PURCHASING PRACTICES OF GERMAN DISCOUNT RETAILERS AND LABOUR CONDITIONS ON SOUTH AFRICAN WINE AND GRAPE FARMS

Sustainability Institute South Africa

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This report was compiled from the cumulative findings of fieldwork conducted by Glenise Levendal, the 2017 WFP Labour Conditions Survey and an analysis of the grape and wine industries by Stefanie Swanepoel and Tawanda Maradure.

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ABBREVIATIONS AND ACRONYMS

BFAP	Bureau for Food and Agricultural Policy
BWI	Biodiversity Wine Initiative
FSA	Fruit South Africa
IBETA	International Bulk Exchange, Trade and Auction
IPW	Integrated Wine Production
OIV	International Organization of Vine and Wine
PACSA	Pietermaritzburg Agency for Community Social Action
PIC	Public Investment Corporation
PWC	PricewaterhouseCoopers
SATI	South African Table Grape Industry
SAWIS	South African Wine Industry Information & Systems
SIZA	Sustainability Initiative of South Africa
SWSA	Sustainable Wine South Africa
WFP	Women on Farms Project
WIETA	Wine Industry Ethical Trading Association
WISE	Wine Industry Strategic Exercise
WOSA	Wines of South Africa

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1. INTRODUCTION

1.1 Background

The apartheid system supported the emergence of unequal power relationships between black African/coloured workers and white farm owners. South Africa is transitioning towards a more just and equal system, but very slowly. It has taken the country more than two decades to recognize poor working conditions as a national issue.

Racial classification in South Africa

Racial classification in South Africa is still based on the apartheid-era Population Registration Act (1950). This act recognised four main groups: White (of European descent), Natives (black Africans), Indians (of Asian descent) and Coloured people (of mixed descent) (SAhistory.org.za n.d.). These categories are still used as descriptors of racial groups, and requested as identifiers in government documentation (Parcsa.co.za n.d.).

A 2011 Human Rights Watch Report highlighted the poor living conditions of South Africa's farm workers, noting issues regarding sub-standard housing conditions, poor occupational health and safety conditions, lack of access to basic services and low wages (Human Rights Watch 2011). While conditions have improved for some, for many these findings still form the day-to-day reality of their lives.

In late 2012 farmworkers in De Doorns and the surrounding areas in the Western Cape went on a widespread strike in reaction to low wages and poor services. This unprecedented and widespread action highlighted the underdevelopment and exploitation taking place in South Africa's rural hinterland. These issues have been consistently neglected in post-apartheid South Africa. Farmworkers in the De Doorns region demanded a wage increase from R69 to R150 a day and highlighted poor employment conditions on local farms. Farmers argued that this increase would make farming unviable, cost the industry jobs and aggravate the social problems associated with widespread unemployment.

Non-government organisations, in particular the Women on Farms Project (WFP), countered this argument based on their work with farming communities (Donnely 2013). It argued that there was scope to improve conditions, including through increasing salaries and by providing farmworkers with their own land to enable them to improve food security. In response, the South African government commissioned a study to explore working conditions on farms. The Bureau for Food and Agricultural Policy (BFAP), a research body based at Pretoria and Stellenbosch universities, undertook the study.

The study interrogated agricultural wages across the country and highlighted the pressure felt on both sides of the divide, noting that the dilemma facing farmers and farmworkers was potentially “highly disruptive” to the industry (BFAP 2012). It called for an improvement in policy to manage the resultant conflict. Further, the report highlighted growing evidence of commercial farmers shifting from using “permanent workers to using more seasonal workers and that many people who used to live on and work on farmers no longer [did] so” (BFAP 2012).

It identified a significant problem in that even if farmworkers were paid R150 a day, which seemed unaffordable to most farmers, “most [farmworker] households [still] cannot provide the nutrition that is needed to make them food secure.” The existing “hunger wages” did not cover basic necessities for families; workers stopped striking in places where wages were increased and met basic needs (De Waal 2012).

In addition, the report argued that South Africa’s agricultural sector had always been dependent on the availability of cheap and unskilled labour, which was not a tenable long-term strategy for the sector. Unskilled labour typically refers to those who do not hold formal qualifications to undertake the work they perform; i.e. it excludes knowledge gained through experience, and marginalises jobs not viewed as formal, such as harvesting. The official sectoral determination for the farmworker sector that outlines minimum wages, working hours, leave days and termination processes, applies to all workers on a farm, including domestic workers and security guards (Labour.gov.za n.d.). This does not, however, automatically confer protection on workers hired under different designations (casual, part-time, etc.) that leave them vulnerable to exploitation.

Farmers were already turning to the use of less, but more skilled and better-paid workers. Policy, however, was not aligned with this transition in production systems and not geared to ease the difficulties that both farmers and workers would face. There is very little evidence even that significant role players in the private and public sector recognise this as a problem. This transition has also encompassed the casualisation of labour to avoid the regulatory burden (minimum wage, paid leave, etc.) placed on the use of permanent employees (Visser & Ferrer 2015).

This issue is complex in that wage demands are but one aspect of the outrage felt about the legacy of inequality, which is compounded by significant food price inflation. The Pietermaritzburg Agency for Community Social Action (PACSA) publishes regular food price barometers tracking increases in selected basic food items. It reveals in its last report of 2016 that the price of a basic food basket increased 16.7 percent between October 2015 and 2016. The basket equates to the average monthly food spend of a low-income household. PACSA notes that this basket is not nutritionally sufficient and that for a low-income family of seven people to eat nutritiously they would need to spend at least R4 197.31 a month. Almost half of South Africans (47 percent) earn less.

StatsSA's 2015 Labour Market Dynamics Survey calculates the median monthly earnings for Africans at just R2 900. Even the recommended national minimum wage introduced by the National Economic Development and Labour Council (Nedlac) in 2016 at R3 500 a month (R20 an hour) is insufficient to guarantee nutritional security. Low wages also have other negative consequences.

When families do not have the money to meet basic daily needs, they often take on credit to survive (Donnely 2013). WFP estimates that many farmworkers – about 70 percent of the work force – are hired as seasonal workers; most of these are women.

The gendered nature of the agricultural sector is a socially exclusionary one in that women are discriminated against and adversely incorporated into exploitative household reproduction and labour relations (Hickey & du Toit 2007). Social and cultural identity play very important roles in processes of social exclusion and adverse incorporation, as do the ways in which culturally embedded gender norms and roles work to marginalise women.

In addition, the shift to using seasonal labour is linked to an increase in legal and illegal evictions of farm workers from farms, and, a result, growth in the number and size of informal settlements in the surrounding areas. A 2011 study focused on the growth of informal settlements around Rawsonville in the Breede River Valley area surveyed residents to find that 68 percent of respondents had been evicted from nearby farms. Many of these were 'constructed evictions' in that farmers had cut off electricity and/or water supplies to force farmworker families to move.

Although much of the focus has been on the relationship between farmers and farmworkers within the boundaries of farm production, a broader analysis of the food economy within which farmworkers find themselves provides another useful way of understanding what seems to be an intractable challenge. Indeed, a systemic approach to the broader system is generally absent from both agricultural policymaking and popular discussions of the agricultural sector (van der Heijden, 2013). A different picture and different strategies may emerge when considering the entire food system, from the farm to the consumer's plate.

According to van der Heijden, a food-economy approach demonstrates that outcomes in land reform, rural poverty and retail food prices are interrelated and are the result of specific systemic policy choices rather than any "inevitable" workings of the market.

A modern, industrialised food system, which is dominant in South Africa, is characterised by distance between farmer and consumer, and long supply chains. Farmers and consumers no longer deal directly with each other but through intermediaries such as processors, wholesalers and supermarkets. In these supply chains the basic economic assumptions of demand, supply and equilibrium price seldom apply in neatly predictable ways. Instead, value sharing and cost sharing along the supply chain are determined to a considerable degree by who has power and who does not. Increasingly, it is the processors and supermarkets that have power in the system.

Smaller farmers and poorer consumers – including farmworkers – tend to have the least power of all. Long supply chains in themselves add costs, logistics, marketing and the profit imperative of many stakeholders. This food-economy structure is the main reason many farmers claim they cannot afford to pay decent wages, why small and emerging farmers struggle to make a living, and why most South Africans cannot afford to buy basic, nutritious food, even when they are employed.

This is not to argue that focus should be taken away from farms, but rather that they must be situated within a broader food system to allow for points of influence and leverage to be identified. For example, South Africa is a major supplier of bulk wine to the European market. It exported more than 61 million litres of bulk wine to Germany in 2015, 76 percent of exports to the country (South African Wine Information Systems [SAWIS] 2016). While South Africa is a significant bulk wine supplier in the global market, it fetches among the lowest prices for wine sold in this way. The shift to exporting bulk wine resulted in a loss of local revenue of almost R1.9 billion in 2014 (Harpers.co.uk 2015). Looking at the wine industry from a broader systemic perspective begs new questions and ideas about how to support the improvement of farmworker conditions in South Africa.

Considering the many challenges faced by the South African agricultural sector, this report investigates possible linkages between the purchasing practices of German discount supermarkets and labour conditions on South African grape farms. The research was commissioned as a side project of the WFP/ODE Programme on Labour Rights, which explores the context and causes for the labour rights situation in the South African grape and wine market to develop adequate advocacy strategies to improve the situation.

1.2 Methodology

A review of literature focused on South Africa's wine industry, its value chains and export links revealed the dearth of peer-reviewed literature on this sector. Most information in this study was drawn from annual reports and general news sites. The factual framework was countered by a series of interviews, telephone conversations and email correspondence with key stakeholders in the wine industry, including wine farmers, import and export companies and marketing organisations.

This enabled a sense of the reality of farmers to emerge, which is countered by the results of two focus group discussions conducted by WFP in the Western Cape in 2016 with women farmworkers. This report draws on WFP's 2017 Labour Conditions Survey, based on a participatory research methodology that employed both focus group discussions and a survey of 343 female farmworkers in the Western Cape and Northern Cape provinces. While the sample size is not necessarily representative the congruence in findings across farms and the provinces does illustrate common themes.

1.3 Report structure

The report is structured as follows:

- Chapter 2 looks at the global and local South African grape and wine markets. The chapter also provides an in-depth look at labour conditions in the wine production regions and an overview of the organisations and initiatives that aim to support transformation.
- Chapter 3 provides an overview of labour conditions on South Africa's wine farms, including the trends that affect these conditions, such as declining employment opportunities and the casualisation of labour.
- Chapter 4 expands on the different accreditation schemes applicable to the South African grape and wine sectors.
- Chapter 5 analyses the wine export market, with a particular focus on Germany. It explores South Africa's trade in wine with Germany and the key trends that determine local producers' ability to enter and succeed in the market.
- Chapter 6 summarises key observations from the preceding chapters.
- Chapter 7 concludes the report, recommending key themes around which Oxfam and its partners could build advocacy campaigns to improve working conditions for wine and grape workers in South Africa.

2. THE GLOBAL & LOCAL GRAPE AND WINE MARKETS

More than 24.9 million tons of grapes are produced each year (2020 Foresight 2015), mostly in China, the United States, Italy, France, Spain, Turkey, Chile, Argentina, Iran and South Africa (2 percent market share) (Countryranker.com 2016). About 70 percent of grapes is used to make wine, 27 percent is eaten as fresh fruit and the balance is sold as dried fruit (Perfectinsider.com 2016). Both grapes and wine are traded as commodities and for the best price possible. Price is determined by factors such as the state of the global economy, consumer demand, brand reputation and the purchasing power of the wine buyer – importer, supermarkets, blenders and discounters.

The South African grape and wine industry is one of the country's leading exporters of agricultural products. The industry accounted for 1.2 percent of the national GDP in 2013, contributing R36.1 billion to the national economy (VinPro 2015). This was a 37.8 percent increase from the industries' 2008 contribution, despite the global economic recession (VinPro, 2015). The grape and wine industries contribute to the national economy through wine tourism, agriculture, manufacturing, trade and hospitality.

Multilateral trade agreements between Europe and South Africa have expanded the export market for South African producers.

The grape and wine industry employs more than 300 000 people directly and indirectly, including farmworkers, packers, retailers and those working in wine tourism (VinPro 2015).

2.1 The table grape market

International trade in table grapes has grown significantly since the 1980s due to technological production, storage and transporation innovations, increasing consumer demand and enabling trade agreements (Seccia et al. 2015).

While some countries dominate exports, this is not necessarily a concentrated market in that recent entrants such as Peru have quickly been able to capture significant share (Seccia et al. 2015). China is the biggest consumer of grapes (more than 5 million tons in 2013), followed by India (2.09 million tons) and the United States (1.21 million tons). Despite European Union countries holding significant production roles, the region remains a net importer of table grapes, primarily from South African and Chile (Seccia et al. 2015).

Table 1: Global table grape producing and exporting countries 2015 (Seccia et al. 2015)

Table grape producing countries (% of global production 2015)		**Table grape exporting countries (% of global market share 2015)**	
China	12%	Chile	20%
Italy	9.1%	United States	12%
United States	8.7%	Italy	12%
France	7.6%	The Netherlands	7.5%
Spain	7.4%	South Africa	6.7%
Turkey	5.5%	Turkey	5.7%
Chile	4%	China	5.4%
South Africa	2.3%		

It is interesting to note that the Netherlands with 7.5 percent of the export market is not a grape-producing country, but serves as a trans-shipping point to other countries, both in the northern and southern hemispheres (Seccia et al. 2015).

2.1.1 An overview of the South African table grape market

There are an estimated 627 table grape producers in South Africa (DAFF 2015). A 2015 report by the Department of Agriculture, Forestry and Fisheries on the country's table grape value chain noted a significant increase (47 percent) in the number of table grape producers between 2013 and 2015, mainly in the Hex River and Orange River regions (DAFF 2015b). Total production volume increased by 15 percent between 2014 and 2015 (DAFF 2015b).

About 35 percent of the total area planted to deciduous fruit in South Africa is dedicated to table grapes and nearly 2 million tons of grapes are produced per year (DAFF 2015). Most production takes place in the Western Cape's Hex River Valley, which produces more than half of all grapes for export, followed by the Northern Cape with some production in the Eastern Cape, Free State and Limpopo provinces (DAFF 2012). The sector contributes more than R3 billion to South Africa's GDP; R183 million of which was generated by black-owned farmers (Fin24.com 2016). The total value of production was just more than R4 billion in 2015 – the significant increase in value from 2006 is driven by local inflation as opposed to increased production (DAFF 2015).

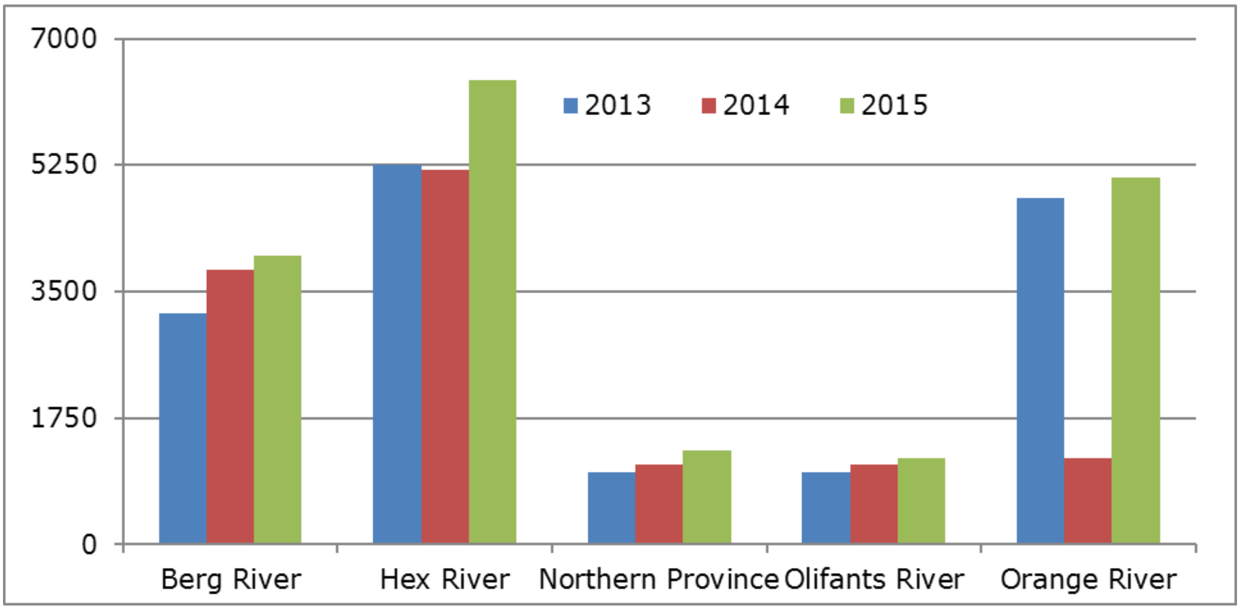


Figure 1: Area under table grape production 2012/13–2014/15 (Source: DAFF 2015)

South Africa produced about 270 million tons of grapes in the 2015/16 growing season – nearly 90 percent of this was exported (SATGI 2016b). Just more than 80 percent of grapes were exported to the United Kingdom and Europe and while prices were slightly down compared to the previous season, they increased in Germany where the wholesale prices were 5 percent higher in 2015/16 than the year before (SATGI 2016b). South Africa captured 6.18 percent of the global fresh grape market, and 4.38 percent of the dried grape market in 2014 (DAFF 2015), rising to 6.7 percent in 2015 (Seccia et al. 2015). The country is the second largest exporter of table grapes in the southern hemisphere (Seccia et al. 2015), yet still imports grapes from other African countries to satisfy local demand (DAFF 2015b). In 2014, South Africa exported just over 9 292 tons to Germany, far less than the amounts exported to the Netherlands (134 481 tons) and the United Kingdom (65 732 tons) (DAFF 2015).

2.1.2. South Africa's export relationship with Germany

Most German retailers and wholesalers prefer to deal with producers through an agent or import company – direct relationships are not common (USAID 2007). Specialist importers normally handle fruit sales to retailers (USAID 2007). South Africa does supply directly to Germany, although it is not one of the country's prime markets, but it is also possible that South African grapes find their way into Germany through the Netherlands (USAID 2007). Major importers/wholesalers/retailers dealing with grapes in Germany are the Rewe Group, Metro AG, Edeka, Aldi, ITT Ltd., Tengelmann, WalMart, Real and Fruticola, among others (USAID 2007).

The exporter plays a critical role in liaising with many elements along the supply chain, including management of the cold chain to ensure that quality is maintained until point of sale abroad (DAFF 2015b). The Fresh Produce Exporters Forum represents South African fruit exporters and aims to act as a gateway between local producers and international markets.

Fruit is exported directly to an importer with help or not from an agent, or sold through a cooperative (DAFF 2015b). Few exporters have long-term contracts with wholesaler/retailers, although there is a shift in this trend given the increasing strictness of phytosanitary regulations and the need for long-term planning (DAFF 2015b). The South African Table Grape Industry organisation sent a delegation to Germany in 2015 to improve understanding of the key trade practices of European buyers. The representatives on this trip noted that German discount chains were beginning to dominate the United Kingdom retail space with discount retail practices, and this would require producers to amend their marketing strategies (SATGI 2015b).

2.1.3. The table grape supply value chain

Producer ➡ **Pack house** ➡ **Cold storage** ➡ **Exporter** ➡ **Transporter** ➡ **Inspection services** ➡ **Port and terminal operators** ➡ **Retailers** ➡ **Consumers**

The supply chain between producers and consumers is long and complex. The above illustration does not include labour, financial institutions, government and other traders, which also play a role in the production, sale and consumption of table grapes (DAFF 2015b).

