

ECONOMIC ASPECTS OF THE DEVELOPMENT OF  
THE SOUTH AFRICAN WINE INDUSTRY IN THE TWENTIETH CENTURY

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## CHAPTER I

### INTRODUCTION

This study was conducted in order to describe and explain certain economic aspects of the development of the South African wine industry during the twentieth century.

A brief historical background is given to place this development into perspective and to give some idea of the way in which the foundations of South African viticulture were laid. One of the main points emerging from a study of the early years of South African viticulture is that the quality of the wines and brandy produced, at the turn of the century, was low and far inferior to that of European wines and brandy. This, as well as restrictions on the sale and distribution of liquor through licensing legislation, tended to limit the potential market for South African wine products, so that an uneasy and unstable relationship developed between supply and demand.

This uneasy relationship led to an issue which is a recurring theme in a consideration of the growth of the wine industry in this century - that of "surplus". From a wine farmer's point of view, a surplus is unsaleable stock; from an economist's point of view, it is an excess of supply over demand which, if offered at a lower price, is no longer unsaleable. The agricultural sector in South Africa, however, is a politically powerful one and the low agricultural prices resulting from excess of supply over demand led to an insistence that something be done on an official level. This was met and much of the development of the wine industry has, therefore, been shaped by government response to the needs of the wine farmers. The economic effects of a surplus of supply over demand, given the imposition of statutory minimum prices for wine, led to increasing control over the production and marketing of wine and to the establishment of a statutory control body. A large part of this study is concerned with the circumstances leading to government intervention in favour of the wine farmer and with the effects of this intervention.

On the demand side of the relationship, the size of the market for South African wine products is considered in the light of the limitations of this market through licensing legislation, the prohibition of the sale of liquor to Africans, and the level of quality. These factors are given detailed consideration as they

indicate the extent to which the sale and distribution of wine products was restricted by legislation. Licensing legislation also provides an interesting clue to the study of how the domestic market for South African wines and brandy developed into one where there is oligopoly control of marketing and distribution.

A fair amount of emphasis is placed on the effects of the prohibition of the sale of liquor to Africans, as domestic demand could not but be unduly low through the legal exclusion of the greater part of the country's population.

The slow expansion of an export market for the wine industry is related to the "surplus" in supply, through the efforts of the control body to find other than domestic markets on which to dispose of this "surplus", while maintaining a fixed minimum price at home. The establishment of such export markets also entailed an improvement in the quality of South African wines and brandy, so as to enable them to compete with European wine products.

On a broader level, the wine industry provides an example of the economic effects of interference with the interplay of the demand and supply functions in the market for agricultural goods, within a market economy. The present structure of the South African wine industry is one of monopoly control over production and oligopoly control over the marketing of wine products. This study attempts to show how and why such a structure emerged; that it was, in fact, an inevitable consequence of government policy geared towards price stabilisation for the agricultural sector.

In brief, Chapter II gives a historical background to the South African wine industry. Chapters III and IV are concerned with the supply of wine products: Chapter III raises the issue of "surplus" and describes the steps taken to organise production through the establishment of a statutory control body; Chapter IV shows the actual volume of expansion of viticulture in the twentieth century. Chapters V and VI are concerned with demand for wine products: Chapter V deals with the distribution of wine products on the domestic market, and Chapter VI describes the development of the domestic and foreign markets for South African wine products.

Some conclusions can be drawn from an analysis of the development of the wine industry in the twentieth century and these are discussed in the last chapter of this study.

C H A P T E R   I I

THE SOUTH AFRICAN WINE INDUSTRY BEFORE 1900

Within two years of hoisting the flag of Holland at the Cape of Good Hope, in 1652, Jan van Riebeeck planted vines and, four years later, pressed the first hogsheads of South African wine. Simon van der Stel, Governor of the Cape in 1679, continued the experiment at Groot Constantia, as a private enterprise and was emulated by other free farmers. From 1689, the Dutch East India Company bought wine from these free farmers at R1,73 per hectolitre, for use on its ships as a preventative of scurvy. In 1719, the Company agreed to pay R2,08 a hectolitre for wine for the fleet and R2,77 a hectolitre for old wine to be used in the hospital.<sup>(1)</sup> Thus, a small market, outside home consumption, grew up for Cape wines.

The arrival of the Huguenots in 1688 and their settlement in Franschoek, Drakenstein and Stellenbosch extended the cultivation of the vine to these areas and wine production began on a scale which allowed for export, mainly to Batavia and Ceylon, reaching several hundred hectolitres p.a. in 1751-54. Exports dropped sharply after 1754, through the implementation of severe restrictions on the sale of wine and because of a duty of 35c per hectolitre levied on all wine sold to foreign ships.<sup>(2)</sup> The Company paid little attention to the infant wine industry at the Cape, although the directors did ask for samples. The consignment sent (in 1772) was declared of poor quality, but consent was given to colonists to export wine to Holland, on condition that it was sent by the Company return fleet and at a freight charge of 70c per hectolitre.

Overall, the official attitude of the Company seems to have been one of indifference; the wine industry received no encouragement from Holland and wine was produced mainly for home consumption. The idea of producing wine on

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(1) C. Louis Leipoldt - "300 Years of Cape Wine" (Tafelberg, 1952, C.T.)  
Page 36. (Leaguers and £ sterling have been converted to Rands  
and hectolitres)

(2) Ibid. Page 38.

a scale large enough for sustained export, thus developing a revenue-earner in itself and not tied to supplying the needs of the Company fleet, was not considered in any way until 1795 when Holland lost control of the Cape.

In September 1795, the British took command of the Cape; held it for eight years; allowed the Dutch to take control for three years; and then took it back in 1806. The arrival of the British ushered in an entirely different attitude to the wine industry - the Napoleonic wars made the importation of French wines into England extremely difficult - so that every encouragement was given to colonial wine farmers. Wine exports to Britain began in 1805 as a result of the shortage of French wines. It is doubtful that it would have otherwise taken place, as contemporary reports leave one no illusions as to the quality of Cape wine: "... The wines made at the Cape .... are all very much inferior to those of Europe; rather from the mode of manufacturing the grape into wine and from not paying proper attention to the culture and nurture of the plant than from any natural defect in the quality of the grape ....." (3)

A government proclamation on 19th December, 1811 promised support and assistance in the improvement of viticulture and was followed by the appointment of a Wine Taster and Examiner of Casks by the Governor of the Cape, Sir John Craddock, to check the quality of wine exports. Further, there was "repeated publication of the best advice and information as to the best method of culture and the management of wine; an offer of premiums to those who planted most largely and those who produced the best wines; a promise that the old channels of this trade should be re-opened and new ones found; and a variety of regulations, all evincing strongly the lively interest which the government took in promoting this trade ...." (4)

The proclamation was ratified in 1813 in an Act which also admitted Cape wines at 1/3 the duty on Portuguese wines. The way was clear for the development of the wine industry on a scale not possible before, but the problem of quality

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(3) Captain Robert Percival - 1804. Quoted by C. Louis Leipoldt, op. cit., pages 50-52.

(4) George Thompson - "Travels in Southern Africa" 1827. Quoted by C. Louis Leipoldt, op. cit., page 61

remained a major obstacle. In the words of Captain Robert Percival: "It is therefore a matter of serious regret to the possessors of the Cape that this valuable article has not been attended to, as the revenue of the colony would be benefitted in a degree not to be calculated by an extensive cultivation of vineyards and a great trade would by this means be established here to all parts of the world ...." (5)

Lord Charles Somerset gave official endorsement to Captain Percival's assessment of the profitable potential of the wine industry in a proclamation made on 20th March, 1818:

".... whereas from the liberal and beneficent encouragement which has been given to the importation of Cape wines into Great Britain, the greatest advantage has already been derived to this rising settlement, and a prospect has been opened (depending solely on the industry and integrity of the Wine Growers and Exporters for realisation) of rendering the Wine Trade the Staple of this Colony, and the certain means of its future wealth and prosperity .... " (6)

From 1818 to 1825, wine exports to Britain flourished, but despite commendable "industry", the "integrity of the Wine Growers and Exporters" was less than "sterling" - wine was exported indiscriminately and Cape wines acquired a bad reputation in Britain. "The multiplicity of bad wines sent from the Cape has sunk the whole in the estimation of our countrymen, and it is now a drug on the market. Why the grapes of the Cape should not yield good wine is a question often asked, and for the most part most unsatisfactorily answered. This may partly be sought in the process. The grapes, ripe and unripe, sound and unsound, with stalks and filth of all kinds, are pressed together and no wonder bad wine is the consequence .... " (7)

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(5) Captain Robert Percival, *ibid.*

(6) Dr McCall Theal - "Records of the Cape Colony" - Vol. XXV, pages 34-36.

(7) Notes on the Cape of Good Hope, 1820. London, 1821.

Not all exporters were careless of the quality of the wine they sold to the British market. "Het Zuid Afrikaansche Tydschrift" of June 1878 reports a speech made on 7th February, 1824 by one of the few reputable Cape merchants, John Collinson, to those farmers from whom he bought wine: " .... I am of the opinion that it cannot be repeated too often, that the wine farmer has to pay more attention to the QUALITY than to the quantity of his product. I know that the merchants in this matter are as much to blame as the farmer, as many amongst them have paid one and the same price for all kinds of wine, so that the farmer had no encouragement to take trouble .... A great deal of your wine has latterly been put much too young on the British market and, consequently, has such a bad reputation over there, that many people do not wish to touch it .... " (8)

Even earlier, similar complaints had been made<sup>(9)</sup> and persistent low quality caused enough concern to prompt an official move to improve the quality of Cape wines and to promote their export to Britain: Lord Charles Somerset, Governor at the Cape, called a public meeting of all those interested on 26th January, 1826, and the following resolution was moved: " .... that a Committee be appointed, consisting of Gentlemen from all classes interested in the Wine Trade of the Colony, who shall be requested to inquire into every circumstance relative to the culture of the Vine - the manufacture of the Wine, together with its treatment up to the moment of exportation, and the age at which it is exported; with the view of ascertaining the cause of its not being of a better quality and flavour .... " (10)

The resolution was adopted and a Committee was nominated, consisting of the Agent of the East India Company in the Cape, William Hawkins, as Chairman, and representative wine growers, wine merchants, officials and experts from the Cape and Stellenbosch wine districts as members. The Committee sent a

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(8) "Het Zuid-Afrikaansche Tydschrift", June 1878, page 352 (Translated).

(9) Sparrman, "Voyage au Cap de Bonne-Espérance", Paris, 1787, Vol. 1, page 55 (quoted in "The Wine Book of South Africa" ("Wine and Spirit", Stellenbosch, 1936) page 79), made a similar observation to that of Captain Robert Percival: that Cape wines could be as good as European wines if only they were matured longer, made with greater care and if less sulphur were used in their making. (Sulphur was then used as a preservative.)

(10) Dr McCall Theal, op. cit., page 371.

questionnaire on wine production to the most prominent wine-growers at the Cape, and, although it never published a full report of its findings, some of the answers to the questionnaire can be found in "Het Zuid-Afrikaansche Tydschrift", November 1878, giving a fair picture of the existing methods of viticulture at the time. Despite the concern about low quality which brought it into being, no concrete steps were taken after 1827 when the Committee was dissolved, thus leaving unsolved the problem of quality improvement.

In 1831, Lord Althorpe, British Chancellor of the Exchequer, proposed an equalisation of duties on wines, whereby Cape wines would lose most of the protection previously afforded them by the British Government. <sup>(11)</sup> Protection for Cape wines was reduced further in 1841, when 5% was added to all duties on wine. Exports of Cape wines, however, continued at a fairly steady rate until 1860, as can be seen from Table 1. In 1861, Gladstone concluded a treaty with France whereby wine and spirit duties were reduced and made to apply equally to all countries, including the Cape colony. As a result, South African wine exports to Britain fell sharply: In 1857, 358,11 hectolitres of wine had been exported, gradually declining to 308,64 hectolitres in 1860 and then falling to 57,71 hectolitres in 1861. In 1864 only 13,40 hectolitres were exported to Britain, a year in which Britain imported more wine than ever before, though in 1865 wine exports rose again slightly to 42,41 hectolitres. The once-flourishing export to Britain dwindled rapidly and, in fact, by 1912, only 1,81 hectolitres of Cape wine were exported to Britain. <sup>(12)</sup>

Thus, from 1813, when the British Government turned to the Cape to supply the wine it could no longer obtain from Napoleonic Europe, thereby encouraging the importation of Cape wines through a preferential tariff, until 1861, when this protection was removed, South African wine exports to Britain developed significantly. The fact that the removal of protection resulted in a virtual ceasing of exports suggests that exports to Britain largely depended on the existence of preferences. South African wine-growers were not able to compete on the British market on the basis of comparative cost or superior quality,

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(11) Such protection had been granted by an Act of Parliament, July 1813, which fixed import duties on Cape wines at a third of those levied on foreign wines - "The Wine Book of South Africa", 1936, page 97.

(12) "The Wine Book of South Africa", op. cit., page 132.

TABLE 1

Imports of Wine into Great Britain : 1856 - 1865 (in hectolitres)<sup>(1)</sup>

Year	French	Portuguese	Spanish	South African	Other <sup>(2)</sup>	Total <sup>(3)</sup>
1856	323,63	1 493,07	1 840,40	223,71	230,36	4 085,81
1857	362,20	1 347,45	2 104,25	358,11	353,82	4 340,33
1858	283,23	603,07	1 118,50	297,36	221,28	2 333,84
1859	459,55	817,30	1 649,89	357,59	328,02	3 366,65
1860	1 111,56	1 152,75	2 421,17	308,64	495,05	5 134,73
1861	994,45	1 218,98	2 107,57	57,71	478,23	5 024,43
1862	1 011,36	1 385,84	2 439,22	67,94	419,43	5 437,32
1863	994,07	1 634,20	3 052,87	47,81	564,74	6 448,59
1864	1 237,98	1 520,58	3 541,80	13,40	582,49	7 024,29
1865	1 325,32	1 700,46	2 678,30	42,41	567,61	6 487,03

Notes:

- (1) The original figures were in gallons - 1 gallon = 4,546 litres and 10 000 litres = 1 hectolitre.
- (2) Mainly Italian, Dutch and German.
- (3) These totals reflect the converted value of the original totals in gallons - owing to the rounding off of decimals they are not an exact sum of the preceding columns.

Source:

Leone Levi - "On the Wine Trade and Wine Duties", 22nd February, 1866. (S.A. Public Library 745 e. 148)

as, despite the assistance given to wine growers by the British Government, they failed to develop viticulture to the point where it could become the "Staple" of the Cape and the sure means to "its future wealth and prosperity". Production certainly increased, but lack of attention to the actual wine-making process meant that, in general, Cape wines were of such low quality that a market for them, outside the Cape, was hard to find. In the light of the official encouragement of viticulture, the indifference of wine farmers to quality improvement suggests that they may have had no real incentive to pay greater attention to the wine-making process as they obtained acceptable prices for their wines anyway.

Having, effectively, lost the British market, the Cape wine farmers faced another setback in 1880 in the form of a disease of the vine, called phylloxera vastatrix. A Commission of Inquiry was appointed, at once, by Sir Bartle Frere to investigate the incidence of the disease. Although the Commission found no trace of it in the Cape vineyards at that stage,<sup>(13)</sup> it actually broke out in 1885 in the vineyards of Constantia and Moddergat. Phylloxera seriously threatened the wine industry, as it not only destroyed the vines in itself, but vines were also killed by the heavy doses of carbon bisulphide, which were added to the soil in an attempt to combat the disease. Eventually, cuttings and seeds of American vines, resistant to phylloxera, were imported from France and normal levels of production were resumed by 1891.<sup>(14)</sup>

During the years of the Anglo-Boer war, the wine industry declined in that fewer vines were planted (by 1904, the total number of vines was 77,9 million, compared with 78,6 million in 1891)<sup>(15)</sup> and local demand fell drastically to a point where the wine industry largely consisted of a few growers trading individually. The ostrich-feather boom, lasting from 1906 to 1913, resulted in vine land being put to lucerne (which was used as ostrich feed), so that the number of vines in 1911 totalled only 67,9 million.<sup>(16)</sup> After the collapse of the feather boom in 1913, however, vines were replanted and, by 1918, the number of vines in the Cape had grown to an estimated 86,9 million.<sup>(16)</sup>

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(13) "Report of the Vine Disease Commission" (Cape of Good Hope, Appendix 1, Vol. I. Votes and Proceedings of Parliament 1881), quoted in "The Wine Book of South Africa", op. cit., page 106.

(14) In 1875, the number of vines planted totalled 69,9 million and by 1891 they had increased to 78,6 million - "Report of the Wine Commission", V.G. No. 25, 1937, page 8, para 8.

(15) Ibid., para 11.

(16) Ibid., para 13.

Thus, despite the setbacks with respect to the export market in Britain and the destruction by phylloxera and by the Anglo-Boer war, South African wine production grew at a steady pace, as is seen by the figures quoted above regarding plantings. Demand for vine products, however, did not seem to keep pace with the expanding production and the problem of unsold vintages became serious during the early twentieth century. This should be seen in the light of the fact that, up to 1900, viticulture at the Cape was organised on a laissez-faire basis, with no concerted effort to adjust output to actual demand. No figures are available as to the extent that local consumption absorbed wine production, but, as exports were negligible after 1861, production could only have been geared towards the local market. By 1904, the wine industry was in such a state of depression that the Governor of the Cape appointed a Committee to investigate the situation and to recommend some remedy. The Committee members were nominated by the Western Province Board of Horticulture in March 1904, with Charles Heatlie as Chairman. It presented its "Report of the Committee of Inquiry into the Wine and Brandy Industry of the Western Province" to both Houses of the Cape Parliament in 1905.

This report is of considerable importance, as the foundations of the present structure and, especially, organisation of the South African wine industry were established by the findings and recommendations of this Committee.

The 1904 Committee of Inquiry travelled to all the wine areas of the Cape, examining ninety-seven witnesses, which included Members of Parliament, viticulturalists, distillers, wholesale merchants, retailers, and others with an interest in the wine industry. Its report, tabled in 1905, stated that it found the wine industry in a marked state of depression, owing to unsold stocks held by producers and wholesalers. In explaining the situation, however, the Committee emphasised that the depressed state of the market was not due to overproduction, since, at that stage, crops were even smaller than in the 1890's and furthermore, since many producers had suffered severely due to the phylloxera.<sup>(17)</sup> On the face of it, it is difficult to see how the Committee could reconcile its statement that there were unsold stocks with emphasis that the depressed state of the market was not due to overproduction, as unsold stocks in a free-market system indicate an excess of supply over demand, i.e. overproduction.

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(17) "Report of the Committee of Inquiry into the Wine and Brandy Industry of the Western Province". V.G. 30 - 1905, Page 2.

