility in respect of black economic empowerment

One of the sections of the BEE Scorecard has to do with the handling of 'corporate social responsibility', such as the responsible use of alcohol, bursary schemes and the like. The question that was posed was whether such initiatives should be tackled at industry level? The response is given in Table 20.

No less than 84 per cent of the wine grape producers' answer was yes. As can be seen in Table 20, the choice of organization that should do this was evenly spread, with the South African Wine and Brandy Company (SAWB) being the most popular choice.

Table 20: Involvement with corporate social responsibility in the wine industry

Item	Grape Producers
Respond YES	84.53
Respond NO	15.47
Who?	
Agri-SA	17.47
Agri Provincial	17.80
Farmer Associations	11.87
Wine Industry (SAWB)	21.65
Cellars	12.42
Chose more than one	13.74
Chose all above	5.05
TOTAL	100.00

ANNEXURE 2: NET FARM INCOME FOR WINE GRAPES 2005

Weight	19.50%	20.41%	10.94%	11.02%	10.16%
DISTRICT	**Stellenbosch**	**Paarl**	**Olifantsrivier**	**Worcester**	**Breedekloof**
AVG GROSS INCOME (R/ton)	**3999**	**3145**	**1159**	**1932**	**1708**
AVG PRODUCTION (Ton/ha)	**6.88**	**9.11**	**20.72**	**13.78**	**15.41**
AVG NET INCOME (R/ha)	**27537**	**28646**	**24014**	**26640**	**26313**
COST STRUCTURE	**RAND PER HA**	**RAND PER HA**	**RAND PER HA**	**RAND PER HA**	**RAND PER HA**
DIRECT COST					
FERTILIZER	584	435	789	886	1,026
PESTICIDE CONTROL	1,796	1,098	978	1,377	1,493
HERBICIDE CONTROL	687	352	180	564	414
REPAIR & BINDING MATERIAL	116	43	109	66	94
Subtotal	**3,183**	**1,928**	**2,056**	**2,893**	**3,027**
LABOUR					
SUPERVISION	1,942	1,075	436	1,056	999
GEREELDE ARBEID / PERMANENT LABOUR	4,822	4,372	2,888	4,716	3,736
SEASONAL LABOUR	2,467	1,903	964	452	977
Subtotal	**9,231**	**7,350**	**4,288**	**6,224**	**5,712**
MECHANISATION					
FUEL	1,000	779	1,029	1,001	923
REPAIR AND SPARE PARTS	1,800	1,142	1,644	1,739	1,514
LISENCES AND ASSURANCE	329	216	347	440	319
TRANSPORT HIRED	67	255	98	55	128
Subtotal	**3,196**	**2,392**	**3,118**	**3,235**	**2,884**
FIXED IMPROVEMENTS					
REPAIR AND MAINTENANCE	742	701	554	517	560
ASSURANCE	199	71	207	230	148
Subtotal	**941**	**772**	**761**	**747**	**708**

GENERAL EXPENDITURES					
ELECTRICITY	566	663	932	1,032	1,071
WATER	481	384	1,408	829	87
RSC RATES	184	173	81	93	72
ADMINISTRATION	1,426	853	663	717	530
Subtotal	**2,657**	**2,073**	**3,084**	**2,671**	**1,760**
TOTAL CASH EXPENDITURES	**19,208**	**14,515**	**13,307**	**15,770**	**14,091**
PROVISION FOR RENEWAL	**5,746**	**4,881**	**6,492**	**5,722**	**5,216**
VINEYARDS	2,649	2,760	2,731	2,856	2,820
FIXED IMPROVEMENTS	580	455	532	603	484
LOOSE ASSETS	2,517	1,666	3,229	2,263	1,912
TOTAL PRODUCTION COST	**24,954**	**19,396**	**19,799**	**21,492**	**19,307**
Net Farm Income (FI - PRODUCTION COST)	**2,583**	**9,250**	**4,215**	**5,148**	**7,006**

Continued

Weight	3.34%	14.61%	10.02%	100.00%
DISTRICT	**Klein Karoo**	**Robertson**	**Oranjerivier**	**Average**
AVG GROSS INCOME (R/ton)	**1598**	**1891**	**851**	**2350**
AVG PRODUCTION (Ton/ha)	**16.18**	**13.89**	**26.63**	**14**
AVG NET INCOME (R/ha)	**25855**	**26258**	**22671**	**26424**
COST STRUCTURE	**RAND PER HA**	**RAND PER HA**	**RAND PER HA**	**RAND PER HA**
DIRECT COST				
FERTILIZER	881	642	714	686
PESTICIDE CONTROL	912	1,305	454	1,251
HERBICIDE CONTROL	220	415	221	420
REPAIR & BINDING MATERIAL	45	19	50	69
Subtotal	**2,058**	**2,381**	**1,439**	**2,426**
LABOUR				
SUPERVISION	711	742	322	1,028
GEREELDE ARBEID / PERMANENT LABOUR	3,488	3,908	2,699	4,006
SEASONAL LABOUR	958	1,098	2,389	1,556
Subtotal	**5,157**	**5,748**	**5,410**	**6,590**
MECHANISATION				
FUEL	1,038	672	1,168	921
REPAIR AND SPARE PARTS	1,405	1,439	1,385	1,505
LISENCES AND ASSURANCE	338	265	360	313
TRANSPORT HIRED	226	38	53	113
Subtotal	**3,007**	**2,414**	**2,966**	**2,852**
FIXED IMPROVEMENTS				
REPAIR AND MAINTENANCE	335	577	243	582
ASSURANCE	198	89	200	156
Subtotal	**533**	**666**	**443**	**738**

GENERAL EXPENDITURES				
ELECTRICITY	732	967	443	780
WATER	1,218	589	734	627
RSC RATES	121	191	63	136
ADMINISTRATION	953	567	881	861
Subtotal	**3,024**	**2,314**	**2,121**	**2,403**
TOTAL CASH EXPENDITURES	**13,779**	**13,523**	**12,379**	**15,010**
PROVISION FOR RENEWAL	**5,740**	**5,749**	**6,128**	**5,633**
VINEYARDS	2,899	2,915	2,840	2,787
FIXED IMPROVEMENTS	524	492	334	503
LOOSE ASSETS	2,317	2,342	2,954	2,343
TOTAL PRODUCTION COST	**19,519**	**19,272**	**18,507**	**20,643**
Net Farm Income (FI - PRODUCTION COST)	**6,336**	**6,986**	**4,164**	**5,781**

Source: VinPro