2.1.4. External factors influencing the market

The global recession, which started in 2009, and the subsequent local recession have affected both the wine and grape industries.

The grape industry is buffered, however, by the rising demand for grapes and prices have increased year-on-year since 2012 with projections that consumer prices will remain about 2.5 percent above current inflation rates for the next decade (ARC 2013). In addition, competition from developed countries within the European Union is diminishing as producers there face increasing production costs and competitive markets (Seccia et al. 2015). South Africa also enjoys preferential market access to the European Union through the Trade Development and Cooperation Agreement, and this region remains the most significant market for table grape exports (DAFF 2015b). While the United Kingdom’s departure from the European Union will not affect South African table grape producers because its existing treaties remain in place during the transition period, producers are increasingly looking to Asian markets to offset the risk of losing preferred status in these markets (SATGI 2016b).

2.1.5. Internal factors influencing the market

The costs of production have increased significantly since 2012. Costs for fertiliser and organic material have grown by 40 percent since 2012, for pesticides and herbicides by almost 80 percent and for labour by more than 25 percent (SIZA 2016). In addition, the increase in produced volume means that South African producers are under pressure to find new markets, but have historically battled to access the Asian markets (DAFF 2015b).

There has been some bad press in recent years about the perceived reliability of South African grape exporters, due to unfavourable weather in the Orange River and Berg River regions that affected the quality and quantity of grapes available for export (DAFF 2015b). In addition, the prevalence of bugs, such as the fruit fly, cotton stainer bug and vine snout beetle, has affected the quality of export grapes (DAFF 2015b). The consumer trend is towards seedless varieties of grapes, which is an expensive shift for farmers to make.

A statutory levy was passed in October 2016 on exported table grapes for 9.22 cents a kilogram; the levy will incrementally increase to 10.89 cents a kilogram by 2019 (DAFF 2016). The levy will be used to support research (70 percent of levies paid), pay administrative costs (10 percent) and establish transformation initiatives (20 percent) (DAFF 2016).

2.1.6. Employment conditions in the table grape sector

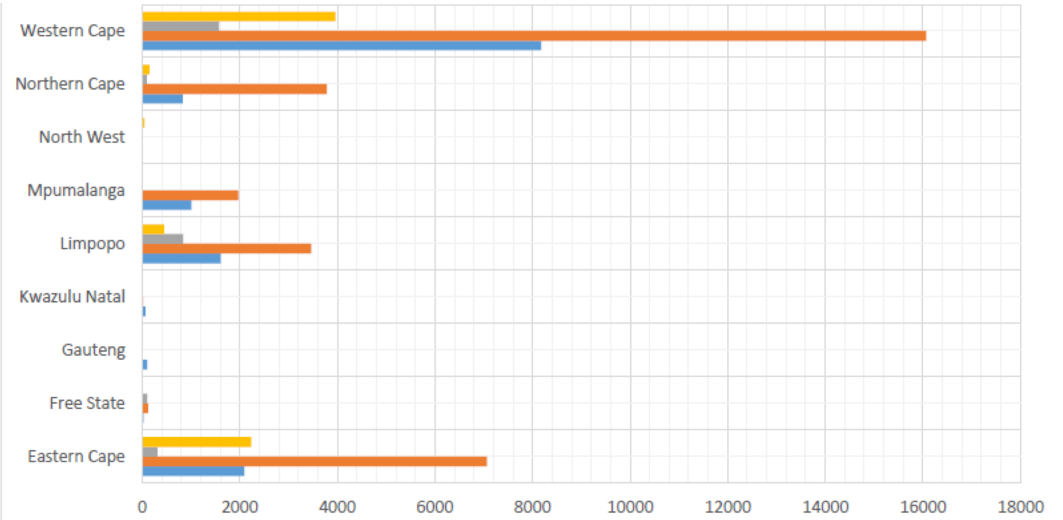
Just more than 10 800 permanent workers were employed in the sector in 2015 with about 192 500 dependents (DAFF 2015b). This is an increase in the number of permanent workers in 2014, but still 8.6 percent lower than the number employed in 2013 (DAFF 2015b). This is possibly accredited to a shift towards using seasonal or contract labour. The table below indicates the shift in employment patterns between 2013 and 2015.

Table 2: Shifting employment numbers in table grape industry, South Africa, 2013–2015

Region	**2013**		**2014**		**2015**	
	Seasonal	**Permanent**	**Seasonal**	**Permanent**	**Seasonal**	**Permanent**
Berg River	18 879	3 535	13 215	2 474	11 409	2 474
Hex River	8 795	4 580	7 527	3 995	7 600	3 266
Northern provinces	2 951	850	3 008	722	7 635	1 698
Olifants River	3 500	750	3 736	880	4 046	968
Orange River	1 6874	2 156	12 971	1 274	11 603	2 439
TOTAL	**50 999**	**11 871**	**40 457**	**9 345**	**42 293**	**10 845**

Source: Adapted from SATI Statistical Yearbook, 2015

A Sustainability Initiative of South Africa (SIZA) 2015 monitoring and evaluation report notes the worker profile across the various provinces, as depicted in the figure below. What is evident are the significant levels of temporary labour used throughout the country. There is insufficient monitoring and evaluation of the extent of labour rights protection and abuse happening at this level.



	Eastern Cape	Free State	Gauteng	Kwazulu Natal	Limpopo	Mpumalanga	North West	Northern Cape	Western Cape
Agency	2236	0	0	0	450	0	45	149	3963
Migrant	308	101	0	0	833	1	0	97	1578
Temporary	7063	120	0	20	3465	1973	0	3783	16071
Permanent	2097	26	98	69	1613	1004	0	831	8179

Figure 2: Worker profile per province June 2016 (Source: SIZA 2016)

A 2009 film Land of Dust (https://sacsis.org.za/site/article/2009) highlights some of the issues that farm workers on table grape farms in the Berg and Hex River Valley faced. The state provides for a minimum wage for farm workers.

Up until February 2017, the minimum hourly wage was R14.25 and daily wage was R128.26 based on a nine-hour working day (DAFF 2015b). The rate increases each year by the Consumer Price Index amount plus 1.5 percent (DAFF 2015b). The last census on the sector was conducted in 2008 and it indicated that at that time, almost 40 percent of permanent workers had medical benefits and 96.2 percent had unemployment insurance, with 17.4 percent of seasonal workers having access to medical benefits (DAFF 2015).

A 2015 government report noted that most farms were compliant with broad-based black economic empowerment (B-BBEE) legislation, the number of farms owned by women was growing and that historically disadvantaged people had owned 9 percent of agricultural land dedicated to table grape production by 2008 – the last year for which information is available (DAFF 2015).

Fruit South Africa (FSA) is a non-profit organisation comprising representatives of the Citrus Growers' Association of Southern Africa, HORTGRO, SUBTROP, the Fresh Produce Exporters Forum and the South African Table Grape Industry (SATI) (FSA n.d.). Among its various objectives, the organisation aims to promote broad-based black economic empowerment, skills development and transformation (FSA n.d.). One of its initiatives in this regard was the launch of an ethical trade programme in 2008, which became the Sustainability Initiative of South Africa (SIZA) because of demand from retailers and consumers that fair labour practices be used on the farms that supply them. The ethical standard was developed in South Africa, but is aligned to the Global Social Compliance Programme (SIZA n.d.). This programme is supported by local and international retailers, such as Tesco, Walmart, Ahold, COOP Switzerland, Carrefour, and Delahize (SIZA n.d.). SIZA monitors both environmental issues and labour legislation compliance (SIZA n.d.).

This programme provides support to producers wanting to run ethically compliant businesses and improve labour conditions on farms (FSA n.d.b). It promotes an ethical standard to be used as a benchmark for best practice; the standard aligns with international requirements (FSA n.d.b). The organisation monitors and verifies compliance with the standard among its members through self-assessments and third-party audits (FSA. n.d.b). SIZA has a membership of 1 523 – 14.87 percent of those are from the table grape industry and 3.03 percent from the wine industry (SIZA n.d.). It has conducted 271 ethical audits since January 2016 (SIZA n.d.). It provides its members with a variety of resources, including the Ethical Trade Handbook and practical training courses (SIZA n.d.). The latest monitoring and evaluation report of 2016 notes that non-compliance issues mostly focus on health and safety (40 percent of all instances), wages and terms of employment, and working hours issues (SIZA 2016). There has been a marketing attempt in Germany to grow awareness of SIZA accreditation, but there is no literature available on the success of this strategy (SIZA n.d.), although SIZA is recognised as a partner by GLOBALGAP (FSA n.d.c.).

2.2 The wine grape market

International trade in wine is nothing new. It has been traded across borders for at least 3 600 years (Winepros.org n.d.). More than a thousand years ago, the Roman Empire began exporting wine in barrels to Spain, Germany, England and France (Winepros.org n.d.). More than 270 million hectolitres of wine was produced in 2015 (Union Italiana Vini [UIV] 2015), mostly by the top 15 wine producers: Italy, France, Spain, the United States, Australia, China, Chile, South Africa, Argentina, Germany, Russia, Romania, New Zealand and Hungary (Italianwinecentral.com 2016). The biggest importers of wine are the United States (41.45 percent of all imports) followed by the United Kingdom (28.7 percent), China (18.73 percent) and Germany (17.8 percent) (UIV 2016). Figures from the first quarter of 2016, though, indicate that Germany is currently the world's leading wine importer (UIV 2016).

The value of international trade in wine was about $31 billion in 2015; more than $22.5 billion of this was in the form of packaged wine, $5.7 billion in sparkling wine and $3.1 billion in bulk wine (UIV 2016). The proportion of wine shipped in bulk has increased dramatically growing from 830 million litres in 2010 to about 870 million litres in 2015 (UIV 2016).

2.2.1 An overview of the South African wine grape market

There is an estimated 98 597 hectares dedicated to producing wine grapes in South Africa (WOSA 2016). South African wine production is concentrated in the Western Cape Province with major vineyards around Paarl, Stellenbosch and Worcester (VinPro 2015). There are six regions in the Western Cape, namely Breede River Valley, Cape South Coast, Coastal Region, Klein Karoo, Olifants River and Boberg (Figure 3). The regions encompass 26 diverse districts and 69 smaller wards. Other wine-producing regions in the country are found in the KwaZulu-Natal, Northern Cape, Eastern Cape and Limpopo provinces (Ponte & Ewert 2009). The best-known South African wine estates are in the Cape Winelands, which include the areas of Stellenbosch, Paarl, Franschhoek, Wellington, Constantia, Robertson, the Swartland, the Breede River Valley, and Durbanville (WOSA 2016). The wine farms in these areas produce different varieties, including Cabernet, Shiraz, Chenin Blanc and Riesling, Merlot, Chardonnay, Sauvignon Blanc and Gewürztraminer (Ponte & Ewert 2007). South Africa also produces lesser known varieties, such as Cinsaut, Tinta Barocca and Pinotage.

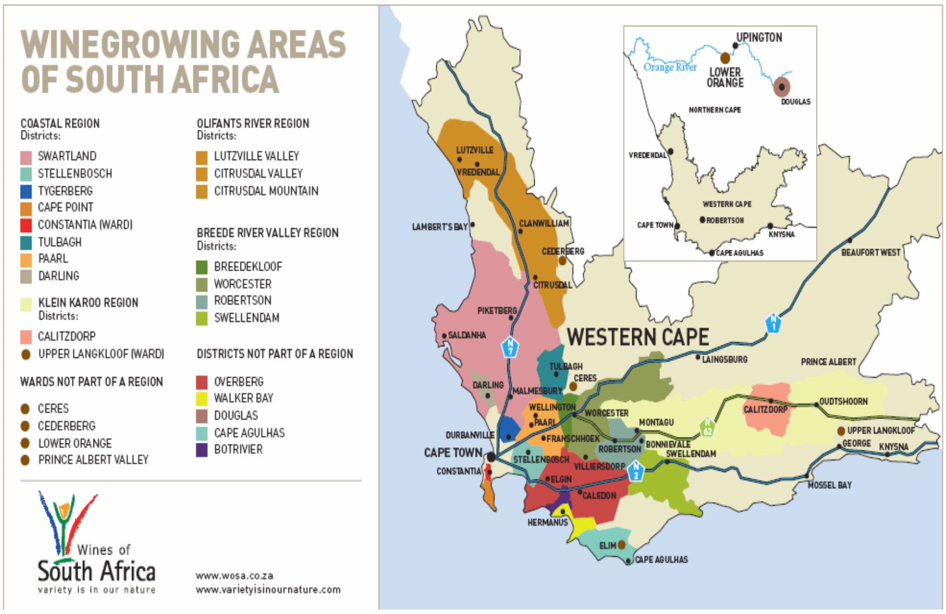


Figure 3: South Africa's wine producing regions (Source: WOSA 2016)

There were about 3 300 primary grape producers in South Africa in 2013 – a marked decrease from 3 800 in 2008, indicating a fair level of consolidation, most likely due to declining local demand and rising production costs putting pressure on smaller producers (SAWIS 2015).

Producers have formed partnerships to reduce production costs and some have closed operations (March 2016). This figure remained relatively stable at 3 314 primary producers in 2015 (WOSA 2016c).

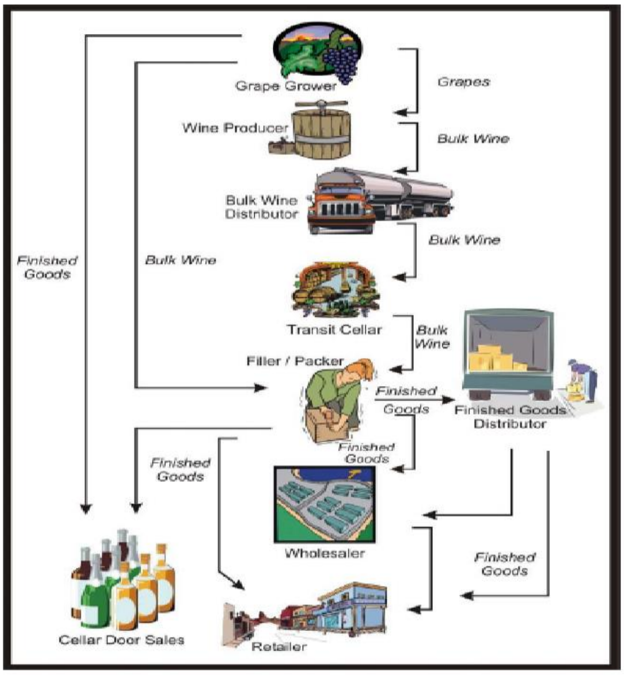


Figure 4: The wine supply chain (Source: VinPro 2016)

The wine production sector in South Africa can be divided into (Topwinesa.com 2016):

- Close on 500 private wine cellars, which is more than double the 218 in 1996.
- About 50 producer cellars (cooperatives and companies) with 34 having the ability to crush more than 10 000 tons of grapes a year. Cooperative wine cellars press about 80 percent of all wine grapes harvested in South Africa.
- 71 export-only wholesalers and 47 general and producer wholesalers who market, distribute and export wine in packaged or bulk form in 2013. This figure has decreased quite significantly to only 25 producer wholesalers operating in 2015 (WOSA 2016c), which points to a trend of consolidation. Producer wholesalers are responsible for the bulk of exports.

The ability to deliver high volumes of bulk wine has been shaped by the country's cooperative cellar history. These producer cellars have the advantage of supplying volumes of reasonable to good quality wine at low prices (Bezuidenhout 2014). Wine is typically received by the producer cellar from growers/members and is sent onto bulk wine merchants or bottled on site; otherwise it is sold as bulk wine for export or to corporate wine companies (Bezuidenhout 2014).

The number of producer cellars has decreased from 66 in 2003 to 50 in 2012; some through mergers to create Uni-Wines in Rawsonville, Bonnievale Winery in Bonnievale and Orange River Cellars in Upington (Bezuidenhout 2014). The 50 producer cellars produce about 12 million litres of wine a year (Bezuidenhout 2014).

Discounters handle about 41 percent of off-trade wine sales and supermarkets between 35 percent and 39 percent (Deutsches Weininstitute GmbH 2014). On-consumption trade is facilitated by the hospitality industry and bottle stores, specialist wine retailers and direct sales.

The wine industry in South Africa employs about 300 000 people directly and indirectly, including farm workers and those involved in packaging, transportation, retailing and wine tourism (SAWIS 2015); these numbers include about 121 000 African and coloured people employed as mostly seasonal fruit and wine farm workers in the Western Cape province.

Since 1994, South African wine producers have increasingly looked to wine exports to sustain the local industry. The export trend is driven by the overproduction of red wine on the South African market, stagnant local consumption rates, the returns provided by the declining value of the Rand and, more recently, the increase of the duty-free allocation on exports to the European Union, which came into effect in 2016 (SAWIS 2015).

South Africa exported 99.9 million litres in 1996, nearly 272 million litres in 2006 and more than 412 million litres in 2015 (WOSA.co.za 2016c). Exports reached a high in 2013 at 525 million litres of wine (SAWIS 2015).

As percentage of local production, exports grew from 38.3 percent in 2003 to 57.4 percent in 2013 before declining to 43.4 percent in 2015 (SAWIS 2016). The value of exports has nearly doubled from 2008 to reach about R8.5 million in 2013 (SAWIS 2015). Primary export destinations are the United Kingdom (26 percent of all exports in 2015), with Germany absorbing 19 percent and the Netherlands, Sweden and other African countries accounting for a further 16 percent (WOSA 2016c).

2.2.2 External factors influencing the market

The global recession, which started in 2009, and the subsequent local recession have affected both the wine and grape industries. The wine industry has had to contend with the global glut in wine (although this is starting to subside) and stagnating global consumption rates (ANZ 2015). Global vineyard plantings are shrinking and the industry is becoming increasingly consolidated (ANZ 2015), allowing larger organisations, particularly those controlling distribution, to effectively control the market.

> *It is difficult to break into international markets, unless you have the connections or money for big marketing campaigns. WOSA [Wines of South Africa] does provide some support in this, but they are also underfunded...* (Interview: Wine Estate 2016).

2.2.3 Internal factors influencing the market

Local wine producers overestimated the local demand for red varietals increasing production significantly by about 18 percent between 2003 and 2013; this resulted in a market glut, which further depressed local prices (SAWIS 2015). South Africa also has a relatively stagnant domestic consumption rate – an increase of just 0.7 percent since 1998 (SAWIS 2015). Per capita consumption is relatively low at 7.5 litres in 2015 compared to 23.8 litres in Australia and 37.5 litres in France and Italy (SAWIS 2016). The decrease of nearly 2 litres a year from 2013 can possibly be accredited to aggressive marketing of beer in the country (SAWIS 2015) and the inability of the wine industry to capture the emergent black market.

> *Wine does not have a history in South Africa's black community; we need to find ways to communicate wine knowledge and encourage a love of wine…* (Interview: Producer wholesaler 2016).

Growth in the sector is thus driven by increased local consumption of wines in the premium and super premium sectors (SAWIS 2015). Both wine and grape producers are also facing intensifying cost pressures; total production costs have risen by 95 percent a hectare between 2006 and 2015 (Vinpro 2015). Production costs (including electricity, fertiliser and pest and disease control costs) have risen by about 50 percent compared to a 38 percent increase in income per ton of grapes produced (SAWIS 2015).

Packaging costs have increased by 146 percent more than the overall inflation rate for the period 2008–2013 (SAWIS 2015).

> *Besides electricity costs, the devaluation of the Rand has affected us because it increases the capital costs to replace machinery, barrels, etc.* (Interview: Wine Estate 2016)

The results of a PriceWaterhouseCooper (PWC) survey conducted in 2015 indicate that rising energy costs, and increasingly the threat of an unreliable energy supply, are of most concern to farmers with labour productivity coming in third, and the cost of labour fifth (PWC 2015). There are also concerns about land reform, which have increased since 2014 (PWC 2015). There is an increasing shift in the industry to measuring labour productivity and the offering of performance-based payments (PWC 2015).