The Committee took into account that seasonal flood, drought, and the general economic recession during the immediate post-war years contributed to the depressed state of the industry. In addition, however, it found that there were other, more basic causes, which are summarised below and which resolve the apparent contradiction of "unsold stocks" and "no overproduction". What the Committee wanted to show was that the actual volume of production of wine was not in excess of what the potential South African market could absorb, and the depression was due to unnecessary limitation of this market:

- (1) The prohibition of the sale of liquor to "natives".
- (2) A shrinkage of northern markets (Rhodesia) due to the prohibitive effect of high import duties.
- (3) Newly-introduced excise taxes which reduced the protection enjoyed by colonial products in Britain.
- (4) Continuous changes in the liquor legislation of the Colony.
- (5) Market disruption as a result of licensing court procedures.
- (6) Limited consumption of local wines and spirits by Europeans.

Of these impeding factors, the prohibition of the sale of liquor to Africans and licensing court procedures were eventually shown to be the most serious obstacles to the expansion of local markets for vine products. These two aspects will be examined in more detail in Chapter V and, at this stage, brief attention only will be given to each of these six aspects.

With regard to prohibition, the Committee was convinced that the restrictions limiting the sale of liquor to Africans, in most cases, may have limited consumption of "white" liquor, but led to a greater consumption of strongly-fermented Kaffir-beer and other, possibly injurious, concoctions. It, therefore, concluded that a modification of the restrictions would be desirable, in the interests of the Africans themselves, as well as in the interests of the wine industry. Since the committee did not consider over-production, but rather the apparent lack of effective local demand to be the

major cause of the depressed market condition of the wine industry, its recommendation to lift prohibition with respect to Africans was entirely reasonable. In this way, the domestic market could be more than doubled, taking into account the prevailing population distribution. This adjustment, however, was only effected in 1962 (i.e. almost fifty years later), while the limitation of domestic demand remained a major problem for the wine industry.

The 1904 Committee also found that the combination of high excise taxes on all liquor and low import duties on imported spirits restricted the local market further, as local products were not protected effectively. It recommended an alteration in the Cape excise regulations, simplifying the machinery of excise collection by which the tax would be less irksome to the retailer, combined with a corresponding increase in duty on imported spirits. It also recommended a lowering of the duty on local spirits levied in the Transvaal and the adoption of a uniform import duty throughout South Africa. <sup>(18)</sup>

Repeated alterations and amendments of the laws governing liquor distribution, which had, apparently, been a favourite subject for political partisan theorising and experiment, were found to unsettle the market and to limit trade between grower and merchant. The Committee argued in favour of a consolidation of the liquor laws to ensure permanency and consistency.

The licensing courts in 1904 consisted of selected Divisional Council representatives and had arbitrary powers, with the result that each individual licensing body pursued its own line of action. Since the representatives were appointed, not elected, they were rarely fully aware of the needs and wishes of the communities in which they held licensing power. The Committee found that inconsistent administration on the part of these courts led to uncertainty of licence tenure on the part of holders of retail licences. As a result, high prices were charged for liquor in an attempt to cushion the risk. The Committee proposed immediate revision of the whole system, including the introduction of elected community membership on the licensing courts, the provision of more numerous facilities for the granting of licences, and a consistent line of action for all licensing courts. <sup>(19)</sup>

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(18) Report of the 1905 Committee, op. cit., page 11.

(19) Ibid., page 6.

The actual existence of a system of liquor outlet licensing should be seen in historical perspective: The Cape, as other British colonies, such as Canada, Australia, New Zealand, and the Rhodesias, inherited British liquor legislation governing the sale of liquor to the public, and Gladstone's government had passed restrictive licensing legislation in Britain in 1875, as a temperance measure.

Under the licensing system, as practised at the turn of the century, retail outlets for liquor tended to be owned by those in a position to obtain a licence. Due to the uncertainty of tenure under the arbitrary system of granting and removal of licences, licence-holders were either controlled by, or had financial obligations to, large wholesaling or importing concerns. These dependent outlets were known as "tied-houses" - the "tie" to another, larger concern varying in degree. The Committee warned that, under the existing licensing system, the incidence of tied-houses could increase to such an extent that the retail trade in liquor might eventually be controlled by a few giants. In as far as these concerns might be importers, this control could lead to a boycott of local vine products.<sup>(20)</sup> Although importers were not to gain effective control of retail outlets, the Committee's warning as regards the ease of obtaining control over the distribution of liquor, through tied-houses, was to be repeated by subsequent Commissions.

Finally, the Committee emphasised the mere fact of limited consumption of domestic liquor, while it gave no explanation for this lack of demand, although this may have been closely related to the low quality of local vine products, a problem stressed before. The Committee found low quality to be due to the fact that few farmers were equipped to produce either wine or brandy of a uniform quality, not only because they lacked capital, but also because there was general ignorance of modern methods of manufacture.<sup>(21)</sup>

It was to secure the improvement of quality of local wines and brandy and thus to increase their sale among Europeans, that the Committee proposed the establishment of small co-operative wineries in convenient centres, managed by qualified personnel. It was hoped that such small central cellars, financed through government loans, would be effective in improving the

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(20) Ibid., page 7.

(21) Ibid., page 7.

production of good quality Cape wines. It was also hoped that the central cellars, to which individual crops could be brought, would foster some specialisation of wine-growing areas and lead to the concentration, within each district, on the production of the most suitable types of wine.

Thus, it follows that in the proposals of the Committee the establishment of wine co-operatives would have to play a significant role in achieving equilibrium between local demand and supply. While demand should be stimulated in various ways, the co-operatives would concentrate on the supply side. They would channel government funds, improve management and marketing, strengthen the relative position of the individual wine farmer, improve the quality of wine and, indirectly, reduce demand for imported wine.

Several important points emerge from the findings of this Committee of Inquiry. Firstly, that the potential market for vine products was being restricted unnecessarily and that some of the limitations of the market, at that time, could be lifted. Secondly, that there was ignorance on the part of the wine farmers regarding a modern wine-making process and that this led to inferior and/or irregular wine quality. Thirdly, that legislation governing the sale of liquor was changed and amended so often as to make the development of a domestic market more difficult than it needed to be. What emerges from its recommendations is that, although assistance should be given to help wine farmers overcome the disadvantages of lack of technical training and some sort of financial aid provided to acquire the equipment necessary for modern production, the Committee found that legislation should be simplified. In other words, farmers should be helped to help themselves and life should be made easier for everyone interested in the wine industry by removing restrictive legislation governing the sale and distribution of vine products. At no stage did the Committee suggest that there should be a control of wine prices - the removal of restrictions would allow demand to approach supply and find a more acceptable equilibrium point than that operative in the past.

Thus, during the early twentieth century, the wine industry stood at a turning point. Depending on how and which of the recommendations made were implemented, there could be various forms that the development of the wine industry could take in the future.

The next chapter, which deals with the organisation of production, describes the form that the wine industry did take in response to the encouragement of co-operative production and to the establishment of statutory minimum prices for wine.

C H A P T E R   I I I

THE ORGANISATION OF PRODUCTION

1. Evolution of the system of co-operative production

On the recommendation of the 1905 Committee, the Cape government decided to encourage the formation of co-operative wineries by advancing money to these societies in the form of low-interest loans. Between 1905 and 1909, the Cape government advanced a total of R100 000 and, during this time, nine small co-operatives were formed by local wine-farmers in various parts of the Western Province. These co-operatives aimed at handling, pressing and disposing of their members' produce jointly, so that individual farmers could take advantage of the benefits of advanced equipment and technical expertise, as well as of the economies of scale to be derived from collective production. Lack of co-operative experience and over-capitalisation, however, led to the failure of four of these co-operatives by 1913, causing R40 000 of the original advance by the Cape government to be written off. The remaining five<sup>(22)</sup> continued to operate, aided by the establishment of the Land Bank in 1912, which was made responsible for the financing of co-operatives through easy credit facilities. In keeping with the desire to use co-operatives as a means of improving the quality of the wines and brandy manufactured by the farmers, the Wines, Spirits and Vinegar Act (No. 15) of 1913 provided for an inspection service to safeguard against adulteration of wines and spirits.

From 1904 to 1918, wine production rose steadily, while demand was adversely affected by depressions in 1907-8 and during the war years 1915-17, so that prices fell steadily.<sup>(23)</sup> In 1917, in an effort to use combined action to combat falling prices, wine-growers from all parts of the Western Cape met

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(22) Drakenstein Co-operative Winery, Ltd., near Paarl.  
Die Bovlei Ko-operatiewe Wynmakery, Bpk., near Wellington.  
Die Wellington Wynboere Ko-operatiewe Maatskappy, Bpk., in Wellington.  
The Drosdy Co-operative Winery Ltd., at Drosdy, Tulbagh.  
Helderberg Ko-operatiewe Wijnmakery, Bpkt., near Stellenbosch.

(23) "Report of the Wine Commission" 1937, V.G. No. 25 - 1937, op. cit., page 8, para 13 - the extent of production in excess of demand is discussed in the next chapter.

in Paarl with the objective of forming one large co-operative which would have more than the purely local influence which the five small co-operatives in operation exercised. Each delegate at the meeting voted R10 to a "common fund", which was to constitute the share capital of the new co-operative. The delegates also decided on a policy of joint action in selling all wines through this one channel and agreed to contribute 17c for every hectolitre of wine sold to finance the operation of the association. Thus, the Co-operative Wine Growers Association of South Africa, known as the K.W.V. (Ko-operatiewe Wijnbouwers Vereniging van Zuid-Afrika) was formed, with voluntary membership open to all wine-growers, as well as co-operative wineries.

About 95% of the wine-growers became members of the Association and Dr C.W.H. Kohler, a prominent wine farmer and the prime mover behind the meeting, was elected Chairman. This post he held until his death in 1952. Eleven other wine farmers from nine defined wine areas of the Western Province<sup>(24)</sup> were elected to form a Board of Directors and both Chairman and Board were to be due for re-election every three years. Since all twelve members of the Board were to be wine-farmers, by full-time occupation, Board membership was to be held on a part-time basis. The administrative staff of the K.W.V. was engaged on a permanent basis and paid out of the operating expenses of the Association. The share capital, as well as all other finance for the K.W.V., came from the R10 voted to the "common fund" by each of the delegates.

Members and Board formulated a constitution in which the main objective of the K.W.V. was stated:

"..... To so direct, control and regulate the sale and disposal by its members of their produce, being that of the grape, as shall secure, or tend to secure for them a continuously adequate return for such produce ..."<sup>(25)</sup>

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(24) Caledon, Ceres and Tulbagh, Cape, Malmesbury, Montagu, Paarl, Robertson, Stellenbosch, Worcester.

(25) "A Survey of Wine-growing in South Africa" 1972/73, (Creda Press, Cape Town) page 30.

To achieve this objective, joint action on the part of all wine farmers had to be secured and some solution had to be found to the problem of large, unsold stocks of wine on the market. The Association thus resolved to function, from the beginning, on the basis of two principles: the fixing of minimum prices for wine on the local market, and the restriction of supply on that market.

Government assistance to farmers was not limited to the wine industry, as the authorities tried to promote co-operation amongst all farmers through Land Bank credit facilities and by bringing in overseas experts to establish the co-operative movement. The failure of many of these ventures in the early years of the movement can be attributed to a wide number of factors, including the following: The difficulty of persuading self-reliant farmers to work together in a co-operative; lack of marketing and business experience; excessive credit advances and lack of efficient management, i.e. there was, basically, a lack of business experience and planning,<sup>(26)</sup> as well as general scepticism about co-operation, as such.

By 1922, it became clear that the State would have to provide more than financial aid if the co-operative movement was to show progress. Up to that year, co-operatives in Natal and in the Cape were registered as ordinary companies (those in the Cape under the Cape of Good Hope Companies Act of 1892), while the Orange Free State and the Transvaal already had legislative provision for co-operatives. The Co-operative Societies Act No. 28 of 1922 provided for limited liability by co-operatives and contained exemptions from certain duties and licences, as well as freedom from income tax (complete freedom from taxation was removed only in 1962, when relevant provisions were incorporated into the Income Tax Act (No. 58) of 1962 which imposed taxation on transactions with non-members). The Act also provided for the automatic lien,<sup>(27)</sup> recognition of the right to enforce compulsory delivery, and the right to deal with non-members. Government support through legislation, Land Bank finance and supervision made the co-operative movement more effective in assisting farmers. Membership grew from

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(26) "Report of the Commission of Inquiry into Co-operative Affairs", RP 78/1967, page 4, para 29.

(27) The automatic lien restricts the granting of credit to farmers by businesses other than co-operatives and the Land Bank.

32 680 in 1923 to 70 420 in 1932 (i.e. at the height of the depression), while it remained more or less static until 1936, thereafter increasing to 81 740 in 1938 and to 285 670 in 1962.<sup>(28)</sup>

Other branches of agriculture received similar attention from the government as the instability of agricultural prices in the 1920's and the low levels to which they fell during the great depression, combined with surplus production to combat falling incomes, led to a crisis in South African agriculture during the 1930's. Various schemes were tried, by the government, to raise domestic prices during the 1920's and 1930's, such as subsidies, tariffs on agricultural products and grants for capital works on farms. Finally, in 1937, the Marketing Act (No. 26) of 1937 was passed, providing for the establishment of producer-dominated control boards to solve the problems of surplus production and low prices through control of the marketing of agricultural produce. By 1961, 17 marketing boards had been established in terms of the Marketing Act, controlling about 70% of all agricultural produce in South Africa.<sup>(29)</sup>

Thus, the problems of over-production and low prices confronting the wine industry, during the first few decades of the twentieth century, were paralleled by similar difficulties in the other branches of South African agriculture and the solutions to these problems, at the time, were sought in the statutory control of the production and marketing of agricultural produce. Although the effects of this control as regards other agricultural goods lie outside the scope of this study, the wine industry provides a good example of the kind of market that grew out of this control.

In 1923, the K.W.V. registered as a co-operative under the Co-operative Societies Act of 1922 and its operation was governed, from that time, by its Memorandum of Association and Regulations, and by the provisions of the 1922 Act. Although established by the wine-farmers themselves, the K.W.V. initially experienced great difficulty in its attempts to secure voluntary co-operation as regards the limitation of supply and the maintenance of a general minimum price on the local market. Thus, in keeping with prevailing government agricultural policy, legislative control over the production and sale of distilling wine was granted to the K.W.V. in 1924. The combined adverse effects of the great depression and ever-

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(28) "Report of the Commission of Inquiry into Co-operative Affairs", RP 78/1967, page 5, para 33; page 7, para 42.

(29) Houghton, H. "The South African Economy" (1st ed., O.U.P., 1964) page 58.

increasing wine production during the 1930's led to the appointment of a Commission of Inquiry into the wine industry in 1935. As a result of the report of this Commission (tabled in 1937), legislative control over the production and sale of "good" wine was vested in the K.W.V. in 1940 and the voluntary co-operative became fully compulsory. There were objections raised to K.W.V. monopoly control over wine production and wine prices, similar to the criticisms directed at the other producer-dominated control boards, established under the 1937 Marketing Act,<sup>(30)</sup> but the general principle of statutory control bodies regulating certain agricultural products was retained.

(i) Voluntary co-operation

In terms of the 1918 constitution, the K.W.V. prescribed to its members every year a minimum price for wine to be sold on the local market. Nothing prevented farmers from selling at prices above this minimum, but no member was allowed to sell wine under the fixed minimum price. In this way, a general local floor-price would be maintained, although its realisation depended on members' loyalty, since only members of the Association were bound to sell at that price. It was expected that, due to the 95% enrolment of wine-growers in the Association, the dealings of the remaining 5% would not exert a significant influence on the overall price structure.

The K.W.V. would also fix the percentage of its members' vintage which was to be withheld from the local market. This portion of the crop, known as the "surplus", was to be delivered to the K.W.V., without any direct payment in return, and the K.W.V. undertook its disposal. Every member was obliged to contribute his pro rata share of the surplus, either in the form of the product itself, or (in the event of being able to dispose of more than the "saleable" portion of his crop at the fixed minimum price in private transactions) in the form of the equivalent money value.

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(30) cf Leslie, R., Hutt, W.H., et al: "Economists Protest, 1937 Marketing Act", S.A.J.E., 1938.

The fixing of a minimum price to members and the restriction of supply on the local market, by withholding a certain portion of each annual vintage, were control measures designed to create a partial monopoly for members of the Association and to achieve a greater balance on the local market for wine products. The surplus was to be absorbed by the K.W.V. in any suitable way, except being offered on the local market.<sup>(31)</sup>

In 1917, the price per hectolitre of wine was 86c - R1,03, but in 1918 the K.W.V. concluded agreements with local wine merchants, whereby the latter agreed to purchase their requirements from members of the Association only, with the local market price (per hectolitre of wine) ranging between R1,66 and R2,25. In 1919, minimum prices were raised to R1,73 - R4,16. While local merchants generally agreed to the system, they did not feel themselves bound by it and, in 1920, some merchants attempted to corner the market by offering growers higher prices than those fixed by the K.W.V. As a result, non-members of the Association sold their entire crops at highly attractive prices. Members of the K.W.V. who had to contribute their "surplus", without payment, found themselves at a disadvantage. This caused the disloyalty of some members, who then offered their entire crops on the local market. At the same time, other merchants retaliated by merely purchasing their minimum requirements, thus keeping local demand at a low level, while supply increased sharply. The K.W.V. had no power to enforce either its minimum price, or the surplus deliveries, as co-operation with the Association was purely voluntary.

In 1921, another agreement was concluded by the K.W.V. with local merchants, whereby the merchants agreed to purchase all their requirements from the K.W.V. at a fixed minimum price. The K.W.V. undertook to maintain the minimum price and to ensure that the "surplus" was, in fact, removed from the local market. This agreement was a further attempt to stabilize prices by setting a fixed minimum price and by

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(31) "A Survey of Wine Growing in South Africa" 1972/3, op. cit., pages 30 and 31.

restricting supply on the local market. From 1921 to 1923, 529 176 hectolitres of wine, grapes and brandy were destroyed by the K.W.V. - 28% of the wine produced in these years. As can be seen from Table 2, wine production increased by 33% from 1918 to 1921, mainly in response to the establishment of a minimum price. From 1921 to 1923, market conditions and K.W.V. efforts at stabilisation resulted in the 14% decrease from 741 739 hectolitres to 638 226 hectolitres.

TABLE 2

Vintages : 1918 - 1923  
(Exclusive of wines outside K.W.V. control)

Year	Vintage (in hectolitres)
1918	558 586
1919	643 814
1920	676 076
1921	741 739
1922	517 028
1923	638 226

Source: "Report of the Wine Commission"  
(1937) V.G. No. 25 - 1937, page 9.

The 1921 arrangement operated until 1923 and the fixed price to merchants in 1921 and 1922 was R3,12 per hectolitre, falling to R2,08 per hectolitre in 1923. During these years, the K.W.V. paid the wine-farmers R1,03 per hectolitre for their wine, maintaining the difference as a stabilisation fund. The 1921 agreement with merchants, however, was still not legally binding on either the merchants or the wine-growers and the K.W.V.'s efforts to stabilize the price of wine continued to depend entirely on voluntary co-operation. This attempt also failed in as far as some merchants bought their requirements from non-members as well as members of the Association at prices higher than those the K.W.V. paid to producers, but lower than those fixed for merchants on the market. This encouraged producers to sell in defiance of the minimum price

and allowed the merchants concerned a competitive advantage over the merchants paying the agreed price. In 1923, the merchants withdrew from the 1921 agreement and it became clear, after two attempts, that price-stabilisation through voluntary co-operation was not feasible. The conclusion drawn was that control of production and sale on the local market would only be effective if it were statutory, i.e. if all producers were forced to market through the K.W.V. and all merchants were forced to obtain their requirements from the K.W.V.<sup>(32)</sup> Similar conclusions were drawn in other fields of agriculture, statutory control over the production and sale of agricultural goods being considered a solution to the problem of depressed agricultural prices. Investigations into the wool, dairy, maize and meat industries, during the 1920's and 1930's placed these products under the control of Boards established under the 1937 Marketing Act.

