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SOUTH AFRICA'S INDUSTRY SURGING

Rain towards the end of the 2008 harvest marred what might otherwise have been the crowning moment to a 12 month turnaround in the South African wine industry. With exports trending at 116% and the South African Rand some 30% weaker than a year ago, the crisis which pummelled producers in 2006 seems distant history. The

2008 vintage, seemingly of exceptional quality until unseasonal rain brought some rot to the tail end of the white wine harvest and to some of the red varieties, may be the largest on record. With ample wine, booming export sales and burgeoning revenues, the swing of the pendulum seems complete.

The perfection of paradise may still prove elusive, however, since the rain could prove significant. Where producers have sophisticated sorting arrangements, volume losses could be as high as 20%. Where cruder selections are required, either recoveries or average quality will be down enough to compromise margins. Equally importantly, the domestic market, which still accounts for roughly half the industry's wine production, is likely to show signs of weakness. The battering suffered by the South African rand, linked as it is to gaping infrastructural problems, comes with business and consumer confidence at levels as low as they were in the mid-1980s. Rising domestic interest rates have brought an abrupt end to the consumer-led boom of the past decade. Just as local wine buyers were beginning to discover the joys of Cape wine - 2007 saw the first year-on-year increase in domestic consumption in more than five years - household budgets are under substantial pressure. Inflation, which for years has hovered comfortably within the Reserve Bank's target range of

3% to 6%, is moving ominously close to 10%, fuelled by rising interest rates and the knock-on effect of higher oil prices and the weak currency.

Despite the black cloud over the country, where rising crime rates, power outages and spiralling inflation have all played a role, nothing can dampen the upbeat mood of the wine industry. Export revenues are rising so strongly that the brittleness of the domestic trade can almost be discounted. Besides, fine wine is still very much a feature of the lifestyles of the well-to-do, the one class relatively inured to the economic downturn. Most of the country's best producers are still allocating their top wines, demanding higher-than-inflation price increases by arguing that the export market will absorb whatever is offered to it. Top whites are in increasingly short supply, a problem that will be exacerbated by the rain during the 2008 vintage. Reds are more

plentiful, though much of the stock surplus is gaining foreign shelf space as the impact of the Australian drought thins out competition for listings.

Growing exports into Africa are reported to be depleting the reserves carried

forward from previous vintages. Once the stock overhang from 2006 is out of the system, it seems reasonable to assume that producers and their export agents will adopt a tougher and more intransigent approach to price negotiations over the 2008 vintage. Nowhere is the effect of the swing of the pendulum more evident than in the build up to Cape Wine 2008, the bi-annual export exhibition held in Cape Town under the auspices of Wines of South Africa (WOSA). According to WOSA's managing director Su Birch, bookings are running significantly higher now than they were six months before Cape Wine 2006. "Stands are set to be more sumptuous and there is greater evidence of collaboration between like-minded producers. Perhaps the crisis of two years ago has helped to forge a spirit of greater unity among South Africa's winemakers."

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