> *South African farms are under pressure to keep their prices the same... However, the cost of labour, electricity and fuel has gone up dramatically. So, the farmer ends up not getting more for his product, but less*. (Interview: Wine exporter 2016)
>
> *Labour costs have increased... making up 37 percent of total costs*. (Interview: Wine cellar 2016)

A recent Wine.co.za article notes that the average producer makes a profit of just R3 on a bottle of R50 wine (Wine.co.za 2016). An interview with a leading wine estate confirms this.

> *If you take a R40 bottle of wine and take off VAT, excise duty, retail margins, etc. the profit seen by the producer is really only about R3. The cost of everything is increasing but the cost to the consumer can't go up too much, which means that profit margins are shrinking. Farms need to look to alternatives, different distribution mechanisms, different markets…* (Interview: Wine company).

There will be differences between producers as to what percentage return this is. The average expected profit is 30 percent, but it is not clear how many producers manage to achieve this (March 2016). Taxes on a R50 bottle of wine amount to R32 (March 2016), operational costs in 2012 were about R29 000 a hectare a year prior to de-stemming and fermenting, ageing, filtration and bottling (Blankbottle.co.za 2012).

Energy as a significant factor of production costs

Energy is increasingly a significant factor in production costs (Heyns 2016). Two adaptation options are behavioural change, which entails raising awareness of the need to conserve energy to both farmers and farm workers, and technical interventions (Heyns 2016).

Energy is used in the processing and packaging stages (Boisset 2009). Mechanised harvesting, transporting of grapes and refrigeration also contribute to overall energy usage, and add significantly to greenhouse gas emissions (Boisset 2009). Further to this, the release of volatile organic compounds during the fermentation process (such as benzene, polycyclic aromatic hydrocarbons and 1,3 butadiene) pollute the air and can be harmful to humans.

In response, many farms have set up solar electricity projects and water infiltration systems. Some producers monitor their carbon footprint in response to growing concerns about the emissions associated with wine production, and the looming possibility of a carbon tax. The demand for organic grapes and wines is increasing on the local (Boisset 2009) and the international market (VinPro 2015).

The trend towards mechanisation will place further pressure on this cost centre, contribute to South Africa's already high carbon emissions, and exacerbate the social consequences of high unemployment rates. See section 3.6.3 on mechanisation as trend affecting labour in the wine sector.

2.2.4 The economic outlook for the wine sector

The industry is one of South Africa's leading agricultural exporters. It contributed close to R36 billion to annual gross domestic product in 2013 (about 1.2 percent) and supported the direct employment of about 290 000 people. More than 50 percent of which are unskilled and close on 30 percent are semi-skilled (SAWIS 2015). It is both a labour- and capital-intensive industry throughout the value chain (SAWIS 2015).

Only an estimated 15 percent of South African wine farms, however, are running economically sustainable businesses (PWC 2015) with about 33 percent of producers experiencing negative net farming incomes (SAWIS 2015). There is an apparent direct correlation between production yields and income – those generating significant yields with low production costs are profitable, while those generating low yields are breaking even or operating at a loss (March 2016). Some producers are heavily indebted and some have switched to other farming enterprises or have closed their operations (Ponte & Ewert 2009).

The 2015 PWC report further notes that most of the wine producers participating in the survey are "not confident about revenue growth at all" with only 22 percent very confident about revenue growth in the short to medium terms (PWC 2015). The implications of wine farms closing stretch along the value chain, affecting not just farm worker positions, but also the jobs of those that work at producer wineries, logistics and bottling firms.

> *As a wholesale producer, our biggest risks are the cost of raw grapes. If there is no sustainable production or producers can't afford to stay in the game and produce grapes for wine, we have got nothing to sell.* (Interview: Wholesale producer 2016)

While the weakened South African Rand has provided some benefit to exporters wanting to gain access to international markets, the sale price of wine has remained relatively stable and the PWC report (2015) cautions producers that it will be difficult to make the necessary price gains when the Rand strengthens. The weakened Rand has meant that South African premium wines have been made more affordable in the European market – almost 25 percent cheaper when using US$ rates and 16 percent cheaper when using € rates (Peens 2016). Producers are starting to charge in US dollars and Euros to mitigate this loss (Peens 2016).

There are fundamental economic issues with agriculture as a business in South Africa because it historically has relied on a supply of cheap labour, facilitated by apartheid-era legislation and policies. The effect of these has been the marginalisation of farm worker rights and opportunities, and unequal power relations that largely determine the labour conditions on South Africa's grape and wine farms.

> *There are fundamental economic issues with wine production as a business in South Africa. The industry is struggling to remain economically viable. Perhaps if the industry was more financially stable this would translate into better labour conditions.* (Interview: Wine Estate 2016).

> *The local and international wine market is very competitive. To get an edge and maybe make money to put into social development is tough. There is no incentive or support provided by government.* (Interview: Wine company)

> *I would like to think that if South African producers were able to generate more profits from production that this would translate into better take-home salaries for workers, but you can't guarantee it.* (Interview: Wine Cellar 2016)

Economic conditions are often perceived or presented as a rationale for not improving social conditions, with some farm workers interviewed by WFP noting that farmers will abide by the letter of the law (labour legislation), but not the spirit. There has been no discernable improvement in farm worker conditions related to additional income being generated through, for example, increased exports or the addition of wine tourism activities (restaurants, guesthouses, activities) to existing income streams.

3. LABOUR CONDITIONS ON SOUTH AFRICA'S GRAPE AND WINE FARMS

The power dynamics between employers and farm workers in the Cape Winelands cannot be ignored as a determinant of working conditions.

The contemporary unequal power relationships between farmers and African or coloured workers emerged during the apartheid era and the transition to a more just and equitable system is a very slow one. This historic unequal bargaining power is compounded by common issues experienced in South Africa's rural areas, such as high levels of alcohol and drug abuse, tuberculosis, HIV/Aids, crime, teenage pregnancies, illiteracy, domestic violence and foetal alcohol syndrome (BAWSI 2011).

The 2011 Human Rights Watch report on the living conditions of South Africa's farm workers notes the sub-standard housing conditions, poor occupational health and safety conditions, forced evictions, and lack of access to drinking water, handwashing facilities or toilets, which are required by labour regulations (Human Rights Watch 2011). In addition, the report noted the very low wages, lack of contracts and discrimination towards women workers (Human Rights Watch 2011). This report was based on interviews conducted in 2010 and 2011 with more than 260 people, nearly half of them farm workers.

In 2012, BFAP analysed agricultural wages in the country and its findings highlighted the pressure felt by both farmers and farm workers (BFAP 2012). A 2015 report based on research commissioned by the Pretoria office of the International Labour Organization, exploring the key trends, emergent issues and structural problems in the farm worker industry in South Africa, noted that the historically unequal power relationships had left workers often ignorant of their rights, or afraid to demand them for for fear of losing their jobs, and, if living on the farm, their homes (Visser & Ferrer 2015). This confirms the findings of the Human Rights Watch Report of the general lack of awareness among farm workers of their basic rights, including the right to adequate representation in the form of trade unions. Salaries are typically negotiated directly between the employer and the farm worker (81.4 percent) with labour unions negotiating for only 9 percent of permanent employees (Visser & Ferrer 2015). WFP's 2017 Labour Conditions Survey indicates that many workers do not know that there was a union they could join or that they had never had contact with a union; only about 12 percent of farm workers belong to a trade union, and that many are disillusioned about the benefits (Devereux et al. 2017):

> *I was a member but the trade union people never came back after joining*.
>
> *Many people left the union because they didn't know what their rights were*.

A prohibitive factor to increased trade unionisation on farms is the inability to gain access to farms.

The 2017 WFP Labour Conditions Survey notes that among those surveyed, 73 percent indicated that the farmer does not allow union representatives onto the property, and 54 percent noted that the farmer does not allow workers to attend union meetings (Devereux et al. 2017).

The BFAP report identified that the pressure felt by both farmers and workers would potentially be "highly disruptive" to the industry and policy needed to be upgraded to manage any resulting conflict.

Further, it argued that the agricultural system's dependency on cheap and unskilled labour was not sustainable, and that the future of agriculture in the country would be characterised by fewer, but more skilled and better-paid workers. The high levels of unemployment in the country ensure a large pool of reserve labour, enabling farmers to disregard the rights of their workers (Human Rights Watch 2011). A case in point was the discovery of three children of school-going age working in the vineyards of Royal Mushrooms Farm outside of De Doorns (Knoetze 2014). The children allegedly worked for at least 15 hours a day with no safety gear and were paid according to their age – the eldest received R150 for a week of labour (Knoetze 2014). The matter was not fully investigated because the parents refused to comment for fear of reprisals and the lack of evidence presented by the whistle blowers.

The transition between these production systems is already in motion, and has many policy implications; one thing that has become evident with the current spate of labour unrest is that public policy is not geared to ease this transition for either the workers or the farmers.

It has taken South African society almost 20 years to recognise that poor working conditions are a national issue. Local history, culture, gender, identity and chronic rural poverty play an important role in determining the political economy of South Africa's agricultural industry (Du Toit 2005). Households living in rural poverty depend on a combination of wage employment, subsistence agriculture, social grants and remittances from family members working in urban areas or in mines to survive. The challenges of poverty and unemployment are compounded by limited access to basic municipal services such as water, sanitation and electricity, as well as a lack of good quality social services including education, health and ambulances, and transport services in terms of roads and buses.

3.1 Farm worker revolt 2012/13

In November 2012, however, the desperation felt by farm workers about their living conditions escalated into violent protest in the Western Cape (Visser & Ferrer 2015). The strike began in the De Doorns area, spread to Paarl, Riebeeck West, Malmesbury, Moorreesburg, Ceres, Prince Alfred Hamlet and Saron and then to the surrounding farming districts. The general demand was for a living wage of R150 a day and improved living and working conditions (Politicsweb.co.za 2012).

The minimum wage for the sector at the time was R69, which farm workers claimed was too low to afford a decent living (PLAAS 2012). This rate was the lowest paid to formal workers in South Africa at the time (Wilderman 2014). Farm workers' claims were borne out by the 2012 BFAP report, which noted that even at R150 a day, "most [farm] households cannot provide the nutrition that is needed to make them food secure" (BFAP 2012). This, in turn, forces them to take on credit to survive (Donnely 2013).

Farm workers were supported by a variety of unions and organisations, including the International Labor Organisation, the Organisation for Human Rights, the Black Agricultural, Wine and Spirits Initiative, the Black Agricultural Workers Union of South Africa, the Surplus People's Project and WFP (Politicsweb.co.za 2012). Tensions rose between farmers and workers with some calling for negotiations to be handled on a farm-by-farm basis and others labelling the strike as politically motivated and directed (Politicsweb.co.za 2012). Farmers noted that the increase would negate the viability of farming, that it would cost the industry jobs and aggravate problems associated with widespread unemployment. Various non-governmental organisations, including WFP, countered this argument based on their work with farming communities (Donnely 2013). They argued that there was scope to improve conditions on farms, including increasing wages and providing farm workers with access to their own land to grow food, and thus increase their food security. Strikes stopped where wage increases were granted (De Waal 2012).

3.2 Revision of the sectoral determination

Government did revise its Sectoral Determination 13: Farm Worker Sector in 2013 because of the strikes and investigated general working conditions in the sector (Visser & Ferrer 2015). The minimum wage for the sector was increased from R69 a day to R105; this was R45 short of workers' demands (Visser & Ferrer 2015). The 2013 wage level was re-evaluated again in 2015 and the minimum wage for a nine-hour workday was increased to R128.26 (Labour.gov.za 2016); still short of the 2012 demands.

The report generated due to this investigation noted that (Visser & Ferrer 2015):

- About 65 percent of farm dwellers earned less than R1 600 a month.
- Only 51 percent were permanently employed with women likely to have less permanent employment opportunities.
- While most permanently employed workers were given employment contracts, only about 40 percent of those with more casual employment had written contracts.
- Even those that did have written contracts often did not enjoy the benefits of paid sick leave (only 58.7 percent of permanent workers).

- The same applies to paid vacation leave (only 46.4 percent across permanent and limited duration labour), contributions to medical aid or health insurance (1.5 percent), and maternity (5.6 percent) and paternity (1.5 percent) leave (Visser & Ferrer 2015).

There has been no significant extension of protective legislation to those who need it the most: casual and seasonal labourers.

While this group is covered by the basic conditions of employment legislation, they do not have a platform to lobby for measures that would provide them with more security – such as access to government funding for on- and off-farm housing, a form of medical aid that would compensate for days of work lost, pension schemes, skills transfer allocations, and so on. While it is relatively easier to measure the gains made with those in permanent employment, there is no oversight of working conditions for the bulk of South Africa's agricultural labour force.

3.3 Non-wage related violations

While the protests revolved around wages, there are many other issues related to labour legislation that have emerged. Wine farm workers, along with other agricultural workers, often work extremely long hours, sometimes lack access to basic necessities – such as water and sanitation, and operate in poor occupational health and safety settings (Wilderman 2014). The results of a focus group discussion with women farm workers from De Doorns, Rawsonville, Paarl, Agter-Paarl and Stellenbosch indicates that there is still a significant amount of violations occurring in South Africa's wine-producing regions.

Nearly 75 percent of women surveyed in the WFP Labour Conditions Survey note that there are no toilet or wash facilities in the vineyards in which they work (Devereux et al. 2017). This raises concerns around hygiene and health. The excerpts below are paraphrased quotations taken from fieldnotes of the WFP focus group discussions.

> *Now that it is hot during menstruation… there are no toilets or wash facilities [in the vineyards] … if it wasn't for the river nearby… at least I could wash my hands … I bury my sanitary towel in the ground.* (Field notes: focus group discussion: female farm worker)
>
> The toilets only come out when the auditors come out. *The auditors never come to where the workers are. This is what makes me angry… Everything looks good in the book.* (Field notes: focus group discussion: female farm worker)
>
> *There isn't taps; we have to wash our hands with the 'drips' in the vineyards.* (Devereux et al. 2017)

There is a general fear of having to make ablutions outdoors in the vineyards because of the threat of snakes and spiders.

And women in the WFP Labour Conditions Survey note their fear of being sexually harassed or assaulted because of the vulnerability associated with doing ablutions in the bush (Devereux et al. 2017):

> *Women use the bush to change their sanitary towels. It is dangerous to go into the bushes, because there are men all around. You fear being raped. You don't have any dignity doing that.*

Lack of knowledge about the Occupational Health and Safety Act also puts workers, particularly seasonal workers at risk. Some respondents in the WFP Labour Conditions Survey note that (Devereux et al. 2017):

> *We work with big machines. One of the women injured her toe with the machine. The farmer told her to just go back to work; that it wasn't his fault. He never reported it to the Department.*
>
> *People don't report injuries on duty. They are too scared to talk to the Foreman because they are scared of being sent home and losing their day's wages and their jobs.*

The lack of training on use of machinery in some pack rooms also leaves workers at risk.

> *Everywhere there is electricity [in the pack rooms] … if there is an electrical short then we will die.* (Field notes: focus group discussion: female farm worker)

A focus group participant from the De Doorns region notes that:

> *Everyone works in the pack room... it is massive... 200 to 300 women work there... We work: cut, sort, weigh and pack.* (Field notes: focus group discussion: female farm worker)
>
> *We get locked up [in the pack room] … the manager is far away… we can only go to toilets in our lunch hour.* (Field notes: focus group discussion: De Doorns female farm worker)
>
> *We are afraid of all the machines [in the pack room].* (Field notes: focus group discussion: female farm worker)

Some are also exposed to harmful farm chemicals, such as commonly used sulphur-based fungicides that cause skin irritations and respiratory tract infections. Exposure to a Bordeaux mixture – 'Bordo mix' – can cause allergic reactions, skin irritations or eczema (Fishel 2014). About 75 percent of respondents to the WFP Labour Conditions Survey note that they are exposed to dangerous pesticides at work, and in their homes if houses are located close to the vineyards being sprayed (Devereux et al. 2017). In most cases, workers are not informed about the type of pesticide being used and possible side effects (Devereux et al. 2017).

The results of the WFP's focus group discussions indicate that there is still a significant amount of violations regarding pesticide use in South Africa's wine-producing regions. The excerpts below are paraphrased quotations taken from the focus group meetings.

> *It is mainly men that work with pesticides. In Rawsonville, women are also working with pesticides. But none of these workers wear the required red clothing or masks.* (Field notes: focus group discussion: female farm worker)

> *If pesticides is used, then you just move to work in the next block and later you come back to that area… sometimes we are still there… in the evenings you itch all over.* (Field notes: focus group discussion: female farm worker)

> *People do not know their rights and the farm owners do not worry.* (Field notes: focus group discussion n: female farm worker)

> *The day before the auditors come then the stickers get put on.* (Field notes: focus group discussion: female farm worker)

In some regions workers note that no safety gear is provided for those that work with pesticides (Field notes: focus group discussions 2016). The WFP Labour Conditions Survey noted that about 66 percent of workers are not provided with protective clothing when using pesticides – this figure stands at 73 percent for seasonal workers and 74 percent of all workers in the Northern Cape (Devereux et al. 2017).

In some cases, workers are made to buy their own safety clothes.

> *… overalls so that you look clean when the auditors come. I don't know if it's Fair Trade, Waitrose Foundation [overseas people] … but the deductions are listed as "spaar" [savings]. You can take the clothes, but it is misrepresented in the payslip. So if the auditors go through the payslip they don't see that you are paying for your own safety clothes.* (Field notes: focus group discussion: female farm worker)

The repetitive nature of pruning work and the necessary awkward posture that must be held for prolonged periods of time puts strain on the body and can cause musculoskeletal problems, particularly in the wrists, hands and back (Wilderman 2014).

The International Labor Organization conducted further investigation in 2015 from a systemic perspective considering the legislative framework and value chain. It undertook case studies on 48 fruit and wine farms and interviewed 250 farm workers and 90 key stakeholders (Visser & Ferrer 2015). The report found that wages were still very low for farm workers and there were still issues remaining around working conditions, specifically, sanitation and housing (Visser & Ferrer 2015).

> *Life on the farms is still the same.* (Field notes: focus group discussion: Female farm worker)

Farmers look down on us and treat us like dogs. (Field notes: focus group discussion: Female farm worker)

We really want to feel safe in the vineyards, especially when we want to do ablutions. (Field notes: focus group discussion: Female farm worker)

The WFP Labour Conditions Survey indicates that there are still issues around housing provided on farm, as well as basic services (Devereux et al. 2017).

We have no toilets, no ceilings, asbestos roof, cold in winter. There is a problem with water: The cattle, the other Whites who rent some of his land, his water tank, all get water before us. Sometimes, we don't have water for three days; we have to go and ask for water from the neighbouring farms."

The water is dirty; often it is cut off. Often, we don't have water for the whole weekend.

There is electricity, but no water and sanitation. We use water from the canal; there is no water in the house. We have a pit latrine.

There are issues in all regions about workers not being informed when auditors are visiting and claims that farmers bribe auditors with grapes and wine (Field notes: focus group discussion 2016).

We don't even know when the officials from the Department of Labour come… they just go as far as the office. (Field notes: focus group discussion: female farm worker)

Of the workers surveyed by WFP nearly 70 percent stated that the farm on which they work has never been inspected or they were not aware of such inspection by the Department of Labour (Devereux et al. 2017).