(ii) Compulsory co-operation

As a result of the difficulties, outlined above, the government agreed to grant the K.W.V. greater controlling powers through legislation in 1924 and the Wines and Spirits Control Act (No. 5) of 1924 was passed. This Act gave the K.W.V. statutory control over the channelling of distilling wine, which is used for the distillation of spirits and the fortification of wine. "Good" wine, which is simply table wine irrespective of quality, was not placed under the control of the K.W.V. in terms of the 1924 Control Act.

According to the provisions of this Act, all growers, including non-members of the K.W.V., were compelled to sell their distilling wine through, or with the consent of, the K.W.V. and all merchants had to purchase their distilling wine and spirit through, or with the consent of, the K.W.V. In this way, the Association was granted full monopoly control over the disposal of distilling wine.

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(32) "Report of the Wine Commission" 1937, V.G. No. 25, 1937, op. cit., page 9, para 19.

The K.W.V. also influenced the price structure in that it was empowered to fix the minimum selling prices of distilling wine and wine spirits used for potable purposes and for export to bona fide merchants. The price of the spirit could thus vary from the fixed minimum price. K.W.V. price controlling powers related to markets in Africa, south of the Equator<sup>(33)</sup> as these markets, together with the South African market, were defined as "the local market".

On the basis of estimated surplus production, the K.W.V. was similarly empowered to determine the price which the producer was to receive. At the start of the season, the distilling wine harvest was estimated and an estimate was made of the requirements of the local merchants. That portion of the harvest not required by the wine merchants was declared as "surplus". This surplus, once declared as a percentage of the expected harvest, remained fixed irrespective of the actual size of the crop. The price established by the K.W.V. had to be paid by merchants for their distilling wine requirements, e.g. if a surplus of 25% had been declared, and the declaration was final and binding, the grower would sell three-quarters of his distilled wine at not less than the fixed minimum price and would be compelled to deliver the remainder, the "surplus", to the K.W.V. free of charge. If supplies in excess of the declared surplus remained unsold, the K.W.V. had to purchase this distilling wine at the fixed minimum price. Potable products made by the K.W.V. from the surplus delivered to it could be sold on the local market, as well as elsewhere, but the K.W.V. concluded a gentleman's agreement with local merchants to the effect that it would not compete with them on the local market.

The 1924 Act also established a Board of Appeal to which merchants could appeal against the prices fixed by the K.W.V. As already mentioned, under the 1924 Act, the control exercised by the K.W.V. was confined to distilling wine. Producers of "good" wine objected

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(33) Report of the 1937 Commission, op. cit., page 10

to being regulated, while it was also considered unnecessary to control the price of "good" wine. At this stage, it was thought that regulation of the price of distilling wine would indirectly lead to a stabilization of the price of "good" wine. Further, "good" wine was not subject to quantitative restriction on the basis of annual surplus declaration.

(iii) Disposal of the surplus

The 1924 Control Act gave the K.W.V. a free hand as regards the disposal of the surplus, but the Association had concluded an agreement with wine merchants not to compete with them on the local market. The attempts of the K.W.V. to find other disposal outlets led to the development of various production activities and, above all, to a determined export drive.

The production activities included the following:

- (a) The distillation, maturation, and blending of spirits and brandy, both for export and for sale to wholesale merchants for local consumption.
- (b) The manufacture and maturation of fortified wines for export.
- (c) The manufacture of grape syrup, grape juice and perfumes for local and export markets.
- (d) The manufacture of vinegar.

In order to manufacture, store and dispose of the above products, the K.W.V. established distilleries, cellars, factories and stores in various parts of the Western Province.<sup>(34)</sup> The development of export markets as an outlet for the surplus, however, was the most important activity of the K.W.V.

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(34) Paarl - Distillery, wine cellars, cold stores, moskonfyf factory, perfume works and offices.  
Stellenbosch - Distillery, moskonfyf factory and brandy stores.  
Worcester - Distillery, moskonfyf and grape juice factories, and brandy stores.  
Robertson - Distillery, winery, moskonfyf factory and brandy stores.  
Montague - Distillery, winery and brandy stores.

In 1926, Britain accorded Empire wines preferential duty and the K.W.V. took advantage of this to start an export trade in fortified wines for the British market. (The actual development of exports and export markets will be discussed further in Chapter VI.) To market its products, the K.W.V. entered into a trade agreement with an association of British manufacturers and wholesalers, called Vine Products Limited. In terms of this agreement, concluded in 1927, Vine Products Limited were sole agents for K.W.V. products in Great Britain. Such channelling through another firm was necessary, as the K.W.V. had initially experienced great difficulty in establishing its products on the British market in competition with the known products of other countries. In 1931, the agreement was terminated and the K.W.V. formed the South African Wine Farmers Association (London) Ltd. in equal partnership with Vine Products Ltd. The new company took over the sole distribution of K.W.V. vine products in Britain and undertook to maintain continuity of supplies, uniformity of quality and stability of prices. In 1950, the K.W.V. bought out Vine Products Ltd. and acquired full control of South African Wine Farmers Association (London) Ltd., making it a subsidiary of the K.W.V.

The operations of the K.W.V., as regards the disposal of the surplus, were governed by its regulations, which also stipulated how the proceeds from the sale of this surplus should be distributed. After provision had been made for depreciation of property and for contingent loss liability, the proceeds were to be allocated as follows: <sup>(35)</sup>

- (a) Building up of reserves: An annual sum was to be fixed in general meeting, with a minimum set by the Directors.
- (b) Interest on paid-up share capital of members: The level of interest was to be recommended by the Directors with a maximum rate of 8% p.a.

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(35) Regulation No. 126 of the Memorandum of Association and Regulation of the K.W.V.

- (c) Bonus: A bonus was to be paid to members in direct proportion to the surplus delivered, or the amount paid in lieu of surplus (cf. page 21).

The overriding principle, with respect to the distribution of funds, is reflected in the following clause of the regulations of the K.W.V.: "... the proceeds of such surplus may be employed by the Company in such manner and to such extent as to it shall seem proper and especially for the strengthening of its funds ..."<sup>(36)</sup>

Up to 1935, members received no direct payment from the proceeds of the disposal of the surplus, the income being chiefly used to strengthen reserves and to finance the diverse activities of the K.W.V. Bonuses were paid to encourage raisin and sultana production and a cash dividend was paid on shares. Further, some surplus funds were transferred to the vintage pool account to pay producers the minimum prices in 1931-1933, when the surplus was under-declared. Thus, after 1918, reserves increased steadily to reach R3 million in 1938, while fixed assets rose from a value of R3 000 in 1918 to over R1 million in 1938. A detailed outline of K.W.V. finances and, in particular, the growth of reserves, is shown in Table 3.

The chief source of revenue to the K.W.V. was the income obtained from the sale of the declared surplus of distilling wine. A secondary source of revenue being the "balance charge" per hectolitre of wine deducted for administrative expenses, which was normally redistributed to members in the form of shares, but in some years was appropriated for reserves.

Thus, although the declared surplus was delivered to the K.W.V. without direct payment to the producers, the proceeds from its

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(36) Clause 15 of Annexure "A" to the Regulations of the K.W.V.

TABLE 3

K.W.V. Finances : 1918 - 1972

(in Rands)

	1918	1938	1948	1958	1972
<u>Liabilities</u>					
Share Capital	79 184	673 432	563 361	318 224	909 247
Reserves	-	3 050 366	11 148 642	15 005 734	18 162 418
Appropriation account	13 030	182 736	1 078 673	1 750 414	6 056 415
Sundry Creditors	6 454	419 734	1 548 048	632 418	1 240 926
Provisions	-	-	-	470 000	1 345 828
	98 668	4 326 268	14 338 724	18 176 790	27 714 834
<u>Assets</u>					
Property & Buildings	2 524	647 952	1 504 166	2 961 268	3 102 502
Postage & Containers	-	272 704	341 034	1 226 404	1 109 441
Machinery & Plant	-	95 384	199 686	497 324	1 271 964
Furniture & Fittings	538	3 084	5 356	57 048	40 002
Fixed Assets	3 062	1 019 124	2 050 242	4 742 044	5 523 909
Investments	81 424	263 680	6 825 309	7 665 298	11 304 320
Stocks on hand	-	2 014 576	3 420 020	4 119 944	4 589 292
Sundry Debtors	11 906	1 026 714	1 712 113	1 348 784	6 068 595
Cash	4	2 174	331 040	300 720	228 718
Expenses	2 272	-	-	-	-
	98 668	4 326 268	14 338 724	18 176 790	27 714 834

Source: "A Survey of Wine-growing in South Africa" 1972/3, page 70 adapted from Table 5.

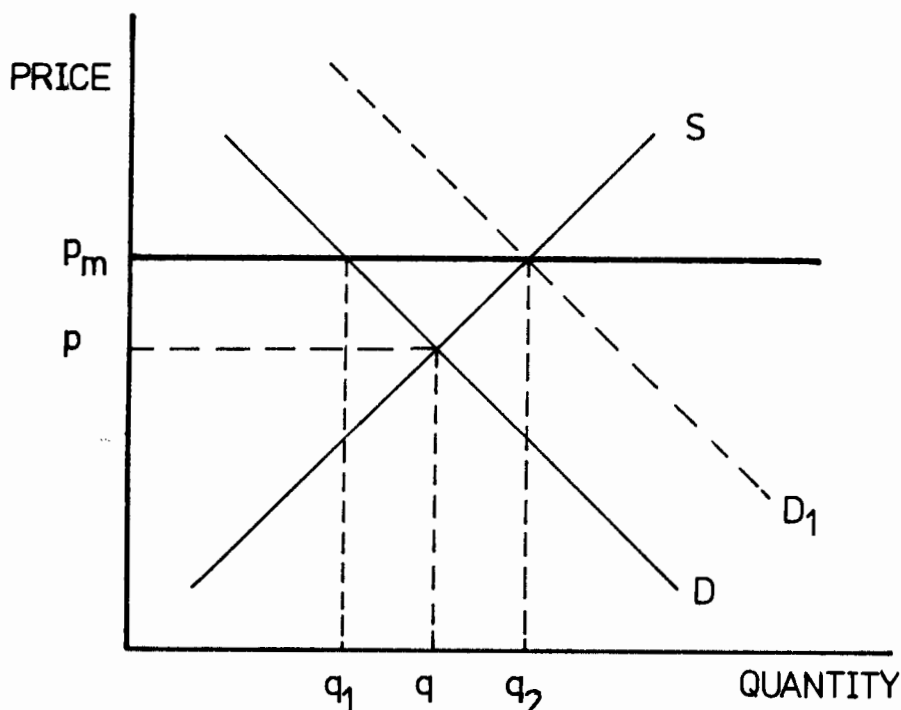
disposal were either paid directly to the wine-farmers in the form of bonuses, or were used to strengthen the reserves of the K.W.V. and, in this way, indirectly benefitting the wine farmers.

Legislation made the co-operative movement compulsory in the wine industry and gave legal effect to the two principles of price-fixing and supply restriction, on which the K.W.V. had resolved to function from the beginning (cf. page 19). On the face of it, the problems of the wine industry should now be solved by the effective implementation of the policies which had previously failed because of the voluntary nature of co-operation. That this was not so became increasingly clear, but what did not seem to be clear was why the wine industry continued to be in a depressed state, despite the efforts of the K.W.V.

2. Demand and supply equilibrium

The Wines and Spirits Control Act (No. 5) of 1924 placed statutory control over the price of distilling wine into the hands of the K.W.V. in an effort to solve the problem of low prices; the market prices resulting from the interaction of the demand and supply functions being considered too low to give wine farmers a "reasonable" return.

The effects of imposing statutory prices can be seen in simple economic terms through the use of an economic model:



The intersection of the demand and supply functions gives the equilibrium price  $p$  and the equilibrium quantity  $q$ , under normal free-market conditions. Should the statutory price be set below equilibrium price, the market is unaffected, as its attainment is entirely possible. If, however, the statutory price is set, as a minimum, above the equilibrium price, as it is by the K.W.V. acting as the price-fixing body, the free-market equilibrium price becomes illegal and the actual market price has to be  $p_m$ .

At price  $p_m$ , suppliers are willing to put quantity  $q_2$  on the market, while quantity demanded falls to  $q_1$ . There will, thus, be a surplus of  $q_1 - q_2$  and the quantity actually sold will be  $q_1$ . The setting of a minimum price for a commodity above the free-market equilibrium price will cause a surplus of the commodity, with its actual price increased, but with a decrease in the quantity sold and bought. The quantity that suppliers are willing to put onto the market, at this price, however, increases (from  $q$  to  $q_2$ ). Unless demand shifts to  $D_1$ , so that the equilibrium market price becomes the same as the fixed price, and quantity supplied equals quantity demanded at that price, more will be supplied than can be absorbed by demand.

Applying this to the "overproduction" problems of the wine industry, the 1924 Control Act could only have the long-run effect of increasing the imbalance between quantity demanded and quantity supplied. The "surplus" ( $q_1 - q_2$ ) had to be taken over by the K.W.V. for disposal on other than domestic markets, thus maintaining the fixed minimum price ( $p_m$ ) on the domestic market. Wine farmers would be able to dispose of their entire product, either to merchants, or to the K.W.V., with no market pressure to reduce production to match demand - on the contrary, with every incentive to expand it. This they did.

(The aspect of the demand for wine products, its limitations and progressive expansion is discussed in Chapter V)

3. Market trends 1924-1935 and the 1937 Wine Commission

Prior to the Wines and Spirits Control Act of 1924, no distinction was made between the price of "good" wine and that of distilling wine. Normally the better wine had been purchased by merchants, at a higher price, while lower grades fetched a lower price and were used for distillation. While the prices of distilling wine were fixed, the prices of "good" wine were allowed to fluctuate, although it was hoped that these too would stabilise.

As the making of "good" wine involved higher capital and production costs and often implied the growing of lower-yield varieties, it was expected that such wines would command relatively higher prices. Normally, "good" wine was produced under an advance contract with the K.W.V. or with merchants. The latter sometimes bought on speculation, causing some over-production of "good" wine. With the exception of a very small quantity of natural wine and a smaller quantity of fortified wine exported by merchants and the K.W.V. respectively, the volume of "good" wine handled by merchants was intended for local consumption, so that production, beyond the requirements of the K.W.V. and the merchants led to surpluses of "good" wine. Once having produced "good" wine in excess of demand, the grower could either deliver it to the K.W.V. as distilling wine, or he could accept whatever a merchant offered above the fixed distilling wine price. Thus, there was no financial reason to limit production of "good" wine.

From 1924 to 1936, production of "good" and distilling wine increased rapidly, as can be seen from Table 4. Total vintage increased by about 115% from 666 839 hectolitres in 1924 to 1 434 686 hectolitres in 1936, while the production of "good" wine and distilling wine increased by 73% and 202% respectively.

The total quantity of distilling wine absorbed into various uses increased by about 84%; spirits used for local consumption and export in the form of brandy, gin and liqueurs remained fairly constant at around 202 072 - 230 940 hectolitres, while those used for fortification increased by about 174%.<sup>(37)</sup> Fortified wine for local consumption increased by only

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(37) "Report of the Wine Commission" (1937) V.G. No. 25, 1937, op. cit., page 41, para 201.

TABLE 4

Products of the vine : 1924 - 1936  
(Hectolitres at 20% proof)

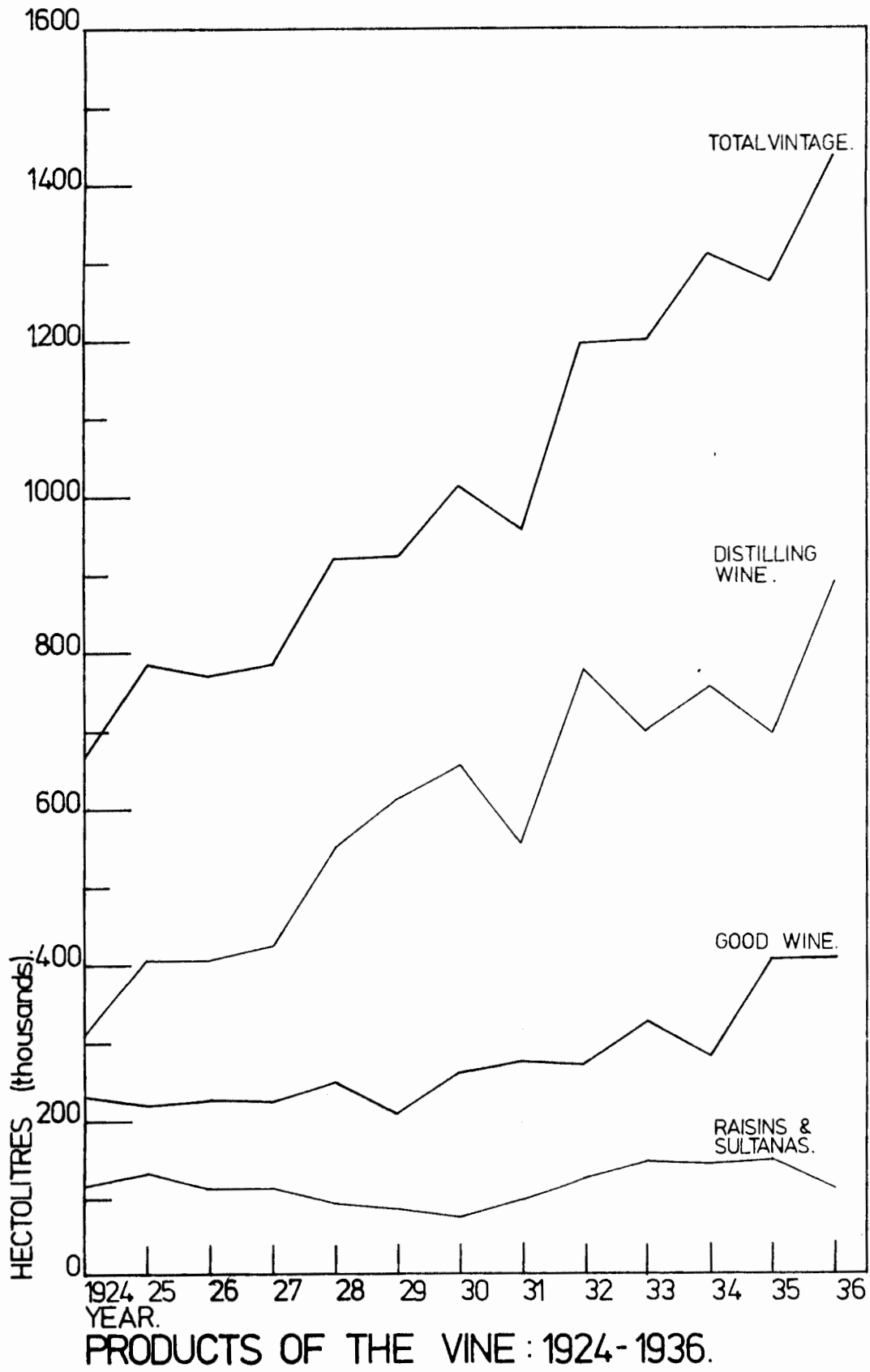
Year	Raisins & Sultanas	Farmers' own use	Good Wine	Distilling Wine (1)	Total Vintage
1924	117 473	28 030	229 964	291 706	666 839
1925	129 505	29 017	220 911	409 422	788 856
1926	113 801	28 290	224 704	406 714	773 510
1927	112 162	26 454	223 630	422 204	784 451
1928	92 716	29 052	249 559	549 562	920 890
1929	82 988	21 252	206 050	611 864	922 155
1930	76 314	23 925	259 305	654 201	1 013 745
1931	96 330	23 943	274 218	563 609	958 101
1932	124 078	28 596	268 006	776 865	1 197 545
1933	145 613	28 977	324 303	699 055	1 197 949
1934	141 670	30 374	380 762	757 679	1 310 486
1935	143 385	32 175	403 192	696 382	1 275 135
1936	110 597	32 580	403 192	888 316	1 434 686
% change 1936 over 1924	-6,22%	+16,23%	+72,82%	+202,69%	+115,04%

Note:

(1) Figures represent only distilling wine which enters into consumption through trade channels, as well as the surplus delivered to K.W.V., but not quantities retained by farmers for their own use.