Gender-based discrimination

WFP estimates that most farm workers are seasonal workers and that most of these are women. Prior to the 2012/13 protests women reportedly earned less than men for the same work and they did not receive work contracts, even though in many cases their husbands were working on the farm and were contracted employees (Visser & Ferrer 2015). Women were also not considered permanent workers even though many worked throughout the year earning salaries equivalent to seasonal workers (Human Rights Watch 2011). Other groups discriminated against in this manner were blacks and immigrants (Human Rights Watch 2011). While there are no official reports indicating that gender-based discrimination is still practiced in the wine-producing regions, input gained through the 2016 focus group discussions indicates that it is. Participants of the focus group discussions were asked what they would say to wine consumers if they had the opportunity. The women had the following to say:

We would love and appreciate if they take our rights as workers in consideration.

What I want is that help should come from somewhere.

I really want a decent living wage. [I want*] that every worker gets what they deserve for quality grapes, for packing it well and handling it with care.*

Overseas people should know that they pay a lot of money for 'blood' grapes.

People must compensate us for the work that we do.

3.3.1 A note on the minimum wage

Labour practices have improved significantly since 1994, but improvements are measured based on permanent employment, which excludes seasonal and contract workers, many of whom are women. Between 2003 and 2004, Conradie (2004) conducted a survey with 190 wine and table grape farmers and established that farmers were paying (according to their own statements) on average R925 per month to their farm workers, which was at that time about 15 percent above the newly introduced minimum wage of R800. Moreover, Visser and Ferrer (2015) revealed that most surveyed farm workers in Western Cape were receiving the minimum wage (confirmed by payslips), while only 8 percent were paid below the minimum wage. However, the farm workers' wages barely exceeded the minimum wage by more than 5 percent, and only permanent farm workers' payslips were considered (Visser & Ferrer 2015).

The 2013 wage level was reevaluated again in 2015 and the minimum wage for a nine-hour workday was increased to R128.26 (Labour.gov.za 2016); still short of the 2012 demands. This equates to an hourly rate of R14.25, a weekly rate of R641.32 and a monthly rate of R2778.83 (Devereux, Levendal & Yde 2017). The 2017 minimum wage for this sector is R15.39 an hour, R138.52 a day and R3 001.13 a month (Labour.gov.za 2017).

The WFP Labour Conditions Survey indicated that about 21% of those surveyed did not receive the minimum wage and a further 18% did not know the legislated rate and so could not ascertain if they were being paid it, making them exploitable (Devereux et al. 2017). Those not being paid the minimum wage are mostly working in the domestic and seasonal sub-sectors, followed by workers in the Northern Cape (Devereux et al. 2017).

The implementation of stricter legislation on the sector has driven the trends towards casualisation and hiring of migrant labour (discussed below). Women wine farm workers note that while the letter of the law is often adhered to, the spirit of it is not. In some regions, farmers tend to employ women at hourly rates and for less hours in a day (Devereux et al. 2017), which effectively makes them casual labour and not entitled to benefits or rights.

> *In Rawsonville, the minimum wage is being paid but women are now working shorter hours and thus do not get the* ***daily*** *minimum wage as they are paid the hourly rate. They also do not get paid for days when it rains, and have to make up for this by working on public holidays without necessarily being paid double wages as per the Labour Relations Act.* (Devereux et al. 2017).

The WFP Labour Conditions Survey notes that the daily and weekly rates paid were close to the legislated monthly wage, but significantly lower than the monthly rate (Devereux et al. 2017).

This makes those working as seasonal labour particularly vulnerable as, of those surveyed, about 32 percent are single and depend on their own resources – this figure is higher in the Western Cape where about 40 percent are single or widowed (Devereux et al. 2017).

There are also issues around payment against targets; i.e. productivity payments. The WFP Labour Conditions Survey notes that 33 percent of the workers surveyed work against targets; this is mostly in the Western Cape (Devereux et al. 2017). Some workers in the survey (42 percent) believe that the targets are deliberately set too high to avoid payment of the minimum wage (Devereux et al. 2017):

> *Only when you achieve your daily target, do you get your minimum wage*.
>
> *I have to work harder the next day to earn back the lost money of the target*.
>
> *If you don't reach the target you get a written warning that you must sign.*
>
> *You get three warnings – the third is a written warming – after those warning you get chased away from the workplace.*

Female farm workers note that payment for this is not transparent.

> *It gets indicated as 'extra' on pay slip. But sometimes this is unclear as everyone gets the same.* (Field notes: focus group discussion: Female farm worker)

... you don't actually get paid in relation to the targets that you have made. (Field notes: focus group discussion: Female farm worker)

You work! You work! Then you only get the minimum wage! (Field notes: focus group discussion: Female farm worker)

Some women in the focus group discussions note that they do not get pay slips, which is a violation of Section 6.1 of the Sectoral Determination 13, and are thus unable to query discrepancies in amounts paid (Devereux et al. 2017). Most workers are paid directly into their bank accounts, but this figure is higher in the Western Cape (80 percent) than the Northern Cape where only 55 percent are paid made this way (Devereux et al. 2017). The figures are also much lower for those working as seasonal labour who are often paid in cash (Devereux et al. 2017). A small percentage get paid through the Pro-card system (Devereux et al. 2017), which disadvantages workers as there are no account numbers associated with this mechanism and so payments and fees cannot be queried.

Many farmers claim that they cannot afford to pay more in terms of minimum wages, and that they would have to close operations if forced to increase daily wages (Politicsweb.co.za 2012).

We pay above the minimum wage, but this is because we can afford to do this. We sell onto the premium market and have built brand awareness and loyalty. Many farmers cannot afford to pay more for labour. (Interview: Wine Estate 2016)

It is difficult for smaller operators to invest in social stuff, even if they want to or should. (Interview: Wine company)

There are also many examples of farmers who have gone the extra mile to provide additional benefits to their workers, offer share in profit, or set up additional businesses or farming ventures in attempt to redress the injustices of the apartheid system.

[We have built a] free education centre for all employee's children at pre-school age as well as an after-school centre for those attending school. We pay 100 percent of the fees for local schools and feed children at the education and after-school centre. We also provide free transport to and from work, access to the company pension fund and insurance cover. We also pay 50 percent of all medical consulting and dispensing fees. (Interview: Wine Estate 2016)

We are lucky enough to have the backing of a wealthy Winelands family and so can spend on social development, investing in education, in particular, for the youth who often end up working on one of the farms. (Interview: Wine company)

The future economic and social viability of South Africa's agricultural industry (including the wine industry) rests on the existence of a healthy and skilled pool of labour, and a market for produce.

It is in every farmer's interests to ensure that people working and living on the farm have hope for a brighter future, through improved access to basic services and educational opportunities, and a living wage.

3.3.2 A note on categorisation of workers

The law urgently needs to consider the needs of marginalised workers; those doing part-time, contract, temporary, casual and seasonal work. While current legislation provides a framework for ensuring the rights of permanent employees, there are many in the wine industry that do not enjoy this protection. Most of these are women.

Categorisation of workers
Part-time workers are hired on an ongoing basis, but work fewer hours than permanent employees. In South Africa, part-time workers are mostly women. Casual workers are hired in irregular employment (not more than three days a week) and have limited legislative protection and heightened job insecurity. These jobs also provide little scope for training and advancement. Seasonal workers are employed for a set period, often on fixed-term contracts.
Source: Fourie (2008)

Often employed as casual or seasonal labour, these workers are often vulnerable to exploitation due to the absence of a formal employment contract or a "flimsy" one (Fourie 2008). Often, they are paid for results, as opposed to time, most operate in the "unskilled" arena or do not have trade union representation (Fourie 2008). While they might be able to claim basic employment conditions, the circumstance of their employment and their contextual vulnerability makes fighting for their rights difficult (Fourie 2008).

Their vulnerability is compounded by lack of access to social wages, such as medical aid and pension funds (Fourie 2008).

The casualisation of labour is not specific to the agricultural industry. In efforts to cut production costs and trade on often global markets, employers have shifted the way in which they employ and use labour (Fourie 2008). "Since the adoption of progressive labour legislation in South Africa, employers have camouflaged employment conditions in order to avoid stringent labour laws" (Fourie 2008:112).

3.4 The struggle continues

The struggle to live on the minimum wage is ongoing in South Africa's wine-growing areas, despite the subsequent increases. Workers struggle to feed their families and to meet their basic needs. The recent unrest at Robertson Winery and worker's attempts to bring international pressure to bear on their plight bears testimony to this.

Two hundred-odd workers at the winery went on strike in mid-2016 demanding decent working conditions, including a minimum wage of about R380 a day, more than double the current government-set standard (Eyewitnessnews.co.za 2016) and the right to acquire union rights (Cphpos.dk. 2016). The Commercial Stevedoring and Allied Workers Union travelled to Denmark to urge European wine importers to pressure South African producers to ensure fair conditions for their employees (Cphpos.dk. 2016). This had little success and the workers called for Danes to boycott Robertson Winery products (Cphpos.dk. 2016). In the week of 23 October, Danish supermarkets started removing South African wines from their shelves (Timeslive.co.za 2016).

This move is, however, more likely due to the influence of Danish filmmaker Tom Heinemann's documentary *Bitter Grapes – Slavery in the Vineyards*, which was aired in the same week (Timeslive.co.za 2016). Reactions have been mixed within the local wine industry, with many noting that the documentary tended to paint the entire industry with the same brush, and was thus biased.

> *While the situation may have been handled poorly, this kind of media attention does not help to resolve the issue. It can actually make it worse as there is a knock-on effect to other parts of the wine value chain with companies that depend on wineries such as Robertson for the bulk of their income. Lots of people could lose their jobs*. (Interview: Wine Estate 2016).

The documentary, although not an exhaustive account of wine farm experiences and practices, did, however, yet again highlight the disparities and discrimination experienced by farm workers in South Africa. It illustrated that some of the issues raised in the 2011 Human Rights Watch report, the 2012 BFAP report and the local 2015 International Labour Organization report are yet to be resolved.

There has been no concerted government action to ensure the future prosperity of rural farm workers in South Africa since the release of its 2012 BFAP report, with much of the work done in this regard being undertaken by private players.

The strike was formally ended on 24 November 2016 with workers receiving an 8 percent increase – backdated to August 2016 – and a full annual bonus (Sowetanlive.co.za 2016).

Official responses from the Western Cape provincial government and WOSA during the strike note that transformation is taking place in the industry, although not as quickly as some would have hoped. The Western Cape government did investigate the allegations made by workers at Robertson Winery using its dedicated support unit for employee-employer grievances in the agricultural sector (WOSA.co.za. 2016a). A delegation from Systembolaget, a state-owned chain of liquor stores in Sweden, visited the farm in October 2016 to meet with the union, farmers, workers and managers to discuss the issues raised by the strike (WOSA.co.za 2016a). The delegation confirmed that operations at Robertson Winery were aligned with their standards (WOSA.co.za 2016a).

A WOSA statement in response to the release of the documentary notes that social accountability extends beyond fair labour practices to include skills transfer and ultimately ownership by previously disadvantaged people (WOSA.co.za. 2016b). It notes that about 98 percent of South African wine producers contribute on a voluntary basis to the Industry Association for Responsible Alcohol Use fund, that there are many projects that have been established to address the Foetal Alcohol Syndrome problem, and other transformational initiatives underway in the sector (WOSA.co.za 2016b).

A conservative estimate of the amount spent by wine industry stakeholders on socioeconomic development and enterprise development initiatives in 2014 was R38 million (Vinpro.co.za 2016b). It is worth noting, however, that while most producers claim to have skills development programmes in place, with a specific focus on labourers, plant operators and administrative staff, the budget for this remains relatively static at about 3 percent of the salary budget and includes payments made to the Agri SETA, governmental skills, education and training authorities (PWC 2015).

3.5 A brighter future for farm workers?

General improvements were made in the industry following the 2012/13 strikes, which include the granting of annual leave and maternity leave for women and adherence to the minimum wage (Visser & Ferrer 2015). In addition, permanent workers have better access to funeral funds, medical loans, transport, subsidised electricity, free food, free working cloths and pre-schools for their children (Visser & Ferrer 2015). Seasonal workers also reportedly have better access to transport and healthcare facilities (Visser & Ferrer 2015).

These benefits, however, tend to accrue to a diminishing pool of permanent farm workers. Wine producers are tending to pass risk to their workers by casualising or externalising labour (Visser & Ferrer 2015). The previous increases in the minimum wage and the proposed increase in 2016 present a significant challenge to the viability of the industry, and to South Africa's rural social structure. Most farm worker households, even with both parents earning the minimum wage, cannot afford basic meals of sufficient nutritional quality. The suggested national minimum wage increase mooted in November 2016 is for R3 500 a month (Timeslive.co.za 2016). An estimated 47 percent of South Africans who work earn less than this a month (Timeslive.co.za 2016). The domestic and agricultural worker sectors were, however, excluded from this with a recommendation that the minimum wage for those sectors be set at 75 percent and 90 percent respectively (Timeslive.co.za 2016). This would equate to R3 150 a month, an increase of almost 15 percent from the current R2 778.83. The 2017 minimum wage for this sector is R3 001.13, as of March (Labour.gov.za 2017). What is needed are accelerated skills training, higher wages and modern management approaches to improve the viability of the industry and those working in it (Ewart & Du Toit 2005).

3.6 Trends affecting labour in the wine sector

3.6.1 Declining employment opportunities

> *I would love for visitors to walk in the vineyards and look at our great work that we as farm workers do so that they can drink excellent wine.* (Field notes: focus group discussion: female farm worker)

While more employment opportunities have opened in the skilled (7 093) and semi-skilled (6 459) tiers, there was a decline in unskilled employment between 2008 and 2013 (SAWIS 2015) with a more marked decline in the Western Cape with unskilled employment opportunities falling by about 5 200 (SAWIS 2015). This is accredited in the SAWIS 2015 report to farmers perhaps mechanising aspects of operation (SAWIS 2015) – see 3.6.3.

Overall, employment opportunities in the sector have not increased significantly in the period reviewed by SAWIS because increases in skilled and semi-skilled opportunities are offset by a general decrease in use of farm labour (2015). This is perhaps because labour is a primary production cost, which will increase year on year.

Unskilled typically refers to those workers who have not had special training for the work they perform; i.e. they do not hold a formal qualification to conduct the task. This overreliance on formal accreditation marginalises those who have accumulated skills through experience. This has particular consequences for women who work in the vineyards performing 'nimble finger work' to plant, prune, check the health of vines, trailing to ensure they bear the maximum number of grapes, perform quality checks after the harvest and carefully pack the grapes. This type of work is, in reality, highly skilled.

And its designation as unskilled labour entrenches the perception that these women are not skilled consequently leading to a serious undervaluation of their contribution. It also reduces their ability to negotiate for better working conditions.

> *I am the one that prunes, tie up… then the male permanent workers come in and do light work – without targets – they water, put snail bait, etc.* (Field notes: focus group discussion: female farm worker)

WOSA has noted that social accountability extends beyond labour practices to encompass skills transfer (WOSA.co.za 2016b), and there is a need for a review of so-called "unskilled" jobs to better understand and give value to tasks that, in practice, require varying degrees of skill and experience.

3.6.2 Casualisation and externalisation of labour

There are discernible trends towards casualisation and externalisation of labour taking place on South African farms (Du Toit & Ally 20014).

While the sector was liberalised in the early 1990s and the vast bulk of state support withdrawn, government did intervene by extending labour legislation to farm workers and passing the Extension of Security and Tenure Act in 1997 to provide more security of tenure to those workers living on farms, as well as setting the first minimum wage of R69 in 2003 (Visser & Ferrer 2015).

An unforeseen result has been the restructuring by farmers of agricultural workforces; the 52 percent increase in the minimum wage implemented in 2013 is likely to continue driving these trends. Some claim that the Extension of Security and Tenure Act (1997) contributed to the eviction of about 1.7 million people from farms (BAWSI 2011), while a national study indicates that the evictions of nearly a million people from farms between 1994 and 2004 did not involve any legal process (Devereux et al. 2017). The Act made a strong correlation between permanent employment and the provision of housing on the farm, plus additional benefits. This is a core driver, along with minimum wage requirements, of the shift to using seasonal labour (Visser & Ferrer 2016). When farmers use seasonal or casual labour that lives off-farm, they are not obliged to grant security of tenure, or additional benefits, such as paid sick or vacation leave (Visser & Ferrer 2016).

> *Forcing farm worker families to move to rural towns where they don't have the skills to take up employment or the money to pay for rental, transport and related costs of living effectively adds to the increasing numbers of urban poor, and the related consequences of this.* (Interview: Farm worker-related organisation 2016)

Visser and Ferrer (2016) note that "many rural towns that used to resemble sleepy hollows have developed into sprawling, underserviced informal settlements", perhaps partly because of farm workers being forced off farms.

While government initiated a Farm Worker Housing Assistance Programme to provide relief in this regard, the programme only benefits permanent workers, and only those whose employers agree to participate; there is no provision for on-farm or off-farm housing for seasonal workers (Visser & Ferrer 2016).

For many workers still living on the farm, the cost of rent, electricity and sometimes water are deducted from their pay slips. Sometimes this is to get them to move from the farm. The 'lease' for a farm house is held by the head of the household and normally applies to those working on the farm with additional costs for relatives staying with them. This can range from R60 a week for children between the ages of 18 and 26 and R90 a week for children over the age of 26 in some regions and up to R100 a week for any child over the age of 18 years (Devereux et al. 2017). The total amount deducted can amount to more than 10 percent of income.

Deductions can include those for rent, electricity, funeral policies and the Unemployment Insurance Fund.

While deductions for the Unemployment Insurance Fund are almost universal for permanent workers, more than 20 percent of those surveyed by the WFP Labour Conditions Survey who work as seasonal labour or in the Northern Cape are not registered for this meaning that they are unable to claim when needed (Devereux et al. 2017).

Of those surveyed, 12 percent had deductions made for rent, 17 percent for electricity, 8 percent for work clothes, 5 percent for transport and 15 percent for funeral policies (Devereux et al. 2017). There is some suspicion among farm workers about deductions made for these policies, as they are often not given proof of the policy's existence (Devereux et al. 2017).

One focus group participant noted that it was difficult for women to query these deductions.

> *If we talk then we get told we are political.* (Field notes: focus group discussion: female farm worker)

The WFP Labour Conditions Survey indicates that costs can also be deducted for use of the crèche and purchases made at the farm shop, which normally charges higher prices that those in town (Devereux et al. 2017):

> *The farmer deducts for food we buy on credit from his shop on the farm. The food in his farm shop is very expensive*.

Of concern are deductions made for rent for worker's children over the age of 18 who do not work on the farm; this contravenes both labour and tenure laws (Devereux et al. 2017):

> *We pay extra rent for our older children. For those aged 18-26, we pay R60 per child per week; for those older than 26, we pay R90 per child per week. On another farm, they pay R200 per child per week.*

While labour practices have improved significantly in the wine-growing regions with most farmers paying the minimum wage or close to it (for permanent employees), farmers are tending to use more workers on limited duration contracts or employing them as seasonal labour, which puts them outside of the legislation governing working conditions; they are also tending to use more migrant labour (Visser & Ferrer 2016).

Most women are employed as seasonal/contract workers even if they do work on a permanent basis. This limits their ability to access credit and their agency in managing their time for personal commitments. It also means that they are not entitled to benefits, such as sick or holiday leave.

> *I want to apply for a bank loan but I cannot as my payslip indicates that I am a contract worker.* (Field notes: focus group discussion: female farm worker)

> *I have worked on the farm for seven years, my payslip says permanent casual worker, but I don't get annual leave and I don't get sick leave, even if I have a letter from the clinic.* [Paraphrased] (Field notes: focus group discussion: female farm worker)

> *Only a doctor's certificate is considered valued. Most of us as women farm workers go to clinic as there are no costs involved, but still* [need a] *valid medical opinion for the farm owner and manager to grant sick leave.* (Field notes: focus group discussion: female farm worker)

The WFP Labour Conditions Survey notes that nearly 75 percent of workers in the Northern Cape and 62 percent of seasonal workers do not get paid when they need to go to the clinic; this has negative consequences for women and their children as they made trade-offs between the necessary income and health (Devereux et al. 2017).

Focus group participants noted that the situation and position of seasonal workers has worsened since the 2012/13 farm worker strike. That allowances previously made in terms of repaying the farm owner for advances for medical bills, free trips to the clinics and no or minimal payment for electricity, gas and rent are not so readily made anymore. Women are usually contracted for three months at a time, even though they sometimes work for the whole year. This means that they sign a contract four times a year. Some note that there is often no chance to read and digest the contract, and in many cases workers are not given a copy of the contract; 70 percent of surveyed workers did not receive a copy of their contract – this figure is higher for seasonal workers in the Western Cape at 83 percent (Devereux et al. 2017).

> *The manager reads the contract and then you have to sign, but you can't take it home to read through.*

> *If you are a new worker, you are all called to one side, and the contract is read for all the new workers. The Forewoman is the witness for the signing of all the contracts.*

> *Every year, the seasonal workers sign a contract. The contract is read to them by the supervisor or farmer; then they sign it. You don't get the contract to take home.*

The WFP Labour Conditions Survey notes a significant difference between the Western Cape and Northern Cape regarding contracts supplied to permanent and seasonal workers. Nearly 75 percent of workers in the Western Cape have signed contracts, but less than 50 percent of workers have been given contracts in the Northern Cape; just more than 50 percent of seasonal workers do not have contracts (Devereux et al. 2017). The nature of the contract is disturbing in some cases, as illustrated by the response of a survey participant:

> *We seasonal workers had to sign a contract which exempts the farmer if the truck transporting us has an accident outside the farm. When we questioned it and said we're not going to sign, the farmer threatened us with no work*. (Devereux et al. 2017).

Migrant workers tend to originate from the Eastern Cape and countries outside of South Africa, such as Lesotho and Zimbabwe. The increase in use of migrant labour has fuelled a sense of insecurity among local farm workers giving rise to tension between the groups.

> *But I don't know about the Zimbabweans…. But our people don't want to teach them … they will take away our jobs. In Goudini they already took our jobs, they [migrants] are willing to work for less [money], but they get paid the minimum wage like all of us.* (Field notes: focus group discussion: female farm worker)
>
> *So we will get very little because the migrants are happy with the extra R10…* (Field notes: focus group discussion: female farm worker)
>
> *... this is where the divide-and-rule comes in… this makes our hearts heavy and angry.* (Field notes: focus group discussion: female farm worker)

The divide is not only between local and migrant workers, but also between permanent and casual employees (Field notes: focus group discussions 2016).

> *Sometimes we as seasonal workers* [those that don't live on the farm] *don't interfere with what happens on the farms to the permanent workers in terms of labour violations. And seasonal workers get blamed for when there is discord*. (Field notes: focus group discussion: female farm worker)

In some regions farmers are still using labour brokers that take a small commission on finding labour for the wine farms. Women farm workers note that there has been a shift in that:

> *In the past labour brokers were farm workers (read black men) who would pick workers up with the farm truck... and seasonal workers could choose which farm they wanted to go to.*
>
> *Since the 2012/13 strike the labour brokers are now mostly white and somehow connected to the farmer – for example, family members. They have their own trucks.* (Field notes: focus group discussion: female farm worker)
>
> When the trucks come, farms workers run to the trucks because they are so desperate for work: *… some people fight over/for the work.* (Field notes: focus group discussion: female farm worker)

South Africa's economy is hampered by an extended unemployment rate of about 35 percent (Businesstech.co.za 2015), which has social implications: deepening poverty, increased rates of malnutrition and, potentially, social unrest. All sectors must focus on upskilling existing labour, and looking to ways to absorb additional labour.

3.6.3 Mechanisation

Farmers are increasingly turning to mechanisation to increase productivity rates and decrease production costs through using technological advances. About 20 percent of producers interviewed for the 2015 PWC report indicate that they are exploring the possibility of transitioning to mechanisation, particularly given the labour unrest in the past few years (PWC 2015). Mechanising will entail retraining or taking on new staff with skills, but may result in the most vulnerable, specifically women, losing their livelihoods.

> *Mechanisation will hit women hardest, as they are hardly even on permanent contracts, but often seasonal labour... It will be hard for them.* (Interview: Wine cooperative 2016).

> *We have to move to using machines to lower costs and be more productive. It is a business decision.* (Interview: Wine cellar 2016).

Mechanisation levels were already at about 50 percent prior to the strikes, but this will likely have increased to about 60 percent within two years; one harvester effectively replaces 100 workers (Financialmail.co.za 2013). While increased mechanisation may make short-term business sense, it also poses significant risks.

The cost of energy is already a significant concern for most farmers and these costs (energy and fuel) are most likely to keep increasing in coming decades. The possibility of a carbon tax being imposed on South Africa, and, in turn, on carbon-emitting industries within the country will also have implications for a mechanised agriculture system. Agriculture is currently the second highest carbon emitting sector in South Africa after the energy sector, including electricity generation and transport (USAID 2012). The sector contributed 7 percent in 2012 to greenhouse gas emissions (USAID 2012).

Beyond the risks posed by moving even more rapidly towards an agricultural system that is not geared to adaptation to climate change effects, there are known social consequences to mechanisation.

The BFAP noted that while it was difficult to estimate the number of jobs lost in the agricultural sector due to mechanisation, it was a significant amount and signalled a permanent shift towards using less, and only more skilled labour (Springhall 2013). The comment by BFAP that "mechanisation should not necessarily be seen as a threat against manual labour; it should rather be thought of as an opportunity to increase the output delivered per worker and stimulate the agri-economic sector under a favourable economic and political environment" (Springhall 2013) illustrates the assumptions made about free market economies, and an avoidance of South Africa's historical patterns of inequity that negate the potential of this statement. Mechanisation in developing countries is proven to deepen rural unemployment, which exacerbates issues such as poverty (Springhall 2013).

What is needed in South Africa is a focus on labour-intensive activities and structured skills training to enhance productivity and improve social conditions.

Mechanisation options in the wine industry include using small tractors, mechanical harvesters and mechanised wine presses (Simbi & Aliber 2000). Using a grape harvester could technically reduce labour demand from 100 workers to just two in season (Simbi & Aliber 2000); this has significant ramifications for South Africa’s hundreds of thousands of seasonal workers, most of whom are women. In addition, using machinery to spray pesticides, for example, enables farmers to practice precision farming with the associated costs benefits, but will further “deskill” workers who are then relegated to maintenance of machinery (Simbi & Aliber 2000).

4. AN ANALYSIS OF ACCREDITATION SCHEMES

There is a range of social and environmental certification schemes operating in South Africa. The most prominent among these are Fairtrade and the Wine Industry Ethical Trading Association (WIETA) that look to social indicators, and the Sustainability Seal, which focuses more on environmental aspects.

> *This [accreditations] can only be of advantage if social and environmental accreditation is marketed within the market to give the consumer a clear and understandable message to the "why should I pay more" question. On the other side it could be very damaging should wines not have the minimum accreditation towards social and environmental activities due to the history of South Africa and the European consumer perception towards it.* (Interview: German import company 2016)

The 2015 PWC survey of the industry noted that the percentage of wine businesses with some form of ethical trade certification (mostly WIETA and Fairtrade) has increased significantly in the past five years, with an aligned increase in uptake of Business Social Compliance Initiative accreditation (PWC 2015). By 2014, 20 percent of farmers had some form of ethical accreditation, mostly by WIETA (Vinpro.co.za 2016b).

4.1 The Wine Industry Ethical Initiative

South Africa is the only wine region in the world with its own independent auditing body – WIETA (WOSA.co.za 2016b), although the body is not sufficiently well resourced to effectively oversee and enforce compliance with labour legislation, and has no official mandate to do so.

Heinemann's documentary also questions the legitimacy of the organisation's board, which comprises nine board members of which five are industry representatives (Timeslive.co.za 2016). In response, WIETA notes that the organisation is involved in ongoing discussions with trade unions, civil society organisations and workers, runs a toll-free complaint line and regularly interacts with farm workers (WIETA 2016). It is analysing its current worker reporting and feedback mechanisms and looking at ways to make it easier for workers to report abuse (WIETA 2016). The initiative is criticised particularly for the fact that many labour rights violations are still reported on WIETA-accredited farms, and that there are no mechanisms to deal effectively with these violations (Devereux et al. 2017). Workers also note that auditors often do not visit all areas on the farm, such as workers' housing) or speak to those who might have violations to report in a place of safety (Devereux et al. 2017). Most tellingly the WFP Labour Conditions Survey notes that only 24 percent of workers surveyed know about WIETA, a body meant to protect their rights (Devereux et al. 2017).

4.2 Fairtrade in South Africa

Fairtrade, a global 'ethical' certification, aims to make the farming sector more equal and sustainable (Fairtrade.org.za 2016). While it interacts directly with farmers and farmer organisations in other countries, in South Africa it works primarily with larger farms and focuses on ensuring that the premium paid on products is spent on improving labour conditions. South Africa has more Fairtrade-accredited wineries than any other country in the world; more than 70 percent of the world's Fairtrade wine brands originate in South Africa (WOSA.co.za 2016b). There are 21 Fairtrade producers in South Africa and 38 traders of Fairtrade products (with some overlap between producers and traders) (Fairtrade.org.za 2016). More than 40 000 workers are employed on Fairtrade farms in South Africa (Ponte 2009); however, the WFP Labour Conditions Survey indicates that knowledge of Fairtrade among farm workers in South Africa is limited with only 18 percent of those surveyed having heard of it (Devereux et al. 2017).

The organisation provides an ethical certification that certifies product supply chains based on sustainability principles (Ponte 2009).

Fairtrade's key objectives are to (Fairtrade.org.za 2016):

- Ensure that producers receive prices that cover their average cost of sustainable production.
- Provide an additional fair-trade development premium that is invested in projects that promote socio-economic and environmental development. For example, for every Fairtrade wine sold, 70 cents go back into the hands of farm workers to improve their welfare.
- Facilitate long-term trading partnerships and enable greater producer control over trading process.
- Distinguish between core requirements that producers must meet to be satisfied, and development requirements that encourage producers to improve and invest in the development of the workers and the organization.

The organisation has had some success in shifting farm worker conditions in South Africa.

- In the Rawsonville area, funds from the Fairtrade premiums have helped to fund staff and operational costs for the Douglas Green mobile library that caters to at least 1 500 farm workers' children.
- Fairtrade premiums also directly benefit farm workers as they are paid directly into the farm worker's bank accounts for them to invest in development projects and infrastructure.

- The Fairtrade standards also ensure better working and living conditions that protect the health and safety status of the farm worker, by ensuring that farm workers involved in handling of hazardous chemicals and waste are consistently checked by health practitioners for any harm.

4.3 The Sustainability Seal

The Sustainability Seal is an initiative from Sustainable Wine South Africa (SWSA). It is a certification seal that guarantees origin, vintage and variety, as well as providing a guarantee that the wine complies with integrated production of wine standards, which deals with environmental sustainability (SWSA 2016).

> *We create our own premium by insisting on sustainability (social and environmental) throughout our supply chains. We use this as a marketing tool. Those suppliers without the Sustainability Seal are not accepted as this is part of our branding.* (Interview: Wine company)

The wine industry has a tremendous impact on the environment from production and manufacturing through to transportation and marketing, both in terms of the resources required and the wastes produced at every stage (Boisset 2009).

Large quantities of pesticides, fertilizers and other chemicals used in wine production end up in the soil, water or air, leading to acidification, eutrophication, and contamination of surface and ground water sources as well as air pollution and increasing greenhouse gases in the atmosphere (Vink 2011). All these issues have serious consequences for the health and well-being of neighbouring ecosystems and species they support, including humans. The wine industry also uses vast amounts of water during the routine day to day activities like washing tanks, barrels and buildings (Vink 2011). Just like with energy, improvement in water conservation is a top priority as South Africa is considered a water scarce country. Most clean water is used during harvest for daily cleaning of equipment and tanks.

Despite these environmental concerns, the South African wine industry has made great strides towards more sustainable wine production practices across the value chain. Numerous measures to address the environmental impacts associated with the industry have since been implemented. According to Vink (2011) the South African wine industry launched the Integrated Production of Wine (IPW) in 1998 to regain its international standing as a "New World' wine producer following the lifting of economic sanctions. The IPW is a regulatory system that provides guidelines for sustainable agricultural practices in response to the environmentally friendly food production methods practiced all over the world. Despite holding no policing authority, the IPW has helped to improve sustainability in the industry by ensuring its seal is associated with green policy on the international market, giving it more consumer appeal (Vink 2011).

The wine industry also collaborated with conservationists to develop the Biodiversity and Wine Initiative (BWI) whose mandate is to protect the Western Cape Province's endangered species, promote sustainable practices and rehabilitation of flora and fauna (Vink 2011). The initiative was established in 2004 on a voluntary membership model has received international recognition as leaders of the global wine sector driving conservation minded farming and demonstrating the balance between nature and farming (Vink 2011). Ever since its inception, BWI members received free support and guidance and this laid a firm foundation for practising biodiversity-friendly farming practices (Vink 2011). The following are the main foci of the BWI:

- Minimising the loss of threatened natural habitat in the Cape winelands
- Increasing the total area of well-managed natural habitat set aside in contractually protected areas
- Promoting changes in farming practices that enhance the suitability of vineyards for biodiversity and reducing farming practices and their impact on biodiversity, both in vineyards and surrounding natural areas;
- Positioning the biodiversity of the Succulent Karoo and Cape Floral Kingdom – and industry's proactive stance to environmental sustainability and conservation – as a unique selling point.

One of South Africa's pioneers of organic viniculture is Reyneke, which was certified in 2000 (SWSA 2012). Subsequently, Waterkloof, LaMotte, Backsberg, Spier and other wineries have also begun producing selected organic wines (SWSA 2012). Bon Cap Organic Winery currently boasts 45 hectares of organic grapes, 98 percent being of the red variety which has won the winery numerous awards in the industry (Vinpro 2016).

The SWSA (2012) reported that some wineries fail to obtain organic certification despite accurately following production guidelines (e.g. use of natural chemicals, ground cover between rows to improve microbial activity and to host beneficial insects, etc.). Reasons for failing to obtain certification included the prohibitive costs of certification, the complicated certification procedures and the lack of international standards (SWSA 2012). Some wineries want to reserve the right to use non-natural procedures should they be required in extreme circumstances.

4.4 South African Ethical Trade Initiative

The South African Ethical Trade Initiative aims to promote sound and ongoing improvement in ethical labour practices on South African's fruit farms and packing houses (Satgi.co.za 2016). It is a voluntary body and uses third-party auditors to provide certification (Satgi.co.za 2016).

4.5 WiseWine Initiative

In 2014 a Wine Industry Strategic Exercise (WISE) was launched to outline a framework for the industry that would help guide its economic and social transformation (Wynland 2014). The work is split into several aspects, including a focus on social transformation and land reform (Wynland 2014). The first phase was implemented in 2015 (Vinpro.co.za 2016). The initiative aims to unify efforts in the industry on a variety of fronts, including social and ethical issues (Vinpro.co.za 2016). It aims to develop a social compact that will also help to improve competitiveness and coherence (Vinpro.co.za 2016). It is hoped that WISE will help South Africa improve its reputation for quality wine on international markets, and thus enter the mid- and premium segments more successfully (Vinpro.co.za 2016d).

The relative effectiveness of these organisations in bringing about social and environmental justice is questioned.

> *There are a slew of certification options out there. We are not able to gain a premium through WIETA certification, as it does not have significant market recognition there and they do not have the resources to get the message out there... And, although we are Biodiversity and Wine Initiative Champions, there is not much recognition for this [on the European market].* (Interview: Wine Estate 2016)

> *Having accreditation, such as Fairtrade or WIETA, doesn't really translate into a premium. In addition, these accredited wines are more expensive to produce, which then 'eats up' any premium on offer.* (Interview: Wine company)

4.6 The Business Social Compliance Initiative

Aldi, Edeka and Lidl (leading German retailers/wholesalers) are members of the Business Social Compliance Initiative, which has recently revised its standards, which align with the Declaration of Human Rights, the United Nations Guiding Principles for Business and Human Rights, the Organisation for Economic Cooperation and Development Guidelines and the International Labour Organisation Conventions (Business Social Compliance Initiative 2016). The standards stipulate that national minimum wages must be paid, that all suppliers comply with national labour laws and that the rights to freedom of association and collective bargaining are respected, as well as that occupational health and safety guidelines are followed; this is a binding code for its signatories; however, the frequency of audits is not mandated, leaving critics to label the code as relatively ineffective (Oxfam Germany 2013).

The Business Social Compliance Initiative is a Foreign Trade Association initiative that represents about 1 900 retailers, importers and brands (Fta-intl.org 2016). It is not an accreditation system, but offers a supply chain management system that helps companies to drive social compliance along global supply chains (Fta-intl.org 2016).

It offers a binding code of conduct and implementation system, but many of the criteria rely on self-assessments (Fta-intl.org 2016).

5. SOUTH AFRICA'S EXPORT MARKET: A FOCUS ON GERMANY

5.1 The export table grape market

The export market for table grapes is relatively simple compared to that for wines. A short overview of the German market for table grapes and export criteria is provided.

Germany is a price sensitive market with a preference for regionally grown fruit, and seedless white table grapes (ACED 2012). Consumers place a premium on appearance over taste, and are particularly concerned about safety; for this reason, supermarkets in Germany demand lower maximum residue limits than required by European Union regulations (ACED 2012). The demand for Fair Trade certification is mainly for bananas and pineapples, and the market for organic table grapes remains stable at about 5 percent (ACED 2012).

An essential certification for export to Germany is GLOBALGAP – this is not a legal requirement, but is demanded by nearly all retailers, along with standard health and safety certification of the product (ImportPromotionDesk.de 2016). The South African SIZA certification is recognized by GLOBALGAP. South Africa also enjoys preferential market access to the European Union through the Trade Development and Cooperation Agreement (DAFF 2015b). Producers typically need to wait 30-45 days for payment in a market dominated by discount retailers (ACED 2012).

5.2 The export wine market

South Africa is the world's eighth largest wine producer, behind Italy, France, Spain, the United States, Argentina, Chile and Australia (Topwinesa.com 2016). South Africa produced about 968 million litres of wine in 2014 and exported 420 million litres (Topwinesa.com 2016). South Africa is considered a 'New World' producer having been readmitted into the international market following the end of Apartheid in 1994 (Ponte & Ewert 2007).

The biggest export markets in 2014 were the United Kingdom at 107 million litres and Germany at 79 million litres with France, Sweden and the Netherlands taking just more than 20 million litres each (Topwinesa.com 2016). The European Union therefore is South Africa's most important export market, although producers are increasingly looking to develop new markets.

Wine consumption rates are decreasing in the European Union because of the economic recession, lifestyle changes, anti-alcohol campaigns, health concerns and a trend towards consuming beer and spirits among younger generations (OIV 2015). In some states, consumption has remained stable and the market for premium wines has grown.

In the United States the demand for South African premium wines grew between 14 percent and 25 percent in early 2016 (WOSA 2016), although a producer notes that:

> *South Africa has been exporting to the United States market for 20 years, but growth is flat.* (Interview: Wine company).