Source: "Report of the Wine Commission", 1937, V.G. No. 25, 1937 - page 34.

A graphical representation of the above figures is shown on page 34; wine for farmers' own use is not shown.



56%, the large increase in the total figure being accounted for, from 1927, by the export activities of the K.W.V. Total exports, up to 1935, however, only constituted 40% of all fortified wines made by the K.W.V., resulting in ever-increasing stocks of maturing wine. These stocks grew from 472 139 hectolitres in 1924 to 920 815 hectolitres in 1935, while during the depression years 1932-1935, 366 744 hectolitres of distilling wine and spirits were destroyed.<sup>(38)</sup>

Over the period 1924-1935, the price of distilling wine remained fairly stable, showing a sharp fall in the depression years 1930-1935, but prices rose slightly in 1934 and, in 1936, R1,65 per hectolitre (the 1929 price) was again paid.<sup>(39)</sup> While K.W.V. control did bring some stability in the price of distilling wine, the expectation that "good" wine prices would automatically be stabilised was not realised and the price of "good" wine fluctuated. From 1924 to 1930, the margin between the price of "good" wine and that of distilling wine ranged between 33c and 79c per hectolitre; from 1931 to 1935, the range showed a smaller variation, from 44c to 57c per hectolitre. (See Table 5).

During the period 1924-1935, wholesalers bought about 84% of the "good" wine produced, while the K.W.V. took the remainder. (See Table 6). The K.W.V. did not begin to purchase "good" wine until 1926, in preparation for its export activities. These purchases rose from 9 145 hectolitres in 1926 to 77 024 hectolitres in 1935. In 1934, the K.W.V. doubled its purchase (to 142 143 hectolitres) in anticipation of exports to the U.S.A. on repeal of American prohibition. As a result, local merchants were unable to obtain their full requirements during that year. In general, however, the wine merchants constituted the major buyers of "good" wine, and, except for the depression years 1929-1932, they bought a fairly constant amount of "good" wine to supply the local market.

During the 1924-1935 period, prices of both types of wine fluctuated severely, while production costs increased. The problem was most severe, during the depression years 1929-1933 when farming incomes fell markedly.

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(38) Report of the 1937 Commission, op. cit., page 41.

(39) Report of the 1937 Commission, op. cit., page 39, Table X.

TABLE 5

"Good" and Distilling Wine Prices Paid to Growers : 1924 - 1935  
(Rand per hectolitre)<sup>(1)</sup>

Year	"Good" Wine	Distilling Wine	Difference
1924	2,25	1,47	0,78
1925	2,25	1,65	0,60
1926	2,08	1,75	0,33
1927	2,34	1,75	0,59
1928	2,54	1,75	0,79
1929	2,25	1,65	0,60
1930	1,99	1,37	0,62
1931	1,73	1,23	0,50
1932	1,56	1,10	0,46
1933	1,59	1,10	0,49
1934	1,73	1,28	0,45
1935	1,85	1,28	0,57

Note:

(1) Original figures given in £ per leaguer - 1 leaguer = 5,7735 hectolitres.

Source: "Report of the Wine Commission", 1937, V.G. No. 25, 1937, page 39, Table X.

TABLE 6

"Good" Wine Purchased by K.W.V. and Merchants : 1924 - 1935

(in hectolitres at 20% proof spirit)

Year	K.W.V. Purchases	Merchants	Total
1924	-	229 964	229 964
1925	-	220 911	220 911
1926	9 145	215 559	224 704
1927	14 203	209 428	223 630
1928	32 210	217 349	249 559
1929	48 642	157 408	206 050
1930	38 826	220 478	259 305
1931	46 245	227 972	274 218
1932	42 845	225 160	268 006
1933	69 588	254 715	324 303
1934	142 143	238 618	380 762
1935	77 024	326 168	403 192
Average 1924-35	43 405	228 648	272 053
% of Total	16,00%	84,00%	100%

Source: "Report of the Wine Commission", 1937, V.G. No. 25, 1937, page 37.

In an effort to maintain their income, many farmers increased their output even further, at the expense of quality.<sup>(40)</sup> As has already been mentioned, this problem was not limited to the wine industry and government investigation into the major branches of agriculture was also extended to the wine industry.

A Commission of Inquiry (known as the "Wine Commission") was appointed on 23rd July, 1935, by the Governor-General of South Africa, the Earl of Clarendon. Chairman of the Commission was H.W. Drew and the other members of the Commission were A. Appleyard, P.P. du Toit, G.F. Malherbe and S.F. Waterson, with J.S.P. Naudé of the Department of Agriculture and Forestry the Secretary. The terms of reference of the Commission were to investigate, report and make recommendations on the South African wine industry with reference to:

- (a) The development of viticulture and the factors influencing its expansion.
- (b) Prevailing conditions in the wine industry, especially as regards the disposal of vine products.
- (c) The working and effects of the Wines and Spirits Control Act (No. 5) of 1924, as amended by Act (No. 17) of 1928.
- (d) The advisability and practicability of extending statutory control to any or all of the products of the vine, particularly quality wines, raisins and sultanas, and, if so, in which form.

The terms of reference were published in the Government Gazette and the press and the magistrates of the districts in which winegrowing took place were notified. Circulars were sent out to organisations and individuals interested in the various aspects of the wine industry,

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(40) Ibid., page 40, para 195.

inviting them to give evidence. In February, 1936, the Commission postponed its inquiry to allow two of its members to take their seats in Parliament. In the interim, the Board of Trade and Industry began an inquiry into complaints of restraint of trade in liquor distribution. To ensure co-ordination between the two inquiries, the Secretary of the Wine Commission, J.S.P. Naudé, was associated with the inquiry of the Board of Trade and Industries. As a result of this co-operation, the Wine Commission was largely guided in its decisions and recommendations relating to the distribution of liquor by the findings of the Board of Trade and Industries.<sup>(41)</sup> On 16th February, 1937, the "Report of the Wine Commission" was presented to the Governor-General.

#### Findings of the Commission

The Commission showed that viticulture had expanded steadily in South Africa from its introduction three hundred years earlier. By 1937, it was the most important branch of farming in the Western Cape. This expansion had been most marked in the twentieth century and, particularly, in the period 1924 - 1935, when the production of "good" and distilling wine increased by about 92%. During the same period, local consumption of these products increased by only 30%,<sup>(42)</sup> resulting in an ever-increasing local surplus of production. While the total vintage increased from 762 102 hectolitres in 1924 to 1 322 131 hectolitres in 1935, local consumption increased from 710 140 to 923 760 hectolitres and the production surplus from 51 961 hectolitres in 1924 to 398 371 hectolitres in 1935.

K.W.V. activities disposed of the surplus, but not all its outlets proved "economic", in the sense that the income received from the sale of the various non-potable products made by the K.W.V. did not equal the price per hectolitre paid to the producer. An accounting analysis of the K.W.V.'s activities by the Office of the Registrar of Co-operative Societies in 1934 revealed that, from 1923 to the end of 1933 some of

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(41) Ibid., page 6

(42) Ibid., page 103, para 560.

these activities had operated at a loss, despite no payment having been made for the surplus distilling wine or spirit used in the manufacture of these non-potable products.<sup>(43)</sup>

Production surpluses and accumulating stocks had a destabilising effect on the industry, as was reflected in the prices paid to producers for both "good" and distilling wine (cf. Table 5). Improved general economic conditions led to increased plantings and this, combined with favourable climate conditions produced a record vintage of 1 443 375 hectolitres in 1936. In the absence of a parallel expansion of consumption, this rapid expansion of production created a serious problem for the wine industry.<sup>(44)</sup>

As the 1924 Wines and Spirits Control Act made no provision for limiting the expansion of production, the K.W.V. as a co-operative company could recommend expansion or contraction of production to its members, but it could not enforce such requests legally. Moreover, K.W.V. policy decisions were dependent on the approval of two-thirds of its members and, as production control would have an adverse effect on some (if not all) members, the Directors could not secure this approval.

The Commission also investigated the pattern and growth of liquor consumption. It found that the relative decline in consumption between 1924 - 1935 could be ascribed to the effects of the depression as well as the restrictions in liquor distribution and consumption imposed by the Liquor Act (No. 30) of 1928. This Act controlled the sale, distribution and use of all alcoholic liquor through a licensing system for liquor outlets and through prescribing the conditions under which wines and spirits could be sold and served. (Details of this Act and its implications are discussed in Chapter V.)

While finding that consumption had been restricted, the Commission rejected the suggestion that the problems faced by the wine industry were due to under-consumption, rather than to over-production:

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(43) Ibid., page 44, para 215.

(44) This, in fact, was foreseen by the Chairman of the K.W.V. who urged growers to limit their plantings at the 18th Annual General Meeting of Members, June 1936.

" ... The theory of under-consumption, however, cannot be substantiated - during the depression there was the contributory cause of the depressed state of the industry, but this does not explain the continued absence of a proper relationship between production and consumption in the industry. The only acceptable explanation must thus be sought in an undue expansion of production, in relation to the consumption requirements .."<sup>(45)</sup>

The Commission emphasised two categories of factors underlying the rapid growth of production:

- (a) General economic causes.
- (b) Causes resulting from the control of distilling wine by the K.W.V. under the Wines and Spirits Control Act (No. 5) of 1924.

(a) General economic causes

The development of viticulture, in South Africa, was influenced by the general economic development of the country and by the profitability of vine products in relation to that of other agricultural products, especially in districts with irrigation facilities. This became clear when the outbreak of phylloxera coincided with the rise of the ostrich feather industry in the late 19th century (cf. page 10). Irrigation schemes, such as the Brandvlei Dam at Worcester, completed in 1926, opened up large tracts of cultivable land and, as this was during a period of relatively high prices for vine products, most of this land was planted with vines.

The Commission noted<sup>(46)</sup> that under the free operation of the forces of supply and demand, the wine industry would have achieved a proper balance between production and consumption, with no persistent surpluses. The existence of continued surplus production was, thus, prima facie evidence of interference with the economic laws of supply and demand: "This artificial position has been created by the establishment of control over the industry".<sup>(47)</sup>

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(45) Report of the 1937 Commission, op. cit., page 49, para 241.

(46) Ibid., page 50, para 248.

(47) Ibid., page 50, para 249.

(b) The control factor

The objective of the 1924 Control Act was to ensure the payment of a "fair and reasonable price" to the producer and to stabilise the wine industry. The former was achieved by fixing the price to local merchants and consumers. This price stability, however, created an incentive for the expansion of production, particularly in the context of the following four factors:

- (i) The psychological effect of a controlled price.
- (ii) The payment of a relatively high price.
- (iii) The fact that such a price was not based on quality.
- (iv) The payment of transport by the K.W.V. on all distilling wine delivered at its nearest depot or distillery and the erection of such centres throughout the viticultural districts.

Thus, while K.W.V. control was effective in ensuring a reasonable price to the producer, it failed to control the indiscriminate expansion of production arising from the existence of such a controlled price. The Commission felt that, under these circumstances, a production control policy should not be left to the K.W.V. on a voluntary basis, under the 1924 Act, but should be laid down by legislation. According to the Commission, the problem of continued over-production should be solved, either by pursuing a policy of laissez-faire, so that the position worsened, driving a fair number of farmers out of viticulture and leaving only the most efficient, or by instituting a comprehensive scheme of control. Such control would have to be exercised through the discouragement of plantings and expansion of production and through deliberate price control. The Commission examined only these two alternatives and dismissed a return to the policy of laissez-faire in a brief paragraph at the head of its recommendations. The alternative presented by a very gradual return to a laissez-faire system, whereby marginal wine farmers slowly went out of business, was not considered at all. One reason that a return to the laissez-faire system, in whatever form, was rejected after only a brief mention could have been that low farming incomes had

prompted the government into appointing the Commission and, thus, recommendations involving loss of livelihood for wine farmers (even in the long-run) would not have been acceptable.

Finally, the Commission found that there was a "continued absence of the proper balance between production and consumption",<sup>(48)</sup> either through undue shrinkage of consumption, or through expansion of production out of all proportion to demand, or through a combination of both. In the light of this, the Commission made the following recommendations:<sup>(49)</sup>

- (i) Since partial control of the industry had been established by statute and this had encouraged farmers to engage in viticulture, as well as creating vested interests for the K.W.V. in the exercise of this control, a policy of laissez-faire was no longer feasible. The solution had to be sought in a policy of comprehensive control.
- (ii) Control of the industry would have to establish and maintain a balance in the price structure of the different products of the vine.
- (iii) The control policy would also have to maintain some balance between viticulture and other sectors of agriculture. In this respect, the concept of "parity", introduced through the 1937 Marketing Act, was very significant, as the Commission was not in favour of limiting plantings (except as a last resort), but, rather, favoured a price policy based on the general price level of agricultural products.
- (iv) As regards "good" wine, it should have a fixed minimum price to both the merchants and the K.W.V. The fixed price should be at such a level as to enable the controlling body to pay the producers a price bearing a definite relationship to that of distilling wine, but not so high as to discourage consumption.

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(48) Ibid., page 49, para 241.

(49) Ibid., page 69 - 77.

- (v) Since the solution to the problem facing producers of "good" wine lay in fixing the price of "good" wine in relation to that of distilling wine, the control of "good" wine should be co-ordinated very closely with that of distilling wine, i.e. both types should be controlled by the K.W.V. This extension of K.W.V. control should be effected through an amendment of the 1924 Control Act.
- (vi) The solution to the problem of surplus production was to be sought in the discouragement of indiscriminate expansion of production, through a price and quality policy. The production of distilling wine should be discouraged by penalising inferior quality through lower prices, while the production of high-quality "good" wine from shy-bearing vine varieties should be encouraged, if necessary, by payment of a bonus on such vines.
- (vii) In order to impose quality, the Commission proposed a change in the inspection service, introduced through the Wines, Spirits and Vinegar Act (No. 15) of 1913. From 1913 to 1935 there had been only one inspector responsible for carrying out all inspections under the Act.<sup>(50)</sup> The Commission felt that, though more inspectors should be appointed, a more effective way to improve the quality of wine was the institution of price penalisation for inferior wine and bonus payment for quality wine.
- (viii) The Commission also investigated other aspects of the wine industry, such as liquor distribution. Since this section is concerned with the K.W.V. and the control of production, however, discussion of these recommendations is left to Chapters V and VI.

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(50) "Report of the 1937 Commission", op. cit., page 96, para 516.

The report of the Wine Commission was considered in depth by both the government and the K.W.V. (as well as the producers) and the extension of the principle of statutory control to "good" wine was accepted as providing a solution to the problems facing the wine industry. The political events leading to the outbreak of war delayed legislative action until 1940, during which time the wine industry operated as before.

The laissez-faire system was rejected by the Commission as not being feasible, given that farmers had been encouraged to engage in viticulture (cf. page 43), so that any solution to the problems of the wine industry was not orientated to solve the economic imbalance between supply and demand, but towards ensuring that wine farmers were protected from the hardships ensuing from low prices. In other words, price stabilisation and not the attainment of a free market equilibrium was the objective of government policy in respect of the wine industry.

Thus, despite the fact that the Commission itself had found that one of the basic causes of the depressed state of the wine industry was the effect of the 1924 Control Act on production, the idea of price control was not to be abandoned - on the contrary, statutory control over price was now to be extended to "good" wine as well. In terms of simple economic theory, this could not solve the problem of supply in excess of effective demand for wine, but only aggravate it. As will be seen, production increased in the post-war years, so that a quota system had to be introduced to restrict the supply of wine.

#### 4. Organisational changes after 1940

##### (i) The role of the K.W.V.

The Wines and Spirits Control Amendment Act (No. 23) of 1940 laid down the conditions under which "good" and distilling wine were to be produced and sold. It also expanded the role of the K.W.V. to function in a dual capacity, viz. as a

producers' co-operative and as the statutory controlling body of the wine industry, thus establishing a statutory monopoly control of wine production. The provisions of this Act are still applicable today.

The Act stipulates that no person may produce wine, except under a permit issued to him by the K.W.V. Such a permit may not be issued, unless the K.W.V. is satisfied that the producer is in possession of the necessary equipment (including cellar accommodation, vats and tanks) for the making of such wine. It empowers the K.W.V. to fix, on an annual basis and subject to the approval of the Minister of Agriculture, minimum prices for "good" and distilling wine, as well as a quality price for good wine. It also empowers the K.W.V. to fix the percentage of a merchant's purchases which has to be obtained at a price at least equivalent to the quality price.

All transactions between merchants and producers have to carry the prior approval of the K.W.V. and payments have to be made to the K.W.V. Producers are entitled to retail small quantities to private individuals as long as a permit is obtained from the K.W.V. and such wines are sold at, or above, the fixed minimum price.

Thus, in effect, the K.W.V. has to approve of all contracts between producers (or wine cellars) and merchants. On delivery of the wines from the producers to the merchants, certain returns and "good" wine samples are required from the wine merchants. The merchants pay the contract price direct to the K.W.V., which then pays the producers.

Producers and co-operative wine cellars often prefer to deliver a major part of their distilling wine (in addition to the surplus) direct to the K.W.V., mainly because only four of the local wholesalers have the necessary facilities for the

distillation of wine into brandy or spirits. In those cases, wine merchants are supplied direct by the K.W.V. at not less than the fixed minimum price plus costs. Producers are then paid the fixed minimum price on delivery to the K.W.V.