Competition is therefore intense in these markets (York 2015) and producers are looking to build their businesses in expanding markets, such as Russia, China and Africa (PWC 2015), particularly Angola (Vinpro.co.za 2016). A strategic alliance formed between Ashton Winery, Roodezandt Winery and Rooiberg Winery in the BARRValley Wine Growers aims to enter the Chinese market with critical bulk volumes (Barrwinegrowers-sa.co.za 2016). This collaborative marketing attempt can offer these markets 75 million litres of wine a year (Barrwinegrowers-sa.co.za 2016). While those already operating in the market note the need for aggressive generic marketing of the country.

> *We have 40 percent of South Africa's market share in China, and there we have to market aggressively as a company as Brand South Africa.* (Interview: Wine company owner 2016).

Sales in the Chinese market increased 63 percent in 2015 and anecdotal evidence suggests that the association that the Chinese have between the colour red and good fortune plays a role (York 2015). It is more likely because the consumer class in China is a fast-growing and aspirational one (York 2015). There is also increased demand for bulk white wine in the Russian and Canadian markets (Wine Annual Report 2015).

5.3 The German wine market

Germany has a high consumption per capita rate, but limited national wine production (International Organization of Vine and Wine [OIV] 2014). Average consumption rates in Germany are expected to stay at around an average of 21 litres a person for the foreseeable future (Meininger.de 2016). Germany is the largest sparkling wine market in the world (CBI 2016) with most of this sourced from France and Italy. The country produces mostly white wines, but consumer trends indicate a growing demand for red varietals (Mathab 2015), such as Cabernet Sauvignon, Pinotage and Shiraz (Vink et al. 2012). The demand for organic wine is slowly gaining momentum (CBI 2016).

5.3.1 German wine consumers

While Germany has been relatively unaffected by the global economic crisis, consumers have increasingly shifted to buying wine from off-trade outlets (CBI 2016c). Low-income earners tend to buy discount wines from Spain and France and high-income earners tend to buy locally produced and imported premium wines (CBI 2016).

These consumers tend to be older and to stick to the wine profiles/brands that they know (Meininger.de 2016) and so wines from New World producers, such as South Africa, tend to be found at the lower end of the price range (Wine.co.za 2016). In addition, the wide variety of wines available on the German market makes product distinction difficult (CBI.eu 2016).

5.3.2 The German wine import market

Germany is currently the world's largest wine importing country (OIV 2014) – an estimated 16 million hectolitres in 2016 (Meininger.de 2016). Imported wines make up 60 percent of still wine sales in the country (Meininger.de 2016). It imports primarily from Italy, Spain and France (CBI 2016) and through importers, specialist wine and beverage dealers, cash and carry markets and wine producers (CBI 2016). The German market is mainly catered to by large volume suppliers that sell at lower rates to supermarkets and discounters, with premium wines sold via specialist traders and mail-order companies (Ammerman 2013).

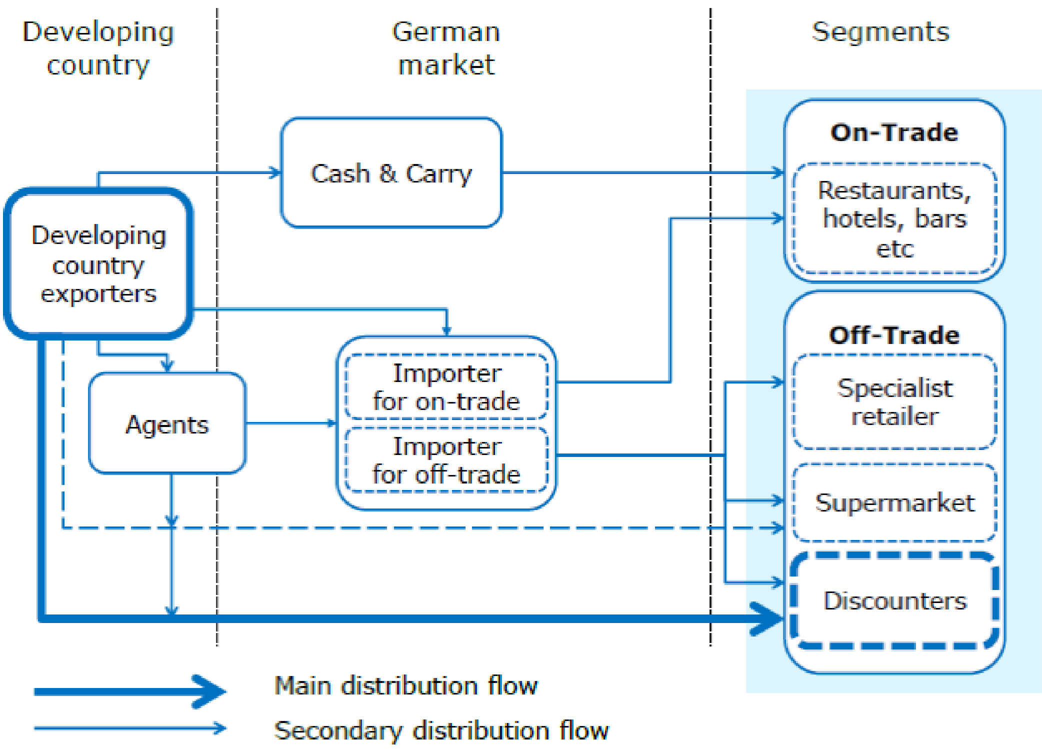


Figure 5: Trade channels for wine in Germany (Source: Profound 2015)

Not all wine is sold in the country; about 3 million hectolitres is bottled in Germany and re-exported, mostly as low-price wines for the European food retail sector (Meininger.de 2016). Internal trade in wine is commonplace with the European Union with bulk wine transported across borders for bottling or retail elsewhere (Ponte 2009). The expansion of retailers such as Aldi, Lidl, Rewe and Edeka into other countries supports this re-export market (Meininger.de 2016).

An estimated 40 percent of bulk wine exported to Germany from South Africa is re-exported and sold internationally. The percentage of bottled wine exported to Germany that is re-exported is below 5 percent (Interview: Wine marketing organisation Germany 2016).

5.4 Overview of leading German discounters and supermarkets

Discounters sell nearly 40 percent of all wine in Germany and supermarkets just more than 21 percent (Deutsches Weininstitute GmbH 2014). The Edeka Group, Rewe Group, Aldi Group and Schwarz Group earn more than 80 percent of all profit made in the German wine retail market (Deutsches Weininstitute GmbH 2014). Germany's Federal Cartel Office notes in 2014 the significant increase in consolidated ownership in the retail space with the four mentioned above buying out competition. These groups make significant amounts of profit with €64 billion generated in turnover by discounters and €54 billion by supermarkets in 2014 (Bundesverband des Deutschen Lebensmittelhandels 2016).

5.4.1. The EDEKA Group

The EDEKA Group comprises more than 11 000 stores, employs about 346 000 people and generates more than €48.4 billion in annual turnover (Edeka Group 2016). It has been trading for more than a century, starting out as a cooperative alliance of independent merchants (Edeka Group 2016). It also owns Netto Marken-Discount, which is the third biggest discounter store in Germany. It offers a selection of 450 wines sourced from 15 countries (with 350 of these produced exclusively for EDEKA, and operates its own winery, the second-largest in Germany (Edeka Group 2016).

5.4.2. ALDI Group

A privately owned group, Aldi is Germany's leading grocery store chain and a top competitor on the global market (Referenceforbusiness.com 2016). The group was established in 1913 and operates 'hard discounter' stores (Referenceforbusiness.com 2016). It offers a relatively small selection of goods, which are mostly sold under private labels (Referenceforbusiness.com 2016). The store is known for its frugal attitude, in terms of store size, limited investment in technology and using staff to maximum benefit (Referenceforbusiness.com 2016). Estimates put store holdings in the thousands, with many operated through subsidiary or separate companies (Referenceforbusiness.com 2016).

5.4.3. The Lidl Group (part of the Schwarz Group)

Positioned as Aldi's main competitor, Lidl operates more than 10 000 stores in more than 20 countries in Europe.

Established in 1930, it is part of the Schwarz Group, the fifth-largest retailer in the world. It follows Aldi's budget approach to retail frills, including packaging. The company has been repeatedly criticised for its bad labour practices.

5.5 Wine exports from South Africa to Germany

The volume of wine exported to Germany has increased significantly over the past decade (Mathab 2015). South Africa exported about 6 million litres of bulk wine to Germany in 2015 (PwC 2015), nearly 20 percent of all exported wine (WOSA 2016). South Africa used to be the biggest overseas supplier of wine to Germany, but has recently slipped into second place to Chile (Wine.co.za 2016).

5.5.1 Trading conditions in the German market

Entering the German market with bottled and branded wine is difficult; supermarkets charge high listing fees (in the form of kickbacks and discounts) amounting to between 24 percent and 28 percent of the retail price (CBI 2016c).

> *Establishing a producer brand in Germany is expensive. German retail (mass-markets) are demanding enormous money for listing-fees, which is not linked to any volume guaranteed. Additionally suppliers have to provide sufficient promotional support, above and below the line marketing activities. Furthermore a sufficient sales team is needed, working with the various outlets directly to negotiate in-store promotions, staff trainings, etc. Therefore it is highly recommended and approved that it's crucial to work with an experienced importer in this market field.* (Interview: Wine marketing organisation Germany 2016)

While some South African exporters note that these German supermarkets have 'stricter' trading practices in terms of short supply contracts, varying volumes, long payment terms (up to 90 days for some) and marketing fees, others note that there is no difference in how they are treated by other European Union buyers (Interviews: South African wine exporters 2016).

> *There is no real difference between selling to Germany or any other European country. It always depends on the nature of the contract and what the buyer is looking for.* (Interview: Wine exporter 2016).

> *The German market is not noticeably different from other European markets – most [buyers] pay between 60 and 90 days and have the same trading terms*. (Interview: Wine estate owner 2016).

> *Trading terms are more or less the same across Europe however one will need to invest in the quality certification required by German retailers.* (Interview: Wine Company marketing manager 2016)

The result is intense competition between producers to tender for the lowest amount, furthering the sense of insecurity felt by local producers. German supermarkets and discounters also tend to make a once-off purchase with no guarantee of a further contract.

> *There is more likelihood of securing long-term contracts with the on-trade market; it is more difficult for off-trade sales, and for bulk wine sales.* (Interview: Cooperative winery 2016).

Those producers who have managed to access the on-trade market emphasise the importance of building relationships; the same applies for export companies.

> *We initially entered the market through an intermediary, but have built up solid relationships with the buyers and have a stable [buying] interaction with them.* (Interview: South African Private Wine Cellar marketing manager 2016)

5.5.2 Key trends

There are several key trends in the market, which affect the price that South African producers can negotiate for their wines.

Of the trends outlined below the shift to buying wine in bulk to accommodate the growth of private labels wines is the most significant. It is therefore discussed at length.

A buyer's market

A handful of buyers control 80 percent of the European Union wine buyers' market (CBI Ministry of Foreign Affairs of the Netherlands 2012). The food retail sector accounts for up to 60 percent of all wine sales, with the balance divided between the restaurant trade (accounts for about 15 percent) and specialist wine retailers (account for about 10 percent), and the rest purchased directly from producers (Meininger.de 2016). There are roughly 14 000 discount outlets, 10 500 supermarket outlets, 4 000 wine shops and 8 000 wine estates selling wine in Germany (Hoffman 2014).

The food retail sector is dominated primarily by discounters (Aldi, Lidl, Netto, Norma and Penny) and supermarkets (Rewe and Edeka, with the Metro Group gaining market share) (Meininger.de 2016). The German Wine Institute estimates that about 30 percent of retail grocery sales are made by Aldi alone (DW.com 2015). The concentration of this sector gives fewer players more power to determine prices.

The discounters have lost market share to the supermarkets in the last decade with supermarkets increasing their value share of the wine market from 21 percent to 31 percent between 2006 and 2013 (Wine Intelligence 2015). This is possibly because they have expanded their wine selections, but can use their purchasing power to provide good prices.

The German market is split into two off-trade categories: mass-market and specialist market. Each has its own terms and conditions.

[There is a recent shift in] *that supermarkets, such as Edeka chains, have upgraded and expanded their wine departments and can be seen as specialist retail or rather deli-shops*. (Interview: Wine marketing organisation Germany 2016)

[Supermarkets, such as Edeka, have an advantage over specialist retailers because they] *still has its central warehouse where their outlets buy the main brands. Plus they also have their own bottling facility, where they do their private label business.* (Interview: Wine marketing organisation Germany 2016)

Note that the larger South African companies selling into Germany, such as KWV, use importers and while they might meet with retailers, negotiations are undertaken by the importers (Interview: Wine Company 2016). Importers are an important way into the market given the diversity of regions and wine tastes.

To service the full [German] *market, it is a necessity to work via importers. Each [country] is different in terms of channel structures, price sensitivity, taxes, wine consumption, and disposition towards imported wines and South African wine in particular.* (Interview: Wine Company marketing manager 2016)

A price-conscious market

Price competition is fierce in the German market for a variety of reasons. The European Union market is extensive (about 82 million people), it is relatively easy to move goods around and thus competition between and within countries is intense (Wine.co.za 2016).

… the average price is very low reflecting relatively low VAT-rates, the absences of wine-tax, and a big German production. To compete in the volume segment of the market leaves little margin – especially as South African wine (as all non-EU wine) carries an additional tax compared to wine coming from the EU. However, this can be said of all markets in which we operate: difficult to make money in the volume segments. (Interview: Wine Company marketing manager 2016)

Discounters in the German market are particularly responsible for driving down prices – the average price of wine in an Aldi outlet, for example, dropped below €2 within a decade (DW.com 2015). The difference in price for wine sold through discounters and supermarkets and for that sold directly by producers is significant. Producers charge on average €6.23 per litre compared to the average €2.50 per litre in conventional supermarkets in 2015/2016 (Meininger.de 2016). The consolidated nature of the discounter market enables companies, such as Aldi or Lidl, to sell a bottle of wine for an average 1.75€ (CBI Market Intelligence 2016).

This is, however, dependent on the wine. A South African marketing organisation operating in Germany notes that (2016):

> *Discounters are known for offering the lowest prices on anything because that's their core strength. But I wouldn't agree that South African wines are the cheapest on the shelf of a German discounter. New world wines like South African wines are sold for €2,49, which used to be above average (bottled in SA) and more expensive than German wines. Of course, there are also offerings for €1,99 Pinotage available which are wines mostly bottled in Europe. But similar prices you find from any other origin, too. So I would say in general the price offerings of South African wines are very much in line with general wine price politics of discounts.* (Interview: Wine marketing organisation Germany 2016)

While others note that:

> *The German market is very price sensitive. Bottled wines have less than 2 percent market share in Germany in terms of our exports and a lot of bulk wine moves through Germany into Scandinavia and Asia. Most wines are sold for less than €2 a bottle.* (Interview: Wine Estate)

Germany was known as the lowest export price payer of the major countries that import wine from South Africa (BASIC 2015).

Freight-on-board prices paid declined significantly by 46 percent in the last decade from US$1.47 a litre in 2006 to US$0.80 a litre in 2015 (United Nations Comtrade n.d.). Although a 2014 market research project noted that Germany paid more than the Netherlands for freight-on-board prices on all imported wines with an average mark-up of 38 percent (Interview: Wine marketing organisation Germany 2016). It is not clear whether the prices are lower for South African wines. The pressure to supply at the lowest price possible has led to some farms looking for other buyers.

> *In the current climate we cannot offer such cheap prices because it is not sustainable for our large estates or cooperatives. They cannot take care of their workers and remain sustainable with the kind of prices required.* (Interview: Wine exporter 2016)

> *We only sell bottled wine into the market and to the on-trade, specialised wine shops, restaurants, etc. We don't sell to supermarkets because then you have to compete with entry-level brands and we don't want that association.* (Interview: Wine Estate marketing manager)

> *We no longer sell to the German discounters as the prices offered/demanded are too low for our producers to remain financially viable.* (Interview: Wine exporter 2016).

> *We only sell bottled wine to Germany and mainly through an intermediary onto the on-trade. We don't play in that supermarket space; the prices are too low. It is not worth it. It is only really the KWVs and Distells that operate there.* (Interview: Wholesale producer 2016).

Producers do note that prices are extremely competitive in all markets; Germany is no exception.

> *It is price competitive, but so is everywhere else. We don't play in the discount space.* (Interview: Wholesale producer 2016)
>
> *The market is a mature market and therefore it is very price driven and extremely competitive. Consumption is stable and this adds to the competitive environment. Like in most mature markets fees can be high.* (Interview: German import company 2016)

A South African marketing agency in Germany notes that (2016):

> *The problem for the South African bulk wine industry is that their bulk is the cheapest amongst the new world suppliers. Considering the massive amount of volumes this can't be argued by the price politics of German discounters. I have no insights why South African bulk wines is sold much cheaper as any other New world wine, especially not because in Germany South African wines are seen as the winning category amongst the New World wine offerings*. (Interview: Wine marketing organisation Germany 2016)

No matter which kind of wine (bottled or bulk), its quality and pricing influences the overall image of South African wines.

> *South African wine exporters are facing a difficult phase if the prices for a farmer are not economically vital. Therefore a farmer has to stretch his crop per hectare and the quality will drop.* (Interview: Wine marketing organisation Germany 2016)

A trend towards supermarket/discounter capture of premium markets

'Premiumisation' is one of the leading influences on market trends in 2016 because wine knowledge is increasing and consumers are becoming interested in craft products – this translates to wines of origin and ones with a story (Vinpro.co.za 2016).

> *The German wine market is one of the biggest and most stable in the world, and is able to provide good returns for brands sold for €5 to €10* (Interview: Wine marketing organisation Germany 2016).
>
> *To capture space in the €5 to €10 segment, wines need to offer value-for-money (but not cheap), serious branding, an authentic story, fair labour practices, an identified source of origin, plus sufficient marketing and funding support* (Interview: Wine marketing organisation Germany 2016).

German retailers, including discounters, are shifting to offering a wider range of higher quality wines in efforts to attract more customers (Russia.WOSA.co.za 2016).

Aldi, for example, contracted two leading German winemakers to produce quality wines for sale at 'cut-rate prices' (DW.com 2015). The wineries will benefit from mass sales through Aldi's extensive distribution system and Aldi improves its image as a wine retailer (DW.com 2015).

Private labels also operate at the high-end of the market, but are not normally branded under the retailer's name. What effect the lowering of prices of premium wines will have on the ability of producers to retain their market share and income is unknown. However, given the size of the population and the size of the total wine market there are good opportunities at higher price points.

> *The key challenge here is that South African wine (and 'New World Wine') is a very small part of the total market – and it is a segment in decline. That is: opportunities are few and far between. This is different to other key export markets such as Sweden and UK* [United Kingdom] *where South African wine is a big part of total wine consumed*. (Interview: Wine Company export manager 2016)

Poor support of social and environmental accreditations

The number of accreditations for wine is confusing to consumers (CBI.eu 2016b). Sustainability is more often associated with organic wine production in Germany than social sustainability indicators (CBI.eu 2016b).

While the market for organic wine has grown significantly across Europe (an estimated 2.7 million hectolitres was sold in 2013, it is still struggling to overcome its reputation as low-quality wine and is increasingly supplied as bulk wine (CBI.eu 2016b). Most European consumers are not willing to pay a premium for organic wine (CBI.eu 2016b), although there is a slight premium paid in Germany for such wine (CBI.eu 2016b). Organic wines are mostly sold through specialist retailers or niche sections in the supermarket sector (CBI.eu 2016b). In addition, the European Commission-proposed organic regulations will come into effect in 2017 placing a further onus on suppliers in developing countries to meet the stricter requirements for traceability of organic products, among other aspects (CBI.eu 2016b).

A social accreditation initiative that has a fair amount of acceptance in Europe is Fairtrade. More than 22 million litres of Fairtrade wine was sold in 2014 globally; 19 percent of which was also organically certified (CBI.eu 2016b). But while Fairtrade has made significant inroads into the South African market, it does not seem to enjoy high levels of consumer awareness of its brand for wine in Germany).

> *Having accreditation by WIETA or Fairtrade or even organic certification does not really improve our bargaining power. We are not able to get more for our wine based on these accreditations unless the buyer is looking for these specifically.* (Interview: South African Private Wine Cellar owner 2016).

> *It depends on what they want – organic wine, Fairtrade wine, etc. but beyond that there is no certification needed as to environmental or social aspects.* (Interview: South African Wine Cellar 2016).

> *There is awareness of the Fairtrade brand in Germany, but not so much for wine; and it is often too expensive for smaller family-owned businesses. Wine is traded as a niche product.* (Interview: Wine marketing organisation Germany 2016)

> [Does accreditation make a difference?] *No not really, and that is the same everywhere, not just in Germany. Buyers want it but they don't want to pay for it and neither do consumers want to pay a premium.* (Interview: Wholesale producer 2016)

> *The German consumer, not taking into account any niche consumption, is not yet willing to spend more for social or environmental accreditation due to the competitive pricing as well as the amount of wine products in the market*. (Interview: German import company 2016)

> *There is not much demand at the moment [for these wines] so difficult to say but looking at Fairtrade wines in the market and based on other markets, it seems unlikely that customers would pay more. It is a big trend in all the Nordic monopolies and there is some demand in the United Kingdom.* (Interview: Wine Company marketing manager 2016)

The international ISO 26000 guidelines outline various principles related to social responsibility, but it is not a certifiable body. The German supermarket Edeka notes that it has orientated its sustainability goals towards these guidelines and intends implementing a business social compliance initiative in this regard (Edeka 2015). Neither Aldi nor Lidl mention ISO 26000 guidelines in their corporate social responsibility policies or on their websites.

Aldi, Edeka and Lidl are, however, members of the Business Social Compliance Initiative, which has recently revised its standards, which align with the Declaration of Human Rights, the United Nations Guiding Principles for Business and Human Rights, the Organisation for Economic Cooperation and Development Guidelines and the International Labour Organisation Conventions (Deutsches Weininstitute GmbH 2014). The standards stipulate that national minimum wages must be paid, that all suppliers comply with national labour laws and that the rights to freedom of association and collective bargaining are respected, as well as that occupational health and safety guidelines are followed; this is a binding code for its signatories; however, the frequency of audits is not mandated, leaving critics to label the code as relatively ineffective (Deutsches Weininstitute GmbH 2014).

> *Germany, as with other markets, does not require any kind of accreditation. This is a cost-saving measure*. (Interview: South African wine exporter 2016).

We are not asked to provide proof of any kind of environmental, social or ethical compliance when selling to the German market. (Interview: South African Cooperative Wine Cellar 2016)

While WIETA was established to monitor working conditions on farms and to put pressure on farmers to practice ethical employment, it does not, in practice, have the mandate or budget to enforce change or elevate standards and its impact on the German market is not significant. It has gained awareness amongst importers and buyers, but not on a consumer level yet. This is because there are too few wines on the market to justify a specific consumer campaign to raise awareness. Unlike Fairtrade, WIETA doesn't charge a fee for the use its seal in marketing. Awareness is likely to grow as the number of certified wines increases (Interview: Wine marketing organisation Germany 2016).

Growth of online wine retail platforms

Online wine sales are increasing around the world. Online wine sales account for up to 11 percent of the market in Europe (CBI.eu 2016d). An estimated 15 percent of German wine consumers buy online, a significant increase over the past few years (CBI 2016c). The value of sales through online stores accounted for 8 percent of total sales value in 2016 (Wine.co.za 2016). Online stores are, however, driven by retailers (CBI 2016c). Aldi launched an online wine shop in 2016 (Thedrinksbusiness.com 2016). Lidle does not yet have online stores (CBI.eu 2016d).

[In Germany] *this puts pressure on specialist retail in terms of transparency of consumer retail prices*. (Interview: Wine marketing organisation Germany 2016)

A bulk wine market

Bulk versus blended wine Wines can be sold as single cultivar or blended products. Even wines sold as single cultivars, however, often have up to a majority percentage of one varietal and smaller percentages of another. The permissible percentages are dependent on the labelling laws of each country. In South Africa, wine is certified as originating from one cultivar if at least 85 percent is of that cultivar – the other cultivars do not need to be mentioned (SAWIS n.d.). If the wine is certified as a blend then the cultivars must be mentioned in descending order according to their contribution – however, if two cultivars make up 80 percent of the blend or more (and both are above 20 percent of the blend) then the other cultivars do not need to be mentioned (SAWIS n.d.). Bulk shipping of wine refers to the transportation method – the use of large containers, as opposed to individual bottles or tetrapacks. Both single cultivars and blends can be shipped in this way. References to bulk wine generally refer to single cultivar wine that is shipped with the express purpose of being used with other cultivars in a blend – for example, in a supermarket's private label blend. Wine producers can also choose to ship their single cultivar or blended wine in bulk and then bottle it under their own label at the export destination. There are sometimes price advantages to this, and it is possible, particularly for made-to-drink-now wines, that quality can be better preserved by shipping in bulk.

<u>An overview of the international bulk wine market</u>

Sales of bulk wine have increased significantly in the last decade – an increase of 61 percent between 2005 and 2012 (Wine.co.za 2014). This wine serves to supplement domestic production in wine-producing countries and for consumption in non-producing countries (Wine.co.za 2014). The increasing trend of importing bulk, as opposed to packaged, wine puts further downward pressure on prices. More than $3.1 billion of bulk wine (from a total value of $31 billion) was traded in 2015 (UIV 2016). The proportion of wine shipped in bulk has increased dramatically growing from 830 million litres in 2010 to about 870 million litres in 2015 (UIV 2016). This equates to about 13 percent of the global trade in wine (CBI.eu 2016c). Traditionally France has been the largest importer (39 percent of all bulk wine imports), followed by Sweden (27 percent) and then Germany (24 percent) ICBI.eu 2016c), but figures for the first quarter of 2016 indicate that Germany has slipped into first place, paying an average US$0.63 a litre for nearly 211 million litres (En.vinex.market 2016).

Germany's biggest suppliers were Italy and then Spain (En.vinex.market 2016). The United Kingdom was the second biggest importer during this period importing more than 107 million litres at an average price of US$1.06 a litre (En.vinex.market 2016).

The United States is the third biggest importer buying in about 80 million litres at an average US$1 a litre (En.vinex.market 2016).

Spain is the world's largest supplier of bulk wine, exporting about 315 million litres to the value of US$131 million in the first quarter of 2016 (En.vinex.market 2016). Spain supplied more than double the volume of Italy (126.4 million litres), which is followed by Chile (111 million litres, Australia (88.5 million litres and South Africa (about 65 million litres) during this period (En.vinex.market 2016). The average price fetched for Spain's bulk wine was US$0.82 a litre, while countries such as New Zealand, France, the United States, Argentina and Portugal were able to fetch over US$1 a litre (En.vinex.market 2016). New Zealand bulk wine commanded a US$3.02 a litre price tag (En.vinex.market 2016).

Drivers of the demand for bulk wine

The demand for bulk wine is driven by increased cost savings, improvements in quality preservation and to a lesser extent environmental concerns about the effects of transport on the environment (CBI.eu 2016c). For example, a flexitank containing 24 000 litres will fit into a 20-foot container while the same volume in bottles require an 80-foot container (Harpers.co.uk 2016). The bulk wine buying trend is supported and driven by the supermarket trade's efforts to cut costs and create value through private label wines (Beveragedaily.com 2015). It is possible that the significant numbers of bottling plants in Germany also supports the trend towards buying wine in bulk.

> *It is much cheaper to bottle wine and it provides several environmental benefits by reducing travel time for packaging, for example. It does, however, come at a cost to the exporting country in that these functions are then also exported.* (Interview: Wine Cellar marketing manager 2016).
>
> *The price for glass is a factor in bottling in South Africa. There is only one supplier and costs are increasing. Those bottling (for a retail brand or even as their own brand) abroad will ship in bulk and the bottle there*. (Interview: Wine Estate export manager 2016)

While there is not extensive data available regarding bulk wine purchases in Europe, it is estimated that bulk wine makes up 66 percent of all wine imports into Germany (CBI 2016c). This is primarily handled by major importers, including Hawesko, Schenk, M Mack & Schühle, Owen/Teck, Tophi and Racke Eggers & Franke, which are increasingly asking for bulk wine (CBI 2016c).

South Africa's focus on bulk wine exports

A significant amount of exported wine is sold as bulk wine. In the export boom of 2013, 342 million litres of the 525 million exported was bulk wine (SAWIS 2015). In 2015, 261 million litres of the more than 412 million litres was sold as bulk wine (43.4 percent) (SAWIS 2016).

The largest demand for South African wines is in the form of bulk wine exports, which constitute almost two thirds of the wine exported. The rest is packaged for local or international sale (Ponte & Ewert 2007). South Africa's history of cooperative cellars plays a role in the country's reputation as a bulk wine provider. This system tends to prioritise volume at the expense of quality (Ponte & Ewert 2007). The effects of consolidation and dominant market share cannot be underestimated. This is felt at both the local and international levels. In South Africa, dominant players such as Distell, KWV and DGB still have a significant effect on the market, particularly when it comes to the percentage increases each year for bulk wine (Ponte 2007b). The pressure on price is significant. Erhard World, chief grape and wine buyer at Distell, notes that if prices were to increase by just R2 a litre, Distell would only be able to sell half the wine and thus buy less grapes and wine from producers (Vinpro.co.za 2016d). He states that the market dictates the price points at which wine can be purchased, when then affects the price and quality of the wine that Distell buys (Vinpro.co.za 2016d). As Distell's growth is in low price range products at the current time, there is a demand for grapes grown at a lower cost (Vinpro.co.za 2016d).

There are negative implications for the local industry in that the importing country gains the value-added benefits of blending, bottling and, sometimes, branding (CBI.eu 2016c). This has implications for job opportunities, as the shift to shipping wine in bulk also effectively exports jobs (Harpers.co.uk 2016). It also provides little opportunity to build brands and thus demand premiums (CBI Ministry of Foreign Affairs in Denmark 2016).

DISTELL

Overview

Distell is Africa's most prominent producer and marketer of wines, spirits and ciders. The company employs more than 5 000 people, mostly in South Africa, and boasts an annual turnover of R19.6 billion (Distell 2017). In 2015, the company spent more than R2.3 billion on raw materials, including 370.2 million litres of grapes and wine bought in bulk from independent cellars for use in its brands (Distell 2015). Distell uses close to 30 percent of South Africa's annual wine production each year (Distell 2015).

Remgro and Capevin Holdings currently have a 52.8 percent controlling interest in Distell, while AB InBev has sold 26.4 percent of its investment to South Africa's Public Investment Corporation (PIC) as part of its disinvestment agreement with the South African Competition Commission (Capevine.com 2016). The PIC acts on behalf of the government employees' pension fund.

Distell brands

Distell boasts an extensive brand stable. Brands sold in Germany include African Rock, Allesverloren, Alto, Drosty-Hof, Durbanville Hills, Fleur du Cap, Hill & Dale, Jacobsdal, Libertas Le Bonheur, Lomond and Nederburg (Distell n.d.). The 4th Street wine brand, a relative newcomer to the stable, was ranked the top growing brand in the world in 2015 with most sales in South Africa and Africa (Fin24.com 2017).

Distell has signed a three-year agreement with Sandline's Puttgarden, Europe's biggest duty-free wine retailer, in norther Germany (Distell.co.za 2016d). One of Distell's leading brands – Nederburg – is sold in an exclusive shop-within-a-shop (Distell.co.za 2016d). This is part of a marketing strategy that aligns wine retail with travel. The brand is working with travel retailers around the world to raise its profile, including working with suppliers such as Le Creuset on collaborative marketing plans (Distell.co.za 2016d). Another Distell brand that enjoys a high profile in the German market is Amarula, a liqueur. Germany is the single biggest export destination for Amarula (Distell.co.za 2013). The market share for Distell's Savanna cider is also growing in Germany (Distell.co.za 2013).

Social responsibility

The company provides a provident fund for its employees on the farms that it owns, which provides retirement benefits; it also offers subsidised medical funds and provide mobile clinics (Distell 2015). Literacy programmes are run on all farms, employment-linked housing is made available and some farms provide free transport to town (Distell 2015). Distell supports learnerships and post-graduate projects at tertiary institutions (Distell 2015).Distell provides the following benefits to its workers beyond the legislated minimum requirements (Distell 2015):

- An additional five days extra annual leave
- An additional three to six days family responsibility leave
- Up to 50 percent more maternity leave
- An annual bonus
- All employees have the right to join or form a trade union (Distell 2015).

Its social responsibility programmes aligns with the Millennium Development Goals and South Africa's Government Programme of Action (Distell.co.za 2016b). The more than 60 projects focus primarily on youth development, job creation and entrepreneurship and foetal alcohol syndrome (Distell.co.za 2016b).

Certification

All Distell's distilleries and wineries in South Africa are ISO 9002:2008 certified and certification of the new ISO 14001:2015 standard is complete or underway; many of its wineries are also British Retail Consortium food safety certified. All farms are IPW certified, and most are members of the Biodiversity Wine Initiative. Nederburg, a leading brand, is a certified organic wine producer and Distell Corporate is a Fairtrade certified manufacturer, processor and wine exporter. All farms, winemaking cellars and wine bottling facilities have WIETA certification, and 83 percent of Distell's supply chain is certified (Distell 2015).

Distell's organic brands, produced at the black empowerment vineyards at Papkuilsfontein and some at Nederburg, are accredited by the German-based LACON GmbH, an international food certification body (Distell.co.za 2016c).

The export market

Distell's major markets are the local South African market, the African market, United Kingdom market, Europe and China. Distell's international performance was supported in 2015 by the depreciation in the Rand and the company managed to increase revenues by 13.1 percent while sales decreased by 12.5 percent because of the exchange rate and the push to premierise its leading brands, such as Nederburg (Distell 2016). Its merger with Bisquit and Burn Steward Distillers in Europe also help to make operations more efficient and enable Distell to supply wine and spirits via a single entity (Distell 2016). Aldi currently stocks the African Rock range of wines from Distell (Discounter-Archive.de 2014) with the latest sales price at Euro 2.59 a bottle (Discounter-Archive.de 2016).

In 2014, Distell was only shipping bulk wine for one label sold at Tesco in the United Kingdom – less than 1 percent of its wine exports (Justdrinks.com 2014). An interview with Chief Executive Office Carina Gous noted that Distell was concerned the impact that bulk wine exports would have on employment opportunities in South Africa (Justdrinks.com 2014).

As noted in the previous chapter, there are various drivers of the export trend. In addition to these, the per litre cost for producing bulk wine is significantly lower and not rising as steeply as that for packaged wine – costs per litre for packaged wine rose by 146 percent between the late 2000s and 2013 and 46 percent per litre for bulk wine (SAWIS 2016).

The latest PWC report notes a shift in South African producer thinking about bulk wine exports, with more producers tending toward packaged wine exports (PWC 2015). In 2014, the International Bulk Exchange, Trade and Auction (IBETA) launched a bulk trading floor in South Africa to facilitate the trading of quality bulk wine (Bulkwine.co.za 2016).

Producers can submit their uncontracted wines (any volume and from any vintage) three times a year for review by key buyers (Bulkwine.co.za 2016). Bids are accepted digitally with contracts made directly between the buyer and producer – a 2 percent auction fee is paid to IBETA (Bulkwine.co.za 2016). At least 20 percent of all profits generated go to the Edge of Life Fund, which invests in the future of South African children (Bulkwine.co.za 2016).

Conversely, bulk wine producers in South Africa may be finding it easier to weather the tough economic climate. A recent Wine.co.za article (2016) notes that particular regions in South Africa seem to be faring better than others. Those producers capable of generating yields of about 14 tons a hectare or more are able to make a profit, albeit a small one, but only when production costs are relatively low (Wine.co.za 2016). About 80 percent of farmers in the Breedekloof region make a small profit and about 70 percent in the Worcester region – most likely because of their ability to produce bulk wine of reasonable quality at lower prices (Wine.co.za 2016). These profits can easily be wiped out by natural phenomena, such as the incidence of black frost that hit the Breedekloof in October 2016 causing some farmers to lose up to 90 percent of their vineyards (SABC 2016).

In regions where production costs are higher, however, such as the Orange River region, only one in four producers is able to make a decent profit, and for those operating in regions where production costs are high and potential yields relatively low, such as the Stellenbosch region, producers need to access the premium market to cover costs and realise a return on their investment (Wine.co.za 2016). This situation is not unique to South Africa. About 85 percent of Australian wine producers ran at a loss in 2015 (Wine.co.za 2016).

This is accredited to over-production, a falling Australian dollar, high wine taxes and low price points, especially on the export market (Wine.co.za 2016). SAWIS noted that the loss of local revenue in 2014 because of the shift to bulk wine exports was almost R1.9 billion (Harpers.co.uk 2015).

<u>South Africa's reputation for value-for-money wine production</u>

South Africa re-entered the global wine market following the democratic elections held in 1994. Prior to this production had been highly regulated and within a quota system implemented by KWV, a cooperative formed by wine farmers to stabilise and support the young and struggling industry. Exports were controlled and limited. Once international sanctions were lifted, wineries were able to compete on their own on the global market. The shift from a focus on producing high volumes of wine to producing high quality wines has not been easy for South African producers.

> *South African producers were so glad to finally export that they started their price points way too low, much below the value of their wine. South Africa needs to change that image because we produce excellent wine.* (South African Liquor Brands Association in Stienhans 2016:24).

The marketing body WOSA was established in 1999 to raise the profile of South African wines. It represents about 80 percent of exporting producers in the country (WOSA 2016). WOSA is, however, expected to do a lot with a little.

> *I think that WOSA has a marketing budget of about R35 million [US$2.6 million] while Chile has one worth about US$20 million. This puts us at a disadvantage.* (Interview: Wine Estate 2016).

Wines of Chile is the official marketing body for Chilean wines representing the two major wine-producing associations: Vinos de Chile and Chilevid (USDA 2013). While it was not possible to determine the market budget for the organisation, it is known that government contributes 15 percent of the budget, which is spent on generic promotion of Chile and its wines (USDA 2013). This contrasts to South Africa where WOSA does not receive government support.

> *In terms of upgrading the positioning in the discount market, the industry has to question is our image strong enough in terms of reach and appeal to the ordinary consumer. But it seems a normal wine consumer doesn't understand that South Africa has become a premium producing wine country. South African wines are still niche players in the wine assortments and there might be a lack of brands investing in consumer marketing and visibility.* (Interview: Wine marketing organisation Germany 2016)

Its reputation as a bulk wine producer is a contributing factor to this perception. It also reduces the ability of South African producers to negotiate for higher prices and better trading terms. South African wines with some market share in Germany include Nederburg, KWV and Bellingham (Wine.co.za 2016). Other brands, such as Golden Kaan, are well distributed, but sell mostly when discounted (Wine.co.za 2016). Plaisir de Merle is a local brand that has been able to capture premium prices in Germany (Wine.co.za 2016). South Africa supplies 5.7 percent of wine volume to Germany, captures 3.9 percent of the value and its wines sell at an average retail price of €1.09 a litre (Wine.co.za 2016).