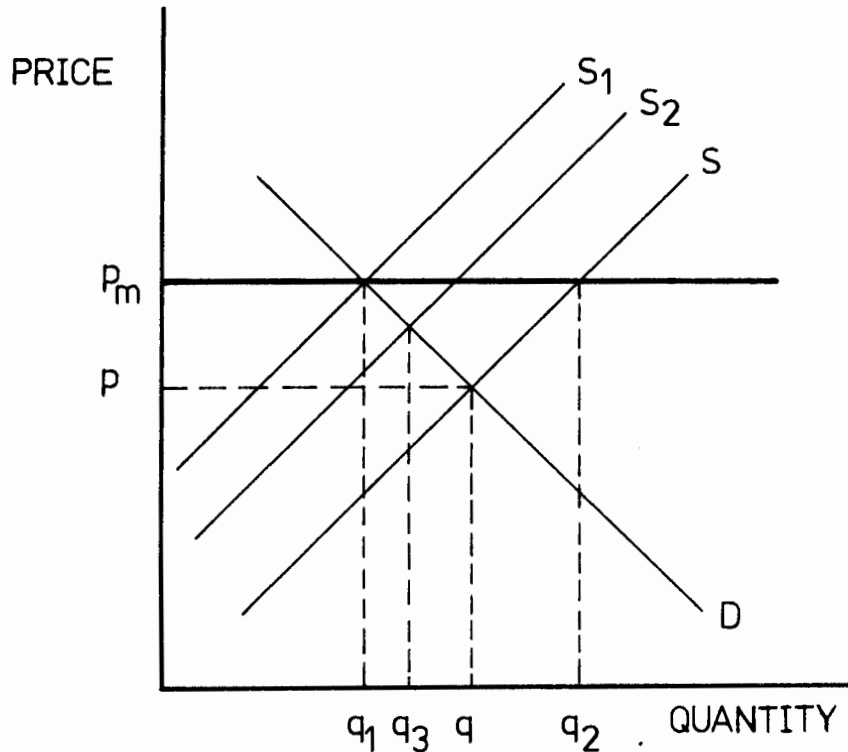
As merchants have to pay the full minimum prices for their requirements, the 1940 Act debars the K.W.V. from competing with them on the local market (as well as in certain neighbouring countries) with respect to potable products made from the "surplus". Thus, legal effect was given to the old gentleman's agreement (cf. page 25) previously operative between the K.W.V. and local merchants on this issue. By law, the sale and distribution of liquor on the domestic market is now entirely in the hands of the local liquor industry.

(ii) Production control

In economic terms, however, the most important provision of the 1940 Act was the one creating the machinery for the legal limitation of wine production by means of a quota system. Should excess of supply over demand require reduced wine production, the K.W.V. could apply for the quota system to be put into legal effect.

Given the imposition of a fixed minimum price which had led to production in excess of demand, this provision was geared to bring about a decrease in the supply of wine so as to restore the balance between supply and demand.

Taking the economic model used on page 30:



At price  $p_m$ , quantity demanded and actually sold is  $q_1$ , while quantity supplied is  $q_2$  - resulting in a surplus of  $q_1 - q_2$ . By imposing legal restriction of wine production, supply can be made to shift back to  $S_1$ , so that quantity demanded and quantity supplied are in equilibrium at the minimum fixed price  $p_m$ . Maintenance of the export markets on which the "surplus" had been disposed, however, would require the K.W.V. to limit supply, not to  $S_1$ , but to  $S_2$ . At this level, with quantity supplied  $q_3$ , both domestic and foreign demand could be met, while still maintaining price  $p_m$  on the domestic market.

In preparation for the implementation of a quota system, the K.W.V. began collecting data from all producers, on the basis of which preliminary quotas could be calculated. According to the 1940 Act, a quota could not be established for a

particular farm, but for individual producers and each producer's quota had to be reviewed annually. The quota was also subject to the approval of the Minister of Agriculture.

The quota system was not applied during the 1940's, however, as the war-time destruction of European vineyards led to increased demand for South African wines and wine production was insufficient to meet both local and foreign demand. From 1946 - 1954, production hardly increased, a fact which was ascribed<sup>(51)</sup> to the relatively low and stable prices and to the psychological effect of the threat of quota restrictions. During this period, wine supplies had to be rationed and "surpluses" were arbitrarily declared (in terms of a war measure) to ensure supplies to the K.W.V. for its export trade.

As a result of the absence of excess production between 1940 and 1952, the quota provisions of the 1940 Act were discarded in 1952. In marked contrast, the Wines and Spirits Control Act (No. 22) of 1954 made provision for the rationing of supplies in the event of shortages.<sup>(52)</sup> This Act stipulated that the K.W.V. may obtain as "surplus" at least 15%, but not more than 25%, of a season's distilling wine harvest for its own purposes, even in the case of production shortages. This legislative provision placed the declared "surplus" in a position even further away from the economic definition of "surplus". Initially being a way of siphoning off excess supply in relation to effective demand, it could now become a method of guaranteeing the availability of exportable stock. With the 1954 Act, control over the supply of wine became absolute.

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(51) By A.J. Beyleveld - "The Development of Production Control in the Wine Industry", Agrekon, Volume 5, No. 1, 1966. Page 11.

(52) Ibid., page 12.

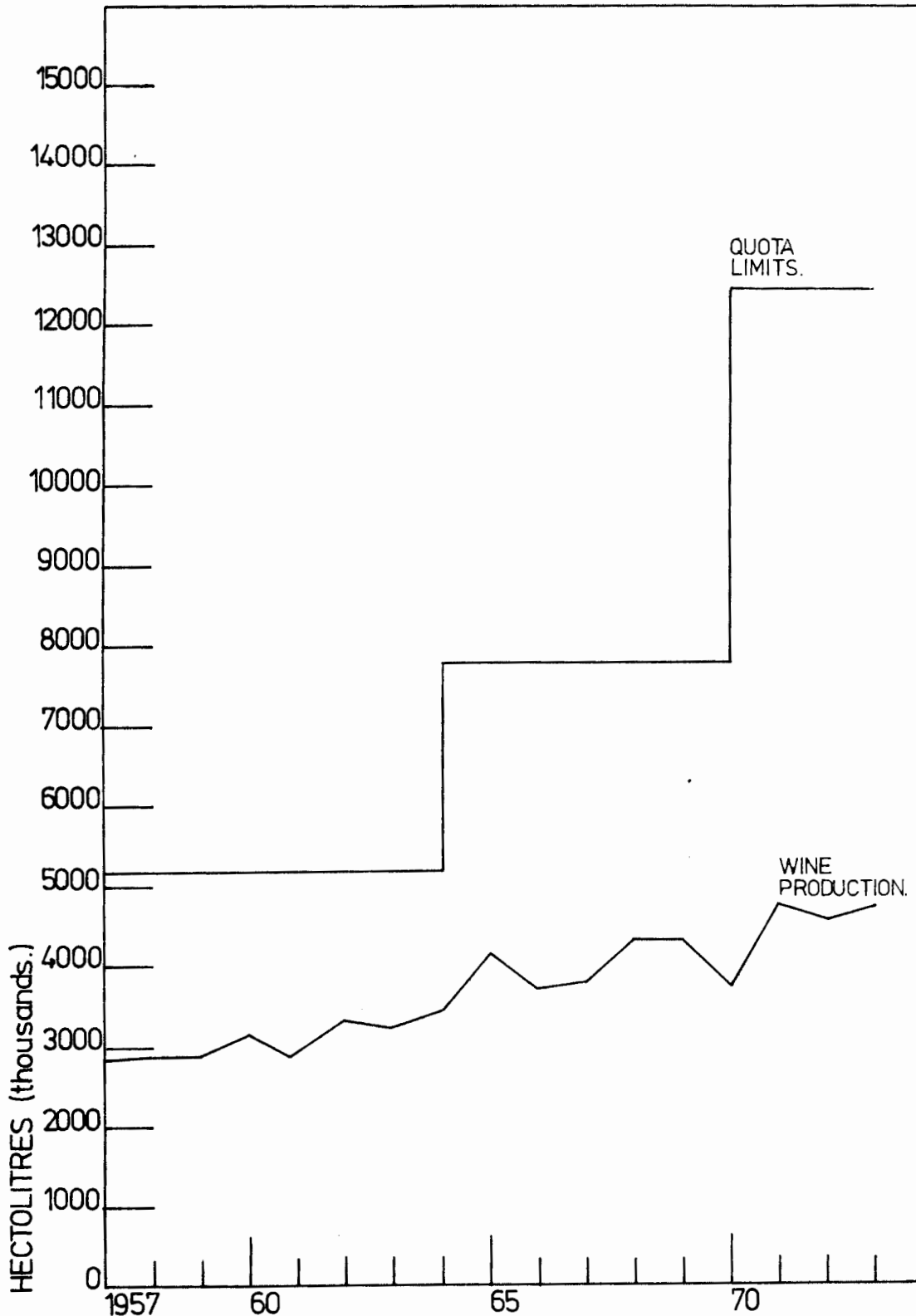
The factors leading to the immediate post-war situation of demand in excess of supply lasted only until 1954, after which production increased again and led to the familiar situation of excess supplies by 1957. Supply had to be reduced and the re-introduction of production control through a system of quota restrictions was formalised in the Wines and Spirits Control Amendment Act (No. 47) of 1957.

This Act made provision for a production quota to be fixed for each farm. The quota would constitute the maximum quantity of wine which could be produced in any year on that particular farm. Such a quota was fixed in terms of the vines growing on the farm on 21st June, 1957, with allowances for vines taken out shortly before to renew vineyards and, with allowances for vines purchased before that date, or grown and grafted on the farm for planting in 1957. The Act also provided for a controlled increase in quotas, at any time when circumstances might justify increased production. It made provision for a Special Appeal Board to which appeals against quota decisions might be lodged, subject to the approval of the Minister of Agriculture. The quota regulations, laid down by the 1957 Act, have applied to the Cape Province since 1957 and were extended to apply to Natal, the Transvaal and the Orange Free State by the Wine and Spirits Control Amendment Act (No. 54) of 1967.

In 1957 the total production quota was declared to be 5 196 150 hectolitres and remained at this level until 1964, when it was increased by 50% to 7 794 225 hectolitres. In 1970 the total production quota was increased by 60% to 12 413 025 hectolitres.<sup>(53)</sup> Production figures from 1957 to 1973, however, show that at no stage has total wine production come near the quota limits and has, in fact, never even come up to the original 1957 level (cf. page 51). On face value, these figures seem to make the quota restrictions irrelevant and raise the question of

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(53) "A Survey of Wine Growing in South Africa", 1972/73, op. cit. page 36.



QUOTA LIMITS & WINE PRODUCTION.

why the K.W.V. requested increased quotas in 1964 and 1970. Firstly, it is important to note that quotas are declared for each individual farm and are revised annually by the K.W.V., so that production limits are actually imposed on individual wine farmers. Further, consideration of the volume of wine production in the various wine districts (cf. pages 62-66) after 1957 indicates that quota restrictions limit the growth of production in some areas and quota increases encourage the expansion of production in others.

In effect, the mechanism of production control through quota restrictions is a highly complex one. Actual production may have never reached the total production quota limits, but these limits are used as a control by the K.W.V. to allocate quotas to individual wine farmers in such a way as to link production with demand. The increase in demand which prompted the K.W.V. to request quota increases can, reasonably, be imputed to both the extension of the domestic market through the lifting of prohibition to Africans in 1962 and to the effect of official encouragement of a change in drinking habits away from hard liquor towards wine, as embodied by the Liquor Further Amendment Act (No. 88) of 1963 (cf. page 94).

The imposition of production quotas, after 1957, finally solved the problem of "surplus" for the wine industry, by linking wine production to demand for wine products. The fact that demand, after 1970, began to exceed supply, so that a rationing system was introduced (cf. page 74), does not invalidate the efficacy of the quota system in maintaining the proper balance between supply and demand. As the determinants of demand are varied and unstable, continued increases in demand cannot be taken for granted, but, without a legal limitation of supply, the existence of a fixed minimum price below which wine might not be sold would almost guarantee that supply would exceed demand in the long run.

The K.W.V. was made responsible for ensuring an equitable balance between supply and demand by the provisions of the 1940 Control Act (as amended in 1957), which also placed full legal monopoly power over the production and price of "good" and distilling wine into the hands of the K.W.V.<sup>(54)</sup> Further, the 1940 Control Act gave legal effect to the old "gentlemen's agreement" between the K.W.V. and the wholesalers, whereby the K.W.V. undertook not to compete on the domestic market with local distributors. The legal exclusion of the K.W.V. from the domestic market, however, did little to calm the protests of the local liquor trade against the monopoly powers enjoyed by the K.W.V.

5. Objections to K.W.V. control

As a consequence of the Co-operative Societies Act of 1922 and of the Control Acts of 1924, 1940 and 1957, the K.W.V. has wide statutory powers to which the liquor trade has objected repeatedly. The basis of these objections is that the interests of the liquor trade and the consumers were dominated by the interests of the wine farmers. These criticisms were raised, officially, in evidence given to the Commission of Inquiry into Co-operative Affairs in 1967.<sup>(55)</sup> The issues raised and the findings of the Commission will be discussed in some detail as they throw an interesting light on how monopoly control over wine production was viewed by the few large concerns dominating the sale and distribution of wine products in the domestic market.

The Commission found, first of all, that pronounced monopolistic conditions did exist in the wine industry and that these could be ascribed to the above Acts.<sup>(56)</sup>

The Commission conceded that agricultural co-operatives, in general, and the K.W.V. in particular, were necessary to the development of South African agriculture. This also applied to the government support initially given

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(54) In fact, the role of the K.W.V. in the wine industry goes further, as it also handles the exporting of wine. This is discussed, in detail, in Chapter VI.

(55) Known as the "Steenkamp" Commission (RP 78/1967)

(56) "Report of the Commission of Inquiry into Co-operative Affairs" (RP 78/1967) page 41, para 201.

when farmers were in distress during the 1920's and 1930's. It stressed, however, that legal and institutional changes had influenced competition to such an extent that the question of "unfair competition" in favour of the co-operatives had arisen. The Commission emphasised that a co-operative is economically orientated and that the fact that it derives much of its strength from a strong sense of solidarity amongst its members did not alter its character as an economic institution. Thus, although a co-operative is not explicitly "profit-seeking", it does operate with a profit motive and bears a capital risk. The important difference between it and a "capitalist firm" lies in the distribution of risks and profits. The Commission, therefore, rejected the thesis that a co-operative cannot earn profits, emphasising the need for such profits to justify its existence.<sup>(57)</sup> The objections raised by the liquor trade centred around the issue that the profits made by co-operatives were not "normal", but rather in the nature of monopoly profits, due to statutory protection and control.

Four main issues were raised in the representations made by the liquor trade:

- (a) The export of wine products;
- (b) Competition of co-operative wineries with established wholesalers and retailers;
- (c) The K.W.V.'s supply of its products to "pseudo-wholesalers";
- (d) The policy of the K.W.V. as a control board.

Given that the liquor trade objected to K.W.V. control, not only on its own behalf, but on behalf of the consumer, it is interesting to note that there was no criticism of the fact that the imposition of a fixed minimum price raised the price of wine products above the equilibrium price on the domestic market. Consideration of the four issues raised by the liquor trade, and of the findings of the Commission on each of the four points, indicates that the real issue behind the objections was that the liquor trade found that the powers of the K.W.V. constituted a threat to its own means of profit maximisation.

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(57) Ibid., pages 59 & 60.

(a) The export of wine products

Initially by agreement and later by statute, the K.W.V. was obliged to dispose, on other than the domestic market, the declared surplus delivered to it annually. Although the wholesalers were free to participate in the export trade in competition with the K.W.V., they found it difficult to do so and demanded a greater share in the export trade. Wholesalers contended that they were unable to compete with the K.W.V. on the basis of a "loaded" domestic price, when the K.W.V. obtained its surplus without paying for it. To be able to compete, they would have to obtain the wine at a price lower than the current domestic price.

The K.W.V. countered that the existing export scheme, having obtained the best possible results in the past, should be maintained. It argued that it had to market the surplus in such a way as the farmers would receive as high as possible a bonus from its sale and that it was incorrect to regard the surplus as being obtained without any cost to the K.W.V., as bonuses had to be paid. From the proceeds of the export of wine, the K.W.V. had strengthened its own funds, had erected modern productive facilities and had paid bonuses to wine-farmers; non-members as well as members. Thus, if part of the surplus distilling wine had to be made available to the wholesalers at a reduced price, wine-farmers and the K.W.V. would, in fact, surrender possible profits and subsidise the merchants. In return, the K.W.V. would then demand to be allowed to compete with the wholesale merchants in the domestic market.

The Commission, after hearing the evidence, took the stand that the K.W.V. had been successful in establishing overseas markets and that if local wholesalers were to participate in the export trade, it would have to be on an "organised basis".<sup>(58)</sup> By an "organised basis" the Commission meant co-ordinated K.W.V. and private exports, the latter maintaining the former's policy of quality maintenance, continuity of supplies and uniform prices, so the reputation of Cape wine products, already established in overseas markets, would not be endangered.

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(58) Ibid., page 170, para 929.

(b) Competition of co-operative wineries

By 1972, the number of co-operative wine cellars had increased from five, in 1937, to sixty-six. About R6,5 million had been invested in these cellars, which convert more than 50% of the grape crop destined for wine and spirit production and which comprise more than half of the K.W.V.'s membership. These co-operatives do not hold liquor licences, but are entitled to sell their products to other licence holders on the basis of a contract with the K.W.V. in terms of the Liquor Act (No. 30) of 1928.<sup>(59)</sup> The cellars may also supply wine directly to consumers under a wine-farmer's licence and to retailers and the general public, if operating on the basis of a company holding a wholesale liquor licence.

Wholesale merchants objected, in particular, to the last-mentioned arrangement on the grounds that the agreement between the K.W.V. and the wholesale trade was being undermined, since the co-operative wineries had to be seen as an integral part of the K.W.V. Thus, if the K.W.V. was debarred from dealing with retailers and consumers on the local market, this should also apply to the co-operatives. Apart from this, it was regarded as unfair competition that co-operatives could sell their products to the public at the minimum prices that the wholesale trade had to pay to the co-operatives. This was possible as the fixed minimum price to the wholesale trade was above the selling price fixed for producers.

It was argued by the Commission that competition from co-operative wineries was an issue which had already been investigated by the Malan Commission in 1960.<sup>(60)</sup> It had recommended that provision be made in Section 5 (3) of the 1928 Liquor Act for an increase in the price of wine that would take into account the place of sale.<sup>(61)</sup> Since the wholesalers themselves had rejected this solution,

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(59) For a more detailed discussion of the Liquor Act of 1928 and the system of licensing, see Chapter V.

(60) "Report of the Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor", V.G. No. 55, 1960.

(61) Ibid., paras 364 - 370.

objecting to any form of competition from the co-operatives, the status quo had remained unchanged and the Steenkamp Commission now found it neither feasible nor desirable to prohibit selling by the co-operatives. Nevertheless, the Commission conceded that the wholesalers had grounds for dissatisfaction on this issue, but past legislation had encouraged such competition and it would be wrong to reverse the whole policy.