Both South Africa and Chile are major suppliers of bulk wine to the European market (CBI.eu 2016c). South Africa exported more than 61 million litres of bulk wine to Germany in 2015, 76 percent of all exports to the country (SAWIS 2016). While South Africa is a significant player in the bulk wine market, it fetches amongst the lowest prices for its wine sold in this way (Wine.co.za 2014).

While Germany remains a key destination for South African wine exports, it is not a market likely to provide the significant returns that South African wine producers need, given the country's relative inability to crack the premium market there.

> *Many countries don't know that we can make wine or they don't know that we make good wine. We are often thought of as a cheap wine-producing country. We need to be aggressive with our generic marketing.* (Interview: Wine company).

There is an opportunity for South Africa to reposition itself as a supplier of quality bulk wine that provides 'extraordinary' value for money (Wine.co.za 2014). The country is, according to the Department of Agriculture, Forestry and Fisheries, a world leader in regulating bulk wine exports and it is possible to guarantee that minimum standards are in place and traceability back to source (Wine.co.za 2014). A centralised electronic export certification systems – Wine Online – accounts for bulk wine exports, which are evaluated through both sensory and chemical analyses (Wine.co.za 2014). Bulk wines are unfortunately not allowed to carry certification seals, making it difficult for consumers to immediately know the origin of the wine. This is of concern in the buying country where consumers could be buying a blend of bulk wines from different countries and the choice of supporting or not supporting particular farms or regions is not an option provided to them.

Bulk wines can also be sold as branded wines. Ferdinand Appel, chief executive officer at Uni Wines notes that: "Branded bulk, usually wines sold in large retail environments, has the benefit of still promoting brand South Africa and should be preferred to speculative 'spot bulk' or unbranded bulk" (Wine.co.za 2014).

Neville Carew, chief executive officer of Origin Wine, noted in an interview with Wine.co.za that (Wine.co.za 2014):

> *No wine exporter of substance goes exclusively into bulk because of its glamour, but rather sees bulk as part of the package deal to a sustainable future for the industry as a whole. It would be fair to argue that bulk is a kind of necessary evil. And the South African wine industry would be dead and buried if it was not for this.*

The opportunities for value growth in the German market are based on product and branding differentiation, which can be a costly and lengthy undertaking (Russia.WOSA.co.za 2016). Producers need to present a credible justification for the added value they are claiming in a very price-competitive market (Russia.WOSA.co.za 2016). This is difficult to do when South Africa is associated with supplying value-for-money and bulk wine.

> *Perhaps as a general rule wine is becoming more and more like a FMCG* [fast moving consumer goods] *category, which requires a particular skill set from the producers. It is not enough to have a good wine; you have to understand the market and the reality of each retailer/sales channel.* (Interview: Wine Company 2016)

<u>A bringing bottling home initiative</u>

The loss of the value-adding component of wine making (blending, bottling and branding) is an issue for the South African wine industry. In 2015, Origin Wines led a campaign to encourage local bottling against the backdrop of the increase in the quota of duty-free exports to the European Union (Beveragedaily.com 2015). The new agreement, which took effect in 2016, effectively more than doubles South Africa's duty-free quota to more than 110 million litres (Beveragedaily.com 2015). It applies, however, only to wine shipped to the European Union in packaging holding less than 2 litres (Harpers.co.uk 2015).

Currently only 84 million litres is shipped as packaged wine, providing an incentive for local bottling as costs for packaged wine would come in below that of bulk wine (Harpers.co.uk 2015).

> *We are in favour of bottling in South Africa because we can control the quality and it creates jobs. But for those playing in the supermarket game, it is cheaper to bottle abroad and a lot of bulk suppliers do that to stay competitive. The price for glass is a factor in bottling in South Africa. There is only one supplier and costs are increasing. Those bottling (for a retail brand or even as their own brand) abroad will ship in bulk and the bottle there. But it means that you cannot apply the sustainability seal if you ship by bulk. We value that seal.* (Interview: Wine Estate)

Neville Carew, managing director of Origin Wines (a leading South African exporter), noted that bottling an additional 10 million litres in South Africa, as opposed to shipping it as bulk wine, equates to an additional R200 million in direct income in 2016 (Beveragedaily.com 2015). It would also help to keep and create more local jobs and deliver economies of scale to South African bottlers (Beveragedaily.com 2015).

> *The trend of bulk wine buying is not great for Brand South Africa* [a national campaign launched in 2002 to help build a "positive and compelling brand image" for the country (BrandSouthAfrica.com 2016)] *and it does not help to build the long-term financial sustainability of the industry because it offsets efforts to promote the 'premierisation' of wine* (Interview: Wine estate owner 2016).

> *The trend of buying wine in bulk illustrates the tension between economic and environmental factors. It is more environmentally friendly, but also exports jobs from South Africa*. (Interview: Wine Estate owner 2016).

> *There is increasing pressure to supply wine in bulk, because it gets onto the shelf cheaper, but it does not benefit the workers because of the loss of value-adding opportunity. So the production line loses out.* (Interview: South African exporter 2016).

> *They [buyers] do want bulk wine because they can make money that way; it doesn't benefit us.* (Interview: South Africa Wine Cellar marketing manager 2016)

As noted earlier, South Africa sells the cheapest bulk wine in the world, which has caused several complications. Firstly it is difficult to raise this price, and secondly the country is now known as a bulk wine producer.

The wine industry has taken several initiatives to better promote its brand overseas through WOSA. It has also through the organisations such as SWSA and WIETA, and the more recent WISE initiative attempted to envision a more socially just and environmentally sustainable future.

A long-term vision for the industry though has to look beyond economic indicators to bring about the structural transformation required to ensure the longevity of a healthy labour force earning a living wage, and the environmental sustainability principles that will ensure the longevity of the necessary natural capital. While this may be difficult in the current economic times, there will be no bright future for the industry unless it can make the necessary sacrifices now to reinvent and position itself for the future. This requires linking all initiatives – such as a 'bring bottling home' project – to social development initiatives and making direct connections between additional funds generated and improving the living conditions of those who work to create the product.

The trend towards supermarket 'own' labels

Another significant trend in the European market, and increasingly in Germany (CBI 2016c), is that of private labels. These wines are blends mostly made from relatively inexpensive bulk wines and are aimed at the lower end of the market (CBI 2016c). Some retailers create premium private label brands to capture the high-end market (discussed below) (CBI 2016c).

Private label wines and retailer-branded wines provide retailers with greater control over their supply chain (CBI 2016c). They are able to reduce the cost of buying branded and bottled wine by sourcing themselves (Wineanorak.com 2016). While this is good for the supermarket's profit margins, it again diminishes the opportunity for producers to build a brand, and realise an increasing profit from it. "Without brand equity, you have no power in negotiations" (Wineanorack.com 2016).

They are also able to substitute suppliers as long as the wine is aligned to the blend's flavour profile, putting them in a strong bargaining position with suppliers as they are able to set prices, and they gain the value-addition of the branding (CBI 2016c). They can leverage their distribution and existing marketing channels to elevate their own labels (CBI 2016c).

Retailers are increasingly investing in private labels, as are discounters (CBI 2016c), which, in turn, drives the demand for bulk wine (CBI.eu 2016c). The latest European figures indicate that discounters primarily sell their own brands, leaving only about 45 percent of the market for branded wines, which must then focus on the middle to premium wine segments to complete (CBI 2016c). A leading wine company that exports to the market notes that:

> *50 percent of the bulk wine we export to Germany is bottled and sold under retailer labels and another 50 percent under the producer's name.* (Interview: German import company manager 2016)

A country that becomes known as a bulk wine supplier can find it difficult to become known in the premium market because of the association with entry-level wine (CBI.eu 2016c). And suppliers are in a race to the bottom to supply quality wine at the lowest prices. Discounters, such as Aldi, are known to try and spread risk by changing suppliers regularly in search of the lowest supply price.

Although a 2016 market report notes that the general practice of switching between suppliers and driving down prices seems to be shifting in the search for more sustainable supplier relations (CBI.eu 2016).

6. CONCLUSIONS

This research has brought to light some of the dynamics of South Africa's wine export relationship with Germany, which centres predominantly on the supply of cheap bulk wine to cost conscious consumers. It has also exposed some of the persistent systemic challenges in South Africa's agricultural sector, which despite progress in recent years, indicate the costs of cheap wine that are typically borne by the most vulnerable members of the supply chain: the farm workers. This study brings to the fore the need for greater appreciation of the externalised costs that allow for wine to be purchased at low prices, and the need for greater transparency in the wine supply chain to allow consumers to make more informed choices about which farms and distributors they buy from.

Much of the literature and reports focus on the economic constraints to farmers that prohibit them from investing more in improving conditions for their workers, including the provision of a living wage. The use of an economic lens shapes the types of solutions that emerge. Calls for government support to open or extend new markets, for examples, does not speak to addressing the social inequities in South Africa's wine and grape-growing regions. There is no direct link between a producer generating more business, and thus profit, and improved working conditions. The shifting of responsibility for improving the plight of farmworkers onto corporate social responsibility programmes is an externalisation of social costs from the economic framework. Even pursuing a more rigorous rights-based approach by extending legislative rights to casual and seasonal workers does not account for the historically unequal context in which workers need to exercise those rights.

It is a harsh and competitive economic environment, but if the South African wine and grape sectors want a prosperous and sustainable future, it should first look to its agricultural base – farm workers, their experience, marginalised skills and knowledge. Transformation requires a fundamental restructuring of social and economic systems brought about through participatory processes that ensure the inclusion of the most vulnerable and marginalised in this sector.

The following conclusions have been drawn from the research:

- Despite gains made in recent years regarding working conditions on wine farms, farm workers remain extremely vulnerable socially, politically and economically on farms. Although pressure exerted on the value chain may be perceived as a viable strategy to change these conditions, this must be carefully considered because of possible intended and unintended consequences of such pressure.

- The most powerful players in the South African market are producer wholesalers, and this sector has consolidated significantly in the past few years. This sector is responsible for the bulk of exports. The most vulnerable are casual and seasonal farm workers, most of which are women. This group is often excluded from the benefits provided by legislative measures to permanent workers, and lacks legal or social recourse to challenge the status quo.
- The devaluation of the Rand has offered short-term benefits and offsets to some degree low prices for wine, but it also sets a standard that will be difficult to amend when the Rand strengthens.
- Producers rank their biggest concerns as the price of energy and future uncertainty of supply, with concerns regarding labour productivity ranking third. They rank their biggest cost as the price of energy, with the price of labour ranking fifth. Opportunities exist to improve energy efficiencies, generate more electricity from renewables and to produce biofuels from farm waste as a means of controlling operating costs and potentially creating more skilled jobs in the wine sector.
- According to many respondents within this value chain, there is a shift to measuring labour productivity and implementing performance-based payments.
- The relatively low concern about labour costs requires reflection from another perspective. Despite gains made in recent years regarding working conditions on wine farms, a 2015 report notes that about 65 percent earn less than R1 600 a month, only 51 percent were permanently employed, and few enjoy benefits, such as holiday leave or pension schemes. Legislative protection tends to benefit mostly those with permanent employment.
- The number of job opportunities for unskilled labour is decreasing. This is driven by a shift to mechanised operations, as well as casualisation and externalisation of labour.
- Measures meant to increase tenure and income security on farms (such as extending the security of tenure act and labour legislation to the sector) have allegedly driven the shifts described above.
- The lack of effective organisation amongst the parties to the labour relationships in agriculture makes sound labour relations between employers and farm workers very difficult.
- There is no direct link between the cost pressure placed by German wine buyers and labour conditions on South African wine farms. It is clear, however, that the rising costs of production and a depressed market have led to farmers looking at ways to cut overheads; this could be driving the trends of mechanisation, casualisation and externalisation.

- According to industry respondents, only about 15 percent of South African wine farms are financially sustainable. Thus, increasing profit margins would contribute to stabilising the market, and would provide a stronger argument for increasing wages.
- There is no guarantee that increasing the profitability of wine production would necessarily translate into better working conditions for farm workers. Both farmers and workers are caught in a trap of escalating production and living costs. Accompanying strategies to improve farm labour conditions are required. Farmers interviewed for this study indicated that investing in machinery and other capital outlays would be a priority. Suggestions provided by South African producers and exporters to link wine exports to Germany to improving labour conditions on wine farms included:
    - *Encourage them [German discounters] to buy more mid-tier priced bottled wines from South Africa, and not cheap bulk wines. (Interview: South African Wine Exporter 2016).*
    - *As part of their corporate social initiatives* [retailers, wholesaler], *encourage them to focus on keeping value in South Africa, giving the farms more possibility to grow and thus care for their workers and hire more staff. (Interview: South African Private Wine Cellar 2016).*
- The value for South African wine producers is to be found in bottling and branding products, as this enables value-addition at source, increases employment opportunities, and opens the possibility of gaining brand loyalty, and thus increased market prices. The trend towards buying bulk wine and the buying power of a consolidated German retail chain, combined with the move to 'own' label wines, is a hindrance in this regard.
- The value of social and environmental accreditation is limited in a market that is more conscious about price, and in a retail market that is focused on offering consumers the lowest prices. The limited awareness of WIETA and Fairtrade certification in Germany points to the limits of their usefulness in this regard. In addition, the disregard shown by discounters and supermarkets in the German retail market towards the ISO 26000 guidelines illustrates the limited value that these have if not mandated, regulated and enforced. There is a possibility of using the membership of the Business Social Compliance Initiative, with its mandatory standards to be applied along the supply chain, to 'persuade' German discounters, such as the Edeka and Aldi groups and Lidl, to enforce audits. This, however, could place even further pressure on South African producers forced to meet compliance obligations.
- South African producers are price-takers and, unless they have an internationally recognised brand, are in a weak bargaining position when it comes to negotiating with international buyers. This is due to a variety of reasons, including the country's reputation for value-for-money or entry-level wines.

7. RECOMMENDATIONS

The interlinked challenges of South Africa's wine and grape industries can be tackled in many ways, but the ultimate objective of this research has been to guide Oxfam Germany in their efforts to strategically shift the system in a direction that improves the lives of farm workers. With this in mind, the following key areas of intervention have been identified in consultation with Oxfam:

- **Anonymity of bulk wine:** The research showed that, in the case of bulk and blended wine, it is often very difficult (if not impossible) to directly link unbranded wines sold in German discount supermarkets to a specific farm in South Africa, and the working conditions on that farm. Wholesalers and distributors are not willing to share information about their suppliers, thus making it difficult to hold the supply chain accountable for conditions on specific farms. As a first step toward building accountability in the wine value chain, strong advocacy is required to promote better labelling of bulk and blended wines, so that consumers and researchers can connect wine back to the conditions on specific farms, and exercise their right to choose whether to support those farms or not. It is suggested that the constituents of wine blends be coded using a standardised and well recognised system, so that consumers can easily determine the sources of their wine.

- **Pesticide exposure:** Focus group interviews with workers on grape and wine farms revealed that exposure to insecticide and herbicide sprays is commonplace, despite rules and practices intended to protect them. This has numerous negative effects on worker health and biodiversity, and is one of the worker grievances that can be relatively easily explained to consumers in foreign countries who may not have much appreciation of the context. As a first step toward building empathy toward farm workers and making a measurable difference in their working conditions, advocacy campaigns could focus on working with retailers to ensure that farm workers supplying grapes or wine to their stores are not exposed to insecticides or herbicides, and that safety standards are rigorously monitored and adhered to.

Similarly, there is room for targeted action in South Africa to improve the lives of workers on wine and grape farms:

- **Skills development:** There is clear acknowledgement in the industry about the need for upskilling and skills transfer programmes. This is particularly relevant given the trend towards mechanisation and the causalisation of labour. An important strategy to support workers is through skills empowerment to enable them to enhance and diversify their livelihoods.

  These skills must encompass both basic skills that are relevant to the operation of farms (e.g. operating vehicles or machinery), which would help them to shift into higher paying roles on the farm, perhaps in different nodes in the value chain, and other skills (e.g.

computer skills) that would allow them to straddle both a rural and urban existence if they so wished. As a starting point, an audit of existing skills, including those that fall into the "unskilled" category needs to be undertaken to reassess and place value on marginalised skills, and to identify viable future skills. The framing and conducting of skills and skills gap assessments must be undertaken in collaboration with farm workers, in particular women. Funding from international sources must be directed in this regard towards systemic and scalable interventions that result in broader social empowerment, as opposed to locally funded initiatives on a few farms, or within a farming region.

- **Climate change adaptation:** Those most at risk from climate change in South Africa are the poor and marginalised, this includes rural farm workers, in particular women, who are not permanently employed. Climate change will exacerbate farming challenges in South Africa forcing farmers to either close operations or shift to other crops or locations. Besides changes to the environmental operating environment, labour will also likely be affected by the projected increase in the number of hot to very hot days (Department of Environmental Affairs 2013), which has implications for labour productivity, and could provide impetus to the shift to mechanisation. Farm workers will need support in diversifying their livelihood strategies and in building resilience to the effects and implications of a changing climate.

- **Access to land**: Providing farm workers with access to titled land would go a long way towards building their resilience in several regards. Granting access to and ownership of land presents the opportunity for growing food for own consumption and sale onto the local market. This contributes to raising incomes and lowering malnutrition levels. WFP's collaborative call for "One woman, one hectare" is a noteworthy example of this type of initiative. Farm workers will need ongoing support in this regard, plus guaranteed access to agricultural inputs – water, seed, fertiliser, etc. If supported properly this type of intervention could radically transform economic and social structures within a few generations. In addition, owning land provides farm workers with the necessary collateral to raise capital from banks to fund other long-term social investments, such as businesses and education.

- **Workers' rights:** From the focus group discussions, it was apparent that many farm workers are not certain of their legal rights, and often fail to speak up when they suspect something is wrong. This is because of not fully understanding the law. Employers tend to follow the word of the law rather than the spirit of the law, so workers may also benefit from initiatives to work with employers to help them to understand how to work with labour laws in a constructive manner. Key litigation around issues like freedom of movement for farm workers and freedom of access would help to clarify workers' rights.

- **Energy costs:** Interviews with farmers revealed that energy is one of their biggest concerns, and that the costs of electricity dominate their operating expenses. Farmers complain that they have no margins to pay their workers more or improve the working conditions, yet many farms make extremely wasteful use of electricity in their operations. Promoting energy efficiency and renewable energy in wine production is a way in which farmers could be assisted to reduce their operating costs, and could potentially provide options for upskilling some of their workers to operate and maintain energy equipment. German companies could potentially partner with South African wine and grape farmers to promote energy efficiency, and invest some of the resulting savings into a fund for worker development.

- **Worker-owned cooperatives:** Supporting farm workers to establish cooperatives to enter other aspects of the value chain would necessary skills development, and it would help to shift the current economic paradigm. Support in this regard entails ongoing mentoring, financial support and a commitment to buy and use the resultant products and services. It is essential that farm workers diversify and enter the industry that they have supported through their labour for the past century or two. International buyers and retailers of South African wine are well placed to contribute in this regard.

- **Facilitated and tracked funding:** International funding directed at improving the conditions of life for South African farm workers needs to be tracked, and directed towards strategic interventions that will have broad and measurable effects. The use of funding flows, such as those generated through Fair Trade returns, must be made transparent, both the use and management thereof. The use and management of funding generated through social responsibility initiatives must be made transparent to ensure that it supports long-term capacity building, and a better of standard of life for beneficiaries. The responsibility for ensuring this rests with the accreditation body, and those businesses that ascribe to it.

Given South Africa's high unemployment rate and the importance of its export economy, it is imperative that initiatives to improve worker conditions have the desired effect, and do not result in them losing their source of income. The interventions listed above provide some ideas as to areas of future action and research that would allow Oxfam to play a constructive role in addressing some of the systemic challenges that negatively impact on the lives of South African farm workers.

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