(c) K.W.V. sales to "pseudo-wholesalers"

Wine merchants are free to buy any quantity, quality, type or variety of "good" wine as well as distilling wine from any wine-grower or co-operative wine-cellar, provided only that the prices paid are not less than the stipulated minimum prices. In terms of the 1940 Control Act, the K.W.V. may, however, supply its products only to wine merchants who buy a prescribed minimum quantity of wine per annum.

"Pseudo-wholesalers" are traders selling their products to consumers in quantities of not less than ten litres at a time. While they, in fact, bought the prescribed minimum "wholesale quantity" from the K.W.V., the wholesale merchants argued that these were not bona fide wholesalers, as they sold direct to consumers and did not supply the retail trade. These "pseudo-wholesalers" were then in a position to undersell retail traders.

The Commission found that since the sale of K.W.V. products to "pseudo-wholesalers" was in accordance with the provisions of the 1940 Control Act as regards the prescribed minimum quantity, the objections of the wholesale trade were unjustified. Moreover, the Commission revealed that the category of "pseudo-wholesalers" was negligible, being, in fact, limited to two traders.

(d) The K.W.V. as a control body

Merchants also objected, in principle, to the K.W.V. being the control body of the industry, in addition to being a producer's co-operative, i.e. they objected to the statutory monopoly power of co-operatives in general. They called for the institution of a representative and independent Control Board to function outside the K.W.V.

These issues were not investigated in great depth, but the Commission proposed the appointment of a commission of experts to investigate and to report on all the issues related to the role of the K.W.V. as a controlling body.

This latter recommendation of the Steenkamp Commission was later taken up by certain wine merchants. In May 1969, the Minister of Agriculture, Mr D.C.H. Uys, issued a press statement to the effect that he had been requested to appoint such a commission, but that he had first initiated discussions between the K.W.V. and the dissatisfied wholesalers. The latter had then withdrawn their request for the appointment of a wine commission. The discussions between the K.W.V. and the wholesalers have not been publicised, nor were the reasons behind the latter's withdrawal of their insistence upon the appointment of a commission of inquiry made public.

Thus, the K.W.V. continues to function in terms of, and with the powers provided by, the statutes governing the organisation of production in the wine industry. A complex structure was erected by legislation to control every aspect of wine production in the years 1924-1957. "Surplus" declarations, provisions for rationing and, above all, quota restrictions, were instituted to bring the supply of and the demand for wine products into alignment at a price fixed, not by the free interplay of the supply and demand functions, but by a control body established to ensure stability of wine prices.

C H A P T E R I V

THE EXPANSION OF VITICULTURE AFTER 1900

As has been seen, the rapid expansion of viticulture in the twentieth century initially created problems of surplus and low prices for the wine industry and the steps taken to solve these problems led to the establishment of a compulsory co-operative, controlling the production and price of wine. To obtain a more complete picture of this expansion in viticulture, however, it is necessary to consider the areas in which wine growing developed and to place this development into regional and national context in terms of contribution to domestic product.

This chapter is, therefore, concerned with the regional patterns of production, from the early years of the twentieth century to the present day. It studies the geographical distribution of the wine growing areas and the physical volume of wine production in these areas in some detail. It also gives attention to the value of the wine crop and to the primary producers of this crop. Here it is necessary to mention that, although the issues of employment and wages are important in a general study of agricultural development, they have been found to be peripheral to the main theme of this dissertation and, for this reason, a brief discussion of the levels of employment and wages in the wine industry is given in Appendix A, as a supplement to the general background information regarding the wine industry. A consideration of contribution to domestic product, in regional and national terms, concludes this chapter.

1. Regional pattern of production

The vine was introduced to the Cape to provide the ships of the Dutch East India Company with wine and brandy, so that its cultivation was originally confined to the Company's farms. The soil and climate of the Cape, however, were so suitable to viticulture, that free burghers also took up this branch of agriculture. By 1687, 400 000 vines had been established in the Cape and Stellenbosch districts.<sup>(62)</sup> The arrival of the Huguenots (1688), many of whom came from the wine-growing regions of France, gave viticulture a further impetus.

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(62) Report of the 1937 Commission, op.cit., page 7, para 3.

As the colonists moved further away from the sea, they spread viticulture inwards to places such as Franschhoek, Caledon, Paarl, Malmesbury, Ceres, Tulbagh, Montagu, Worcester and Robertson. These areas, together with the Stellenbosch and Cape districts, form the main wine regions of the Cape. During the present century, the viticultural area was expanded to the districts of Ladismith, Calitzdorp and Oudtshoorn, and, more recently, was introduced to the irrigation settlements along the Olifants River, below Clanwilliam, as well as along the Orange River at Upington, mainly for the production of raisins and sultanas.

The major viticultural area of the Western Cape is divided into two distinct regions: the Coastal Belt and the Little Karoo. The Coastal Belt stretches from the coast to the first mountain range and encompasses the original wine districts of Stellenbosch, Paarl, Malmesbury, Ceres, Tulbagh and the Constantia Valley (Cape). Vines are grown mainly on mountain slopes and the annual average yield per hectare ranges from one to 2,5 tonnes.<sup>(63)</sup> The main grape varieties grown in the Coastal Belt are Hermitage (Cinsaut), White French (Palomino), Steen, Green Grape and, to a lesser extent, Riesling, Cabernet Sauvignon, Clairette Blanche and the Portuguese port varieties.<sup>(63)</sup> These grape varieties are suitable for making dry white and red table wines, as well as sherries and ports of good quality.

The Little Karoo region stretches from beyond the Drakenstein range to the Swartberg mountains and encompasses the districts of Worcester, Robertson, Montagu, Oudtshoorn and Ladismith. These areas are higher in altitude and experience greater extremes of climate than the Coastal Belt, with the result that vines are generally grown under irrigation. The average yield per hectare varies between 2,5 and 4 tonnes.<sup>(64)</sup> Owing to climatic factors, such as summer rains and late frosts, the quality of wines varies considerably from year to year. The main grape varieties grown are White French, Hermitage, Hanepoot (Muscat d'Alexandrie), Muscatel and Sultana (Thompson's Seedless) and these are used to make sweet wines, sherries and brandies.

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(63) "A Survey of Wine-growing in South Africa", 1972/73, op. cit., page 16.

(64) Ibid., page 16.

Thus, dry white table wines are mainly produced in the Stellenbosch, Paarl and Tulbagh areas and red table wines in the Cape, Stellenbosch and Paarl districts. Pale, delicate sherries are made mainly in Stellenbosch, Paarl and Tulbagh, while more robust sherries come from the Worcester, Robertson and Montagu districts. Port is made from the grapes of Paarl and Stellenbosch and muscadel from those of Worcester, Montagu and Robertson. The largest proportion of brandy and spirit is produced in the Worcester, Robertson and Montagu districts.<sup>(64)</sup> As the development of this regional pattern of wine production took place in response to soil and climatic conditions, there have been no major changes in the types of wine produced in the respective areas.

The growth of viticulture in South Africa can be indicated by an analysis of the increase in the number of vines planted and the increase in the volume of wine produced. Data for both of these also indicate the regional pattern of growth in the wine industry.

Viticulture expanded steadily, in terms of plantings from the seventeenth century to the twentieth, despite the setbacks received as a result of the loss of the British market in 1861 and the destruction caused by the outbreak of phylloxera in 1885. The total number of vines stood at 3,9 million in 1752, and increased to 78,6 million in 1891. This equals an average increase of 53 300 vines per annum over a period of 140 years, i.e. about 7% expansion per annum. The early years of the twentieth century saw a reduction in plantings, owing to concentration on lucerne, but, by 1918, the number of vines had increased to 86,9 million. The difficult years between 1918 and 1924 led to a decrease in the number of vines so that by 1927 they numbered only 71 million.<sup>(65)</sup>

In Table 7, the expansion of vine plantings is shown for the years 1927-1935, with an indication of the relative growth in the major areas.

During these years, viticulture expanded rapidly, both in terms of plantings and in terms of the development of new areas. The number of vines increased by almost 44%, from 71,0 million to 102,2 million in these eight years. As indicated in the table, the rate of increase varied

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(65) Report of the 1937 Commission, op. cit., page 11, para 24.

TABLE 7

Number of Vines in Bearing in the Main Wine Districts  
(in thousands)

1927 - 1935

District	1927	1930	1933	1935	% Change 1927-1935
Caledon	1,103	941	1,135	1,192	8,0
Paarl	19,164	16,518	20,376	21,338	11,4
Malmesbury	5,480	5,923	6,022	6,555	19,6
Cape	2,686	2,538	3,383	3,801	41,5
Ceres & Tulbagh	3,010	2,794	3,400	4,303	42,9
Stellenbosch	11,381	11,923	14,663	16,435	44,4
Worcester	15,955	19,266	23,636	25,814	61,8
Montagu & Robertson (1)	12,395	15,621	22,949	22,807	84,0
<b>TOTALS</b>	<b>71,075</b>	<b>75,524</b>	<b>95,564</b>	<b>102,244</b>	<b>43,9</b>

Note:

(1) As a portion of the Montagu district was transferred to Robertson in 1931, the figures for the two districts are shown as one. In 1935, the number of vines in Montagu was 9,7 million, as against 7,3 million in 1927, and for Robertson 13,0 million in 1935 and 5,0 million in 1927.

Source: "Report of the Wine Commission", 1937, V.G. No. 25 -1937, page 10, adapted from Table 1.

considerably in the different areas. While the rate of increase for Caledon was only 8%, the districts of Montagu and Robertson increased plantings by 84% and, of the total increase of 31 million vines in all the districts, Robertson, Montagu and Worcester accounted for over 20 million, or about 66%.

Between 1927 and 1935, total wine production increased by 40,6% from 672 289 hectolitres to 1 131 750 hectolitres, as is shown in Table 8(a). Taking the increase in wine production from 1924, when distilling wine was placed under

TABLE 8(a)

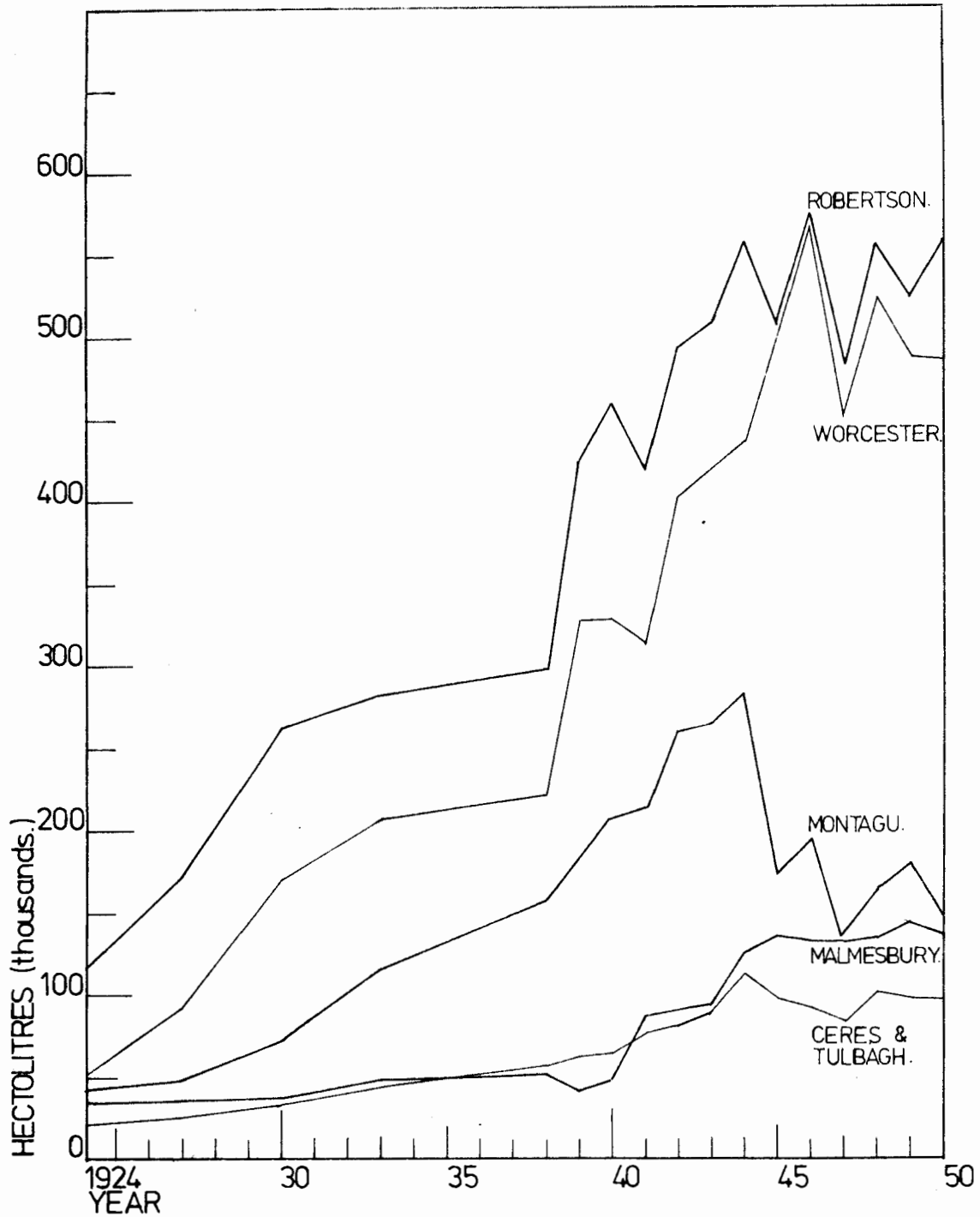
Wine Production by District : 1924 - 1950 (in thousands of hectolitres at 20% proof)

Year	Caledon	Ceres & Tulbagh	Cape	Malmesbury	Montagu	Paarl	Robertson	Stellenbosch	Worcester	Total Alcoholic Crop	Total <sup>(1)</sup> Crop
1924	8,08	21,9	17,8	37,5	41,0	158,7	49,1	98,1	116,0	549,6	666,8
1927	10,9	26,5	27,7	36,9	47,9	150,7	91,2	105,1	174,3	672,0	784,0
1930	13,2	32,3	28,8	36,9	72,2	195,1	170,9	122,9	263,3	937,6	1 013,8
1935	14,4	41,6	43,3	45,6	116,0	222,3	207,8	158,2	282,3	1 131,6	1 274,8
1938	21,4	54,8	73,3	54,3	158,7	275,9	224,0	249,4	299,0	1 411,0	1 606,2
1939	24,8	61,2	60,6	43,3	181,3	234,4	326,2	201,5	422,0	1 554,8	1 676,0
1940	25,8	66,9	77,4	49,0	207,3	303,7	327,9	266,7	459,5	1 785,1	1 882,1
1941	31,7	78,5	91,8	84,3	216,5	364,9	316,4	288,1	420,3	1 893,1	2 292,1
1942	34,6	80,2	71,0	88,9	260,4	348,7	401,2	292,1	491,3	2 068,6	2 515,5
1943	34,6	89,5	86,0	91,2	265,0	314,1	420,9	278,8	507,5	2 088,8	2 544,9
1944	35,8	111,4	91,8	121,8	281,0	426,6	437,0	385,1	557,1	2 452,0	2 943,3
1945	34,1	97,5	81,4	135,1	172,6	385,1	508,0	317,5	506,9	2 239,5	2 711,8
1946	37,5	91,8	94,1	131,6	192,8	350,4	570,4	314,6	569,8	2 353,8	2 633,3
1947	30,0	81,4	80,8	131,0	137,4	340,6	482,6	318,7	448,6	2 053,1	2 509,7
1948	38,1	100,4	90,1	134,5	163,9	369,5	557,1	361,9	521,3	2 337,1	2 685,8
1949	37,5	97,5	77,3	143,7	180,1	378,7	523,6	336,6	484,9	2 260,3	2 614,8
1950	36,9	99,3	83,7	136,2	147,8	359,7	555,9	342,3	487,3	2 251,1	2 657,5

Note: (1) This figure includes raisins and dried grapes.

Source: Unpublished K.W.V. statistics, obtained in personal interview, September 1974.

N.B. A graphical representation of wine production in the districts of Montagu, Malmesbury, Worcester, Robertson and Ceres & Tulbagh is given on pages 64 and 66 to illustrate production trends in the periods 1924 - 1950 and 1951 - 1973



WINE PRODUCTION BY DISTRICT : 1924 - 1950.

TABLE 8(b)

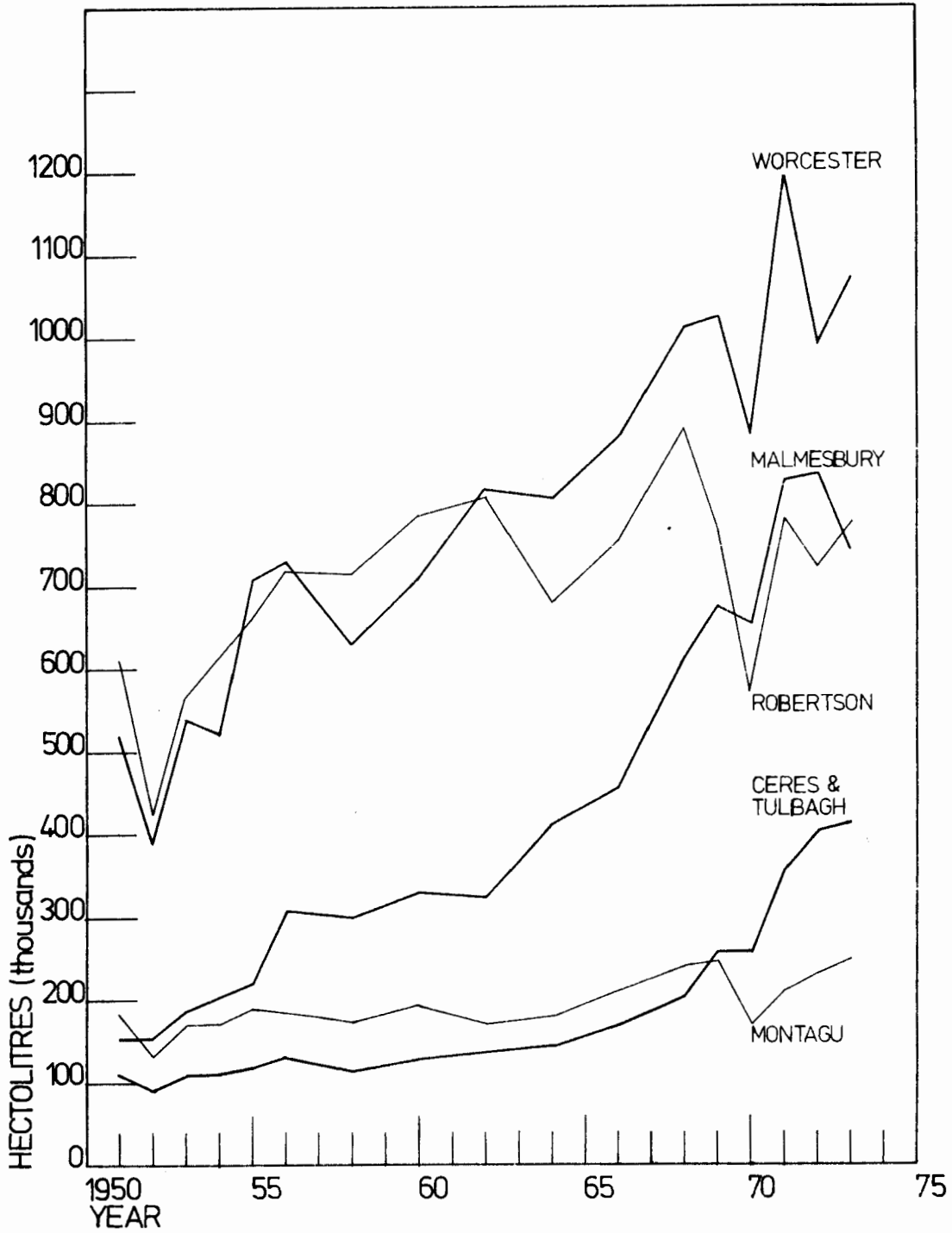
Wine Production by District : 1951 - 1973 (in thousands of hectolitres at 20% proof)

Year	Caledon	Ceres & Tulbagh	Cape	Malmesbury	Montagu	Paarl	Robertson	Stellenbosch	Worcester	Total Alcoholic Crop	Total <sup>(1)</sup> Crop
1951	35,3	109,4	69,7	155,0	182,2	398,7	614,5	370,6	520,4	2 456,1	2 909,5
1952	23,9	93,2	63,3	155,6	130,7	349,8	423,3	281,2	390,3	1 911,6	2 246,1
1953	41,1	108,1	86,7	185,3	170,2	406,7	575,1	423,5	537,1	2 534,2	2 903,1
1954	36,6	109,3	76,7	203,0	170,9	427,8	619,0	381,1	523,6	2 548,3	2 921,8
1955	37,4	118,0	83,3	226,9	190,0	439,1	662,3	414,4	704,6	2 876,4	3 207,9
1956	44,4	133,6	90,6	309,9	186,4	535,9	720,7	503,6	718,3	3 243,8	3 581,0
1958	39,4	114,8	63,9	300,5	172,8	401,7	716,8	419,2	631,3	2 860,9	3 252,2
1960	45,9	130,4	75,5	330,0	196,7	434,1	783,9	474,0	711,2	3 182,2	3 599,0
1962	53,2	136,2	67,4	326,2	172,8	478,6	801,4	407,3	813,8	3 257,4	3 675,9
1964	50,1	143,0	78,5	417,7	180,8	522,1	680,4	540,0	800,3	3 413,2	3 823,2
1966	56,1	150,1	75,2	460,7	213,8	533,7	756,7	572,1	878,9	3 697,6	4 171,7
1968	74,4	205,7	68,5	611,3	238,6	598,5	885,6	579,3	1 012,9	4 275,2	4 809,1
1969	71,9	255,3	72,3	675,4	251,3	519,1	767,0	606,1	1 023,7	4 242,5	4 817,9
1970	64,4	254,9	68,0	653,5	171,6	534,6	573,0	481,8	883,8	3 686,0	4 184,2
1971 <sup>(2)</sup>	- <sup>(2)</sup>	350,8	- <sup>(2)</sup>	826,1	208,0	632,4	784,8	742,1 <sup>(2)</sup>	1 192,0	4 736,4	5 280,8
1972	-	400,5	-	833,5	235,6	623,1	722,2	759,8	997,9	4 572,8	5 127,4
1973	-	407,6	-	744,8	242,8	615,1	777,0	768,4	1 068,6	4 684,5	5 253,9

Notes: (1) This figure includes raisins and dried grapes.

(2) From 1971, Caledon and Cape fall under Stellenbosch.

Source: "A Survey of Wine-growing in South Africa" 1973/74, pages 46 & 47, Table 1.



WINE PRODUCTION BY DISTRICT : 1951-1973

K.W.V. control, the increase up to 1935 was 105,9%, with substantial differences in the contribution by the different areas. Malmesbury showed only a 20% increase, while production in Robertson rose by 322,4% and that in Montagu by 182,3% between 1924 and 1935. Of the total increase of 577 350 hectolitres, Montagu, Robertson and Worcester accounted for 69%.

From 1938 to 1950, as the Table 8(a) shows, the rate of wine production increased far less rapidly, even showing decreases in some years. Total alcoholic production increased by about 60% from 1 131 600 hectolitres in 1938 to 2 251 100 hectolitres in 1950 and, as in the period 1924 - 1935, the different areas showed substantial differences of contribution to the aggregate increase. While wine production in Montagu fell from 158 700 hectolitres in 1938 to 147 800 hectolitres in 1950, that in Malmesbury increased by 152%, from 54 300 hectolitres in 1938 to 136 200 hectolitres in 1950. Worcester and Robertson, the two areas which expanded wine production rapidly during the period 1924 - 1935, continued to do so from 1938 to 1950, but at a slower rate. Wine production in Worcester during this period increased by 63% and that in Robertson by 144% as compared with 144% and 322% respectively in the previous period.

In the years 1951 to 1973, wine production in all the areas again showed an overall increase, but the proportionate contribution of each district showed fewer sharp differences. Total wine production increased by 48% from 2 456 100 hectolitres in 1951 to 4 684 500 hectolitres in 1973, as shown by Table 8(b). On an average, during this period, the Worcester district alone accounted for about 25% of the total wine crop. The relatively moderate increase of 48% over the twenty-two years was partly due to the application of the 1940 and 1957 Control Acts and partly due to adverse climate conditions, especially since 1972, which caused reduced harvests. The latter factor operated especially in Robertson and Worcester, which together contribute about a third of the total wine crop. On the other hand, the Malmesbury district increased production by 481% from 1951 to 1973, while the Ceres and Tulbagh districts increased production by 438%. This shift in the most rapid regional rate of production increase from Worcester and Robertson to Malmesbury, Ceres and Tulbagh, could be a reflection of changing demand patterns, in that the latter areas produce dry red and white table wines and quality ports and sherries, while the former make robust sherries, sweet wines and brandy.

Figures compiled by the K.W.V. show that by late 1971, the proportion of plantings, in terms of grape varieties, was: Steen - 24,43%; French grape - 20,4%; Red Hermitage - 18,58%; Riesling - 1,02%; Pinotage - 0,94%; Cabernet Sauvignon - 0,73% and Shiraz - 0,17%. By 1974, the proportions had changed slightly in favour of some of the higher quality cultivars: Palomino (French grape) - 19,3%; Pinotage - 1,7%; Cabernet Sauvignon - 2,0%; and Riesling - 0,9%.

## 2. Total output and value of production

The long-run pattern of production can be summarised most effectively in tabular form and this is done in Tables 9 and 10. Table 9 indicates the structure of production according to physical output, while Table 10 indicates the changes in the value of production, taking into account price changes.

Attention will be given, firstly, to the growth in physical production of distilling wine and "good" wine. Annual quantities for both types of wine have fluctuated markedly owing to climatic conditions, changes in the quota, variations in market demand and producer expectation of market demand.

As far as distilling wine is concerned, production increased steadily from 1924 to 1944, but after the war, production figures were erratic. The 1944 level of 1 659 136 hectolitres was only surpassed in 1951, with another substantial increase only after 1954. As a result of this stagnation in production, the quota provisions, embodied in the 1940 Control Act, were discarded in 1950. This seems to have led to a reversal of the trend, resulting in a 32% increase in production between 1954 and 1956. The quota system was re-instituted by the 1957 Control Act and production remained at a relatively lower level from 1957 to 1965. The extension of quotas in 1964 facilitated increased production in 1965 and 1966, although good climatic conditions also contributed to a higher crop in 1966. Adverse climatic factors led to bad harvests from 1967 to 1970 and caused production to fall from 2 509 515 hectolitres in 1966 to 1 928 476 hectolitres in 1970. The 1971 vintage, however, was a record crop, being 46,8% above the 1970 crop and was a result of a combination of favourable climatic conditions and the extension of the total

production quota in 1964. Decreased production of distilling wine since 1971 has been due to adverse climatic conditions, rather than reduced plantings, or any attempts to limit production.

As regards "good" wine, there was no statutory control prior to 1940 and the figures in Table 9, prior to 1955, are estimates. Production of "good" wine rose by 67% in the years 1924 - 1941, compared with an increase of 76,7% for distilling wine production. From 1944 to 1966 production figures for both "good" wine and distilling wine show similar fluctuations. The disparity between a 20% fall in distilling wine production in 1969 and an increase of 36% in "good" wine production from 1966 - 1969 was mainly due to good climatic conditions in the Little Karoo region, which largely produces "good" wine. In 1970, unfavourable climatic factors again affected the production of "good" wine, with the result that the vintage decreased by 577 350 hectolitres from 1969 to 1970.

In 1971, the crop of "good" wine increased by 17%, with another increase of 11,6% in 1972, at a time when the crop of distilling wine was dropping sharply.

The production pattern of "good" and distilling wine must also be seen in the light of the fact that there can be substitution of distilling wine for "good" wine. This substitution is effected in that unsold "good" wine can be delivered to the K.W.V. as distilling wine and the K.W.V. pays the producer the fixed minimum price for distilling wine for this portion of "good" wine. The annual surplus declaration is not applicable to "good" wine. As has already been stated, the percentage of the annual distilling wine crop declared "surplus" is based on an estimate of local demand and is a direct determinant of the price payable to growers for their distilling wine. Thus, the surplus declaration indicates the level of local demand rather than the size of production and changes in the surplus over the years reflect changes in market demand.

"Good" and distilling wine prices, as shown on Table 10, reflect the control exercised by the K.W.V. over wine production and supply on the

TABLE 9

Production of "Good" and Distilling Wine : 1924 - 1974  
(in hectolitres at 20% proof)

Year	Distilling Wine	% Surplus Declared	"Good Wine" (1)
1924	579 036	50,0	229 964
1925	409 179	40,0	220 911
1930	654 201	50,0	654 201
1935	674 183	53,3	696 382
1938	950 070	43,3	462 810
1941	1 252 607	51,7	699 292
1944	1 659 136	38,9	867 665
1950	1 490 389	25,0	885 903
1952	990 802	25,0	1 041 990
1954	1 643 987	25,0	1 076 284
1956	2 419 766	24,0	995 432
1958	1 962 060	24,0	1 125 578
1960	1 973 538	28,0	1 469 298
1962	2 083 650	18,0	1 406 217
1964	1 905 757	15,0	1 825 459
1966	2 509 515	23,0	1 654 662
1968	2 525 768	24,5	2 396 522
1970	1 928 476	20,0	2 307 333
1971	2 825 505	23,0	2 703 095
1972	2 334 382	19,0	3 017 329
1973	2 406 290	17,0	2 981 229
1974	2 483 397	16,0	2 563 152

Note:

(1) Figures before 1955 are estimates.

Source: "A Survey of Wine-growing in South Africa" 1973/74.  
Figures adapted from Tables 1.2 and 1.3, pages 50-53.

TABLE 10

Prices and Value of "Good" and Distilling Wine : 1924 - 1974  
(in Rands per hectolitre)

Year	Distilling Wine			Good Wine	Value	
	Advance price to growers	Total price payable to growers	Price to the liquor trade	Minimum price	Value	% Change
1924	1,38	1,29	2,75	2,25	-	-
1925	1,31	1,48	2,75	2,25	-	-
1929	1,37	1,30	2,75	2,24	-	-
1933	1,19	1,21	2,75	1,57	-	-
1935	1,28	1,28	2,75	1,85	-	-
1936	1,56	1,56	2,75	1,85	-	-
1941	1,33	1,43	2,75	2,08	2 916 232	-
1944	2,02	2,02	3,30	2,43	5 021 800	+ 72,2
1945	2,02	2,25	3,30	2,60	5 188 440	+ 3,3
1946	2,02	2,75	3,30	2,77	6 621 544	+ 27,6
1950	2,89	3,39	3,85	4,16	8 629 340	+ 30,3
1951	3,03	3,99	4,04	4,16	10 355 144	+ 20,0
1954	3,03	3,58	4,04	4,33	10 801 558	+ 4,3
1956	3,21	3,21	4,22	4,50	12 097 388	+ 11,8
1957	2,74	3,71	4,22	4,50	12 179 070	+ 0,7
1960	3,83	4,83	5,32	5,60	17 894 930	+ 46,8
1963	4,07	5,06	5,50	6,60	21 057 017	+ 18,0
1965	5,42	5,42	6,38	7,92	28 474 227	+ 35,2
1966	4,91	5,22	6,38	7,92	28 073 970	- 1,4
1969	5,35	5,78	7,04	8,66	34 519 975	+ 22,8
1970	5,63	6,61	7,04	8,66	34 259 656	- 0,8
1971	6,78	7,51	8,80	10,86	52 615 564	+ 53,6
1972	7,13	9,45	8,80	12,12	56 827 626	+ 8,0
1973	7,34	9,88	8,80	12,15	61 422 924	+ 8,0
1974	8,50	9,20	10,12	15,20	-	-

Source: Figures adapted from Tables 1.1, 1.2 and 1.3, pages 54 - 59 in "A Survey of Wine-growing in South Africa" 1972/73.

local market. As far as distilling wine is concerned, the difference between the price payable to growers in advance and the total amount paid to growers per hectolitre of wine constitutes the "bonus". This "bonus" arises out of a pro-rata allocation of the proceeds from the sale of the surplus by the K.W.V. Since these proceeds are not always distributed to growers (cf. page 30), "advance price payable" and "total price payable" are sometimes the same. The total price payable to growers constitutes the net price paid to farmers per hectolitre of wine at 20% proof spirit, after deduction of a levy to cover administration expenses.

As far as "good" wine is concerned, the 1940 Control Act provided for the fixing of a minimum price and also made provision for a quality price and laid down the percentage of his purchases which a wholesale wine merchant was bound to buy at this quality price. In 1941, the quality price was set at R3,46 per hectolitre and the wholesale purchase percentage at 5%. Both price and percentage purchase rate rose steadily from 1941 to 1957, from R3,46 to R5,54 per hectolitre and from 5% to 10%. Since 1958, however, no minimum quality price has been fixed.

In 1966, a statutory levy was imposed on both "good" wine and distilling wine to finance research and publicity in the wine industry, in terms of the Wine and Spirits Control Amendment Act (No. 54) of 1965. This levy is paid by the producer and allocated by the K.W.V. From 1966 to 1968 the levy amounted to 7c per hectolitre for "good" wine. It was increased to 14c per hectolitre in 1969 and, as from 1st January, 1973, was fixed at 14½c per hectolitre. The levy on distilling wine for 1966 and 1967 amounted to 3c per hectolitre (at 20% proof spirit) of the disposable portion of the distilling wine crop and, as from 1st January, 1973, the levy was fixed at 3½c per hectolitre. No levy has been imposed on the surplus.

The value of each vintage is thus the net total income earned by growers from the sale of their "good" wine and distilling wine crops, after all levies and deductions have been paid. This value has been computed only since 1941 when "good" wine was placed under the control of the K.W.V.

From 1924 to 1941, "good" wine prices fluctuated, while those of distilling wine remained relatively stable, except for a sharp drop in 1933. From 1941 to 1974, "good" wine prices show no fluctuations as a result of the statutory fixing of an annual minimum price. Instead, figures show a steady increase over the years, with a sharp price rise in 1974, from R12,15 to R15,20 per hectolitre.

Since the minimum price of distilling wine is based on estimated local demand determining the percentage annual surplus declaration, the higher the surplus, the lower is the advance price payable to growers. From 1924 to 1935, as production expanded and the effects of the depression made themselves felt, the advance price ranged between R1,37 and R1,10 (in 1932), rising slightly in 1935, when production fell and the surplus was reduced by 3,3%. During this period, the total amount payable to growers was sometimes less than the advance price, due to the deduction of the levy to cover administration costs.

From 1936 to 1940 there was a constant surplus of 43,3% and the price per hectolitre of distilling wine remained at R1,55. This stability could have been as much a result of anticipation of legislative action following the recommendations of the Wine Commission of 1937 as a reflection of the state of market demand during this period. Prices fell in 1941 when 51,6% of the harvest was declared surplus, but rose both during the war years 1942 - 1945 and during the post-war period of decreased output from 1946 - 1951. War shortages through reduced production led to a 94% increase in prices from R1,55 in 1940 to R3,02 per hectolitre in 1951. Shortages continued from 1951 to 1954 and, instead of implementation of a system to limit production, the K.W.V. found it necessary to invoke War Measures to secure supplies for export. The surplus from 1942 to 1954 was, therefore, not based on local market demand, but constituted an arbitrary declaration of surplus so as to fulfil export commitments.

Production expanded, once more, from 1954, so that the surplus again reflected local market demand and prices rose to R3,20 by 1956. The sharp rise in production during 1956/57 led to the re-institution of quota regulations under the 1957 Control Act and to the declaration of

a higher surplus, as well as a fall in prices. These steps contributed to a 14,6% fall in production in 1957. The effects of the implementation of quota restrictions can be seen in rising prices and a reduced surplus in the years 1958 to 1970. The 1971 crop was 49% higher than that of 1970 and the surplus increased from 20% in 1970 to 23% in 1971. This surplus increase was partly due to increased supply and partly due to the imposition of higher excise duties on wine spirits in early 1971, which reduced local market demand.

Adverse climatic conditions in the years 1972, 1973 and 1974 led to reduced production while market demand continued to expand. Consequently, the surplus fell from 23% in 1971 to 16% in 1974 and prices rose from R6,77 to R8,50 per hectolitre during this period. The K.W.V. anticipated a smaller supply of both "good" wine and distilling wine, owing to the reduced crop, in 1974 and requested the government to institute a system of rationing so as to ensure minimum supplies to all wholesalers on the local market.<sup>(66)</sup> The provisions embodied in the 1957 Control Act regarding the implementation of a rationing system, should circumstances justify it, were then applied by the government, which agreed to the request and rationing of "good" wine and distilling wine was introduced in April 1974. As during the period 1946 - 1954, when production was insufficient to meet demand, the problem facing the wine industry, after 1971, was not the disposal of surplus, but the allocation of limited supply.

### 3. The primary producers

In the absence of accurate statistical data on the subject, the total number of farmers in South Africa engaged in viticulture can only be an estimate. Despite this limitation, it is still of some value to attempt such an estimate, as it provides a general idea of the development of wine farming, as well as of the average contribution to total annual vintage.

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(66) "Address of the Chairman of the K.W.V. at the 56th Annual General Meeting of Members", 4th June, 1974.

Under the provisions of the 1924 Control Act, every wine farmer who grows grapes and either manufactures wine, brandy and moskonfyt for sale, or sells his grapes for the manufacture of these products, is required to render a return of his vintage to the K.W.V. Thus, the data made available to the K.W.V. covers the total number of farmers under K.W.V. control. While grapes grown for consumption as table grapes are not under K.W.V. jurisdiction, the majority of table grape growers deliver the residue of their crops to the K.W.V. as distilling wine. K.W.V. figures therefore give a fairly accurate picture of the number and production pattern of viticulturalists in the Western Cape. Since commercial viticulture is almost entirely confined to the Western Cape, the irrigation settlements along the Olifants River constituting only a small share of total production, figures for the Western Cape largely reflect the total for South Africa.

K.W.V. membership figures are misleading in the computation of the exact number of wine-growers, as they include all registered shareholders. Some of these shareholders are no longer actively engaged in viticulture, but have retained their shareholding. Membership figures also include shares held in the estates of deceased members, but exclude growers who are not members of the Association. Although 99% of growers (in 1974) are members, the actual number of non-member wine-growers can only be an estimate.

An indication of the structure of wine production can be obtained from a classification of growers according to their contribution to the total vintage. Such information was provided by the Wine Commission of 1937.<sup>(67)</sup> In 1936, the K.W.V. had 4 486 shareholders, but returns were rendered by only 2 838 farmers. Since small-scale farmers were not obliged to render returns, the total number engaged in viticulture in 1936 was estimated to be about 3 000. This figure included members of two co-operative wineries of which details were not available, but of which an estimate of membership

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(67) Report of the 1937 Commission, op. cit., page 14, para 9.

was made. The total vintage for 1936, including raisins and sultanas, "good" and distilling wine, but excluding table grapes, was 1 434 714 hectolitres (at 20% proof spirit), i.e. about 479 hectolitres per grower.

As Table 11 indicates, out of a total of 2 838 growers, nearly 2 100 (74%) produced less than 600 hectolitres, while 2 748 growers (97%) produced less than 1 750 hectolitres. Only 90 growers (3%) produced more than 1 750 hectolitres and only one exceeded 6 000 hectolitres. These figures clearly show a major characteristic of the production structure, i.e. the preponderance of the small producer.

Unfortunately, as the K.W.V. was not willing to supply the information necessary for the preparation of similar tables, after 1936, an overall trend has to be deduced from the limited data that is available. This is shown in Table 12.

A few conclusions can be drawn from the table and other available data. Firstly, the preponderance of the relatively small producer has been maintained over the years, probably aided by the application of quota regulations. From 1955 to 1960, the number of growers increased by about 44% (1 338 growers), while the average contribution to total vintage decreased from 867,2 hectolitres to 714,2 hectolitres. This trend was largely the result of the 1957 Control Act, which enabled new farmers, especially along the Olifants River and at Upington, to apply for quotas and which also limited the quantity of wine which could be produced on any one farm (cf. page 50). In 1964, the total production quota, i.e. the total amount of wine to be produced by all growers in that year, was increased by 50%. This expansion of production was to be spaced over the following five years and the figures for the number of growers and their average contribution in 1970 reflect the consequent growth of production. A further increase in the production quota in 1970 led to a further marked increase in the number of growers from 6 000 in 1970 to 9 400 in 1973. Further, average contribution to total vintage decreased in accordance with the quota regulations, so that the production structure established by the data tabled by the Wine Commission of 1937 can be seen to have remained unchanged, in terms of small producers accounting for the greater part of total annual vintage. The reasons for this trend could be diverse, but one explanation could be that legislation, which stabilised

TABLE 11Classification of Growers : 1936

Production Groups (1)	Number of growers in each group	% of total vintage
Under 600 hectolitres	2 091	73,7
600 - 1 150 "	459	16,1
1 150 - 1 750 "	198	7,0
1 750 - 2 300 "	46	1,6
2 300 - 2 900 "	24	0,9
2 900 - 4 000 "	9	)
4 000 - 6 000 "	10	) 0,7
Over 6 000 "	1	)
<b>TOTAL</b>	<b>2 838</b>	<b>100,0</b>

Note:

(1) The original figures were in leaguers - 100 to 1 000.

Source: "Report of the Wine Commission", 1937, V.G. No. 25 - 1937.  
Page 15, Table III.

prices, established a protective structure particularly favourable to the small producer. Unlike the trend in commerce, in general, the small wine-producer did not have to compete on the basis of price with other wine growers, or with giant concerns utilising economies of scale to cut costs and prices.

In general, South African wine farms tend to be highly individual in character, although there is an increasing trend for farmers to delegate the fermentation, processing, bottling and distribution of their products to private companies.

The total of 9 400 wine growers in 1973 included about 15 farmers categorised as Estate Wine producers and belonging to the Cape Estate

TABLE 12

Wine Growers and Crop : 1936 - 1973

Year	No. of Growers (Returns)	K.W.V. Members	Total Crop (hl) (1)	Average per Grower (hl)	Total Area Cultivated (hectares)	Value of Crop (R)
1936	2 838	4 486	1 434 714	479,0	-	-
1945	3 513	4 580	2 711 800	661,9	-	5 188 440
1955	3 700	4 673	3 581 042	867,2	61 540	12 063 776
1960	5 038	4 789	3 599 050	714,2	69 877	17 894 930
1970	6 000	4 923	4 184 211	697,4	100 049	34 259 656
1973	9 400	5 415	5 253 904	555,9	88 508	61 422 924

Note:

(1) This includes raisins and sultanas.

Source: Unpublished statistics, obtained from the K.W.V. in personal interview.

Wine Producers' Association. Wine of origin (cf. page 106) may be produced only by members of this Association who comply with the statutory requirements regarding fermentation, bottling and distribution.

As regards the fermentation, processing and bottling of other wine and spirits, there were 64 co-operative distilleries and wineries in 1973 which pressed and bottled wine from members' grapes. Most of the co-operative wineries sell their product in bulk to liquor wholesalers, while a few market their wines themselves.

In terms of income, taken from the value of crop and not including bonus payments of any kind, average per capita income has risen from R1 480 in 1945 to R6 534 in 1973<sup>(68)</sup> - which is not an excessive increase in nearly

(68) Figures calculated from Table 12.

thirty years, but one showing the success of the income stabilisation policy pursued by government through the operations of the K.W.V. as a control body.

#### 4. Contribution to Domestic Product

The economic development of the Cape and of South Africa, in general, during the seventeenth and eighteenth centuries was based on the expansion of agriculture, while commerce and industry followed at a much slower pace. The discovery of diamonds in Griqualand West in 1867 and of gold in the Transvaal in 1884, however, changed the structure of the South African economy into one where agriculture was of decreasing importance. The mineral discoveries of the late nineteenth century made South Africa one of the major investment areas of the world, in that of the total foreign capital of R2 444 million invested in Africa from 1870 to 1939, South Africa accounted for R1 246,032 million, i.e. 43%.<sup>(69)</sup> Urban centres grew, especially in the hinterland, and mining, commerce and industry expanded rapidly.

By 1912, agriculture, forestry and fishing together accounted for only 17% of the net domestic product. Mining, commerce and manufacture totalled 48%, while the remaining 35% was made up of transport, finance and services. Rapid economic development, especially after 1945, resulted in the agricultural sector contributing an ever-decreasing share to domestic product, as can be seen from Table 13. By 1973, industry and commerce constituted the most important sectors of the economy, while the increase in the relative share of mining was due to the expansion of mining activity in response to rising world gold prices.

The relative insignificance of viticulture in terms of domestic product can be seen from the fact that, in 1971, viticulture contributed only 2% to the overall value of agricultural production, i.e. only 0,18% of the gross domestic product of that year.<sup>(70)</sup> On a regional basis, agriculture

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(69) S.H. Frankel, "Capital Investment in Africa" (O.U.P., London, 1938), page 27.

(70) "Long Term Development of the Western Cape", NDMF, May 1973, Cape Town, page 31.

TABLE 13

Relative Sector Contribution to G.D.P. : 1912 - 1973  
(as a percentage)

Sector	1912	1937	1955	1960	1963	1968	1970	1973
Agriculture	17,0	14,0	12,7	12,9	12,1	10,0	8,8	7,8
Mining	)	)	14,2	14,0	12,7	11,4	10,4	13,4
Industry	) 48,0	) 64,0	23,8	24,3	27,4	29,3	31,3	40,7
Services	35,0	22,0	49,3	49,9	47,8	49,3	49,5	38,1

Source: Figures adapted from "Statistical Survey" 1973/74  
W.P.B. - 1974, page 7.

contributed 10,6% of the net domestic product of the Western Cape in 1955 and 9,7% in 1960.<sup>(70)</sup> The importance of viticulture lies in its dominant position in the agriculture of the Western Cape. This was emphasised in 1937 by the Wine Commission, while in 1964 the Natural Resources Board noted that viticulture made a larger contribution to the total farming income of the area than other branches of agriculture, despite the fact that field husbandry crops covered 89% of the cultivated soil and vineyards only 6%.<sup>(71)</sup> According to information supplied by the Minister of Agriculture in 1972, viticulture contributed about 46% of total farming income in the Western Cape.

An indication of the importance of viticulture in the Cape in terms of income and capital investment is given by the last column of Table 12 which shows income earned from the sale of "good" and distilling wine. This income totalled R17,89 million in 1960 and grew to R61,4 million in 1973, i.e. an increase of 248% in thirteen years. This increase was matched by an increase in the number of growers (from 5 038 in 1960 to

(70) "Long Term Development of the Western Cape", NDMF, May 1973, Cape Town, op. cit., page 31.

(71) "Regional Survey of the Western Cape", Natural Resources Board, September 1964, para 4.3.4.

about 9 400 in 1973), however, so that actual gross average income per producer increased by 84% during this period.

Total viticultural income in 1970 was R34,2 million, while capital investment at primary producer level totalled R169 million.<sup>(72)</sup> By 1972, viticultural income increased by 66% to R56,8 million and capital investment to R267 million, i.e. by 58%

Further, South African wine products are a source of foreign exchange : the value of wine product exports has risen from R613 500 in 1938 to R5,605 million in 1973 (cf. Table 30).

Thus, in terms of both capital investment and income from viticulture, the wine industry represents a vital growth point in the economic life of the Western Cape.

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(72) G.R. de Bruyn, "Future Trends for Wines and Spirits". Paper presented at "A Seminar on the Effects of Britain's Entry into the Common Market on the South African Economy", September 1971, Johannesburg, page 46.

C H A P T E R V

THE DISTRIBUTION OF WINE PRODUCTS

So far, the aspect of supply has been considered in terms of wine production, the expansion of viticulture, the establishment of the K.W.V. as the statutory control body, and the effects of the imposition of a fixed price for "good" and distilling wine. The objective of price stabilisation was attained for wine farmers through protective legislation, while maintaining a high price for wine on the domestic market. Except for the last few years, when climatic conditions have reduced the supply of wine naturally, farmers have expanded production within a quota system designed to take the place of free market supply response to demand factors.

The next two chapters are concerned with the demand aspect. This chapter deals with the mechanics of the distribution of wine products and provides a background into which the domestic demand patterns, considered in Chapter VI, can be placed.

The most important factor governing the distribution of wine products on the local market is the system of licensing laid down by the Liquor Act (No. 30) of 1928. Attention is, therefore, given to the provisions of this Act, which cover all aspects of the sale of liquor in South Africa and which, through the licensing system, have contributed to the oligopolistic pattern of liquor distribution which has developed on the local market. The effect of lifting the prohibition of sale of liquor to Africans, following the recommendations of the Malan Commission, in 1960, will be considered, as well as the change in drinking habits advocated by that Commission. Lastly, brief attention will be given to the scope and effect of legislation concerning "Wines of Origin".

1. Licensing

Colonial legislation<sup>(73)</sup> laid down that any person trading in liquor was obliged to be licensed to do so, and also stipulated conditions of sale

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(73) The most important being the Liquor Licensing Act (No. 27) of 1882 in the Cape; the Liquor Amendment Act (No. 41) of 1909 in Natal; the Liquor Licensing Laws Further Amendment Act (No. 33) of 1909 in the Transvaal, and the Liquor Licensing Ordinance Act (No. 8) of 1903 (as amended by Acts (No. 10) of 1905 and (No. 10) of 1907) in the Orange Free State.

in the various provinces of South Africa. The Liquor Act (No. 30) of 1928 consolidated and amended all previous liquor legislation, prescribing the exact conditions under which liquor could be sold. The Act dealt with all phases of liquor consumption and distribution, such as licensing; the conditions under which, the days and hours during which, and the manner in which wines and spirits were to be sold and/or served; the prohibition of the sale of liquor to certain classes. It also provided for the establishment of local Licensing Boards, replacing those operating under Divisional Councils, to administer the Act as regards the issue of licences.

The licences to be granted, or renewed, under the 1928 Act were of two main types:

- (a) Off-consumption licences (i.e. licences for the sale of liquor to be consumed off the premises on which sold) which included wholesale liquor licences, brewers' licences, bottle store licences, and wine farmers' licences.
- (b) On-consumption licences (i.e. licences for the sale of liquor to be consumed on the premises where sold) which included licences for restaurants, hotels, bars, wine and malt houses, clubs and theatres or sports grounds. In addition, temporary licences were granted for the sale of liquor on special occasions and for late hours.

With the exception of temporary liquor licences, late hours occasional licences,<sup>(74)</sup> and wine farmers' licences, which were to be granted and issued by the magistrate of the district, all licences could be granted only by the local Licensing Boards and were issued by the Receiver of Revenue of the district. Every district was to have a Licensing Board consisting of the magistrate and four other members, appointed by the Governor-General. Two of the members had to be from local municipalities and, in the Cape Province, one of those two members was to be a member of a divisional council. Persons disqualified from membership by the 1928 Act included holders of, or applicants for liquor licences; brewers and distillers; any person making wines or spirits; any spouse, partner, agent or associate of the above.

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(74) This is a licence allowing the holder of a hotel, restaurant or club liquor licence to sell liquor later than the hours prescribed by the Act.

In terms of the organisation of the wine industry, the most important aspect of the 1928 Act was the limitation of the number of retail licences in any urban centre on the basis of population. Apart from the provision that bar licences were not to be granted, nor renewed, but replaced by hotel, wine and malt, or restaurant liquor licences by 1937, the Act also stipulated that no new liquor licences were to be granted for bottle stores, restaurants, hotels, clubs and wine and malt houses, if by such a grant the total number of licences (including bar licences) within the area of the urban local authority would:

- (a) be more than one for every two hundred voters in areas where there were less than five thousand parliamentary voters;
- (b) be more than one for every two hundred and fifty voters in areas with more than five thousand voters.

The Act also laid down that no new bottle store liquor licences were to be granted if by such a grant the total number of bottle store licences within the area exceeded one for every thousand parliamentary voters, and that no new restaurant liquor licences were to be granted within an urban area, unless the number of parliamentary voters in that area totalled four thousand or more. <sup>(75)</sup>

In 1937, when the existing <sup>(76)</sup> bar liquor licences had been either removed, or transferred into the prescribed hotel, restaurant or wine and malt licences, the total number of liquor licences in South Africa consisted of 235 wholesale licences, 2 483 retail licences, 341 temporary retail licences, and 4 brewers' licences. <sup>(77)</sup>

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(75) The Liquor Act (No. 30) of 1928, Chapter V.

(76) Except for eighteen bars which were especially exempted by legislation.

(77) Report No. 218 of the Board of Trade and Industries, 1937, para 8.

By 1971, the total number of licences was about 4 200,<sup>(78)</sup> and consisted of more retail outlets as a result of the Liquor Amendment Act (No. 88) of 1963 which extended the number of retail liquor outlets by allowing the sale of unfortified wines by private hotels, boarding houses, restaurants, and grocers. Grocers were eligible for a liquor licence if the volume of off-consumption sales of wine in their particular district could be proved to exceed 30% of the similar figure for all "strong" liquor.

The provisions concerning the limitation of retail licences in urban centres on the basis of population, however, remained unchanged and, although the main trend, after 1963, was an increase in the number of outlets for "light" liquor, the total number of licences granted from 1964 to 1971 increased by only 18,7% - from 3 536 to 4 200 (cf. Table 14). Wine and malt licences increased from 3% of the total in 1964 to 6,3% of the total in 1971; mealtime wine and malt licences from none to 23 (0,5% of the total); grocers' licences from none to 22 (0,5% of the total), and restaurant licences from 1,2% to 3,4% of the total. In absolute terms, however, the actual number of licences granted, in the period 1964-1971, for each of the above retail outlets, respectively, was 157; 23; 22 and 99, and the total number of licences of all types granted in the whole country increased by only 664 licences.

The effect of such licence limitation has been to confer almost a monopoly of liquor distribution on the retail licence holder in the area in which his licensed premise is situated and the value of such licensed premises has been greatly enhanced by the competition for their acquisition. In this competition, the larger wholesalers and/or distillers (who find control of retail liquor outlets the most effective way to advance the sales of their own particular products) can outbid smaller concerns and, having obtained possession of established licensed premises, can exclude the products of their competitors. The pattern of liquor distribution, therefore, has tended to develop on oligopolistic lines.

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(78) Consisting of 1 649 hotel licences, 263 wine and malt licences, 13 bar licences, 1 074 bottle store licences, 252 wholesale licences, 144 restaurant licences, 701 club licences, 39 theatre or sportsground licences, 23 mealtime only wine and malt licences, 22 grocers' wine licences and 20 brewers' licences.

TABLE 14

## South African Liquor Licences : 1964 - 1971

Liquor Licences (by type)	1964		1965		1966		1967		1968		1969		1970		1971	
	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total	Total	% of Total
Hotel <sup>(1)</sup>	1 469	41,5	1 494	41,0	1 514	40,7	1 530	40,7	1 555	40,4	1 571	39,9	1 624	39,8	1 649	39,3
Wine & Malt	106	3,0	115	3,2	122	3,3	138	3,7	160	4,1	187	4,7	223	5,5	263	6,3
Bar	13	0,4	13	0,4	13	0,3	13	0,3	13	0,3	13	0,3	13	0,3	13	0,3
Bottle Store	1 059	30,0	1 062	29,1	1 066	28,7	1 068	28,4	1 070	27,8	1 071	27,2	1 072	26,3	1 074	25,6
Wholesale	222	6,3	229	6,3	230	6,2	232	6,2	236	6,1	244	6,2	246	6,0	252	6,0
Restaurant	45	1,2	70	1,9	82	2,2	91	2,4	102	2,6	111	2,8	127	3,1	144	3,4
Club	586	16,6	606	16,6	622	16,7	615	16,4	638	16,6	660	16,7	681	16,8	701	16,7
Theatre or Sportsground	31	0,9	32	0,9	32	0,9	32	0,9	33	0,9	37	1,0	38	0,9	39	0,9
Mealtime Wine & Malt	-	-	12	0,3	17	0,5	17	0,4	18	0,5	20	0,5	22	0,5	23	0,5
Grocers	-	-	3	0,1	7	0,2	9	0,2	11	0,3	13	0,3	17	0,4	22	0,5
Brewers	5	0,1	8	0,2	12	0,3	14	0,4	16	0,4	17	0,4	18	0,4	20	0,5
<b>TOTAL</b>	<b>3 536</b>	<b>100,0</b>	<b>3 644</b>	<b>100,0</b>	<b>3 717</b>	<b>100,0</b>	<b>3 759</b>	<b>100,0</b>	<b>3 852</b>	<b>100,0</b>	<b>3 944</b>	<b>100,0</b>	<b>4 081</b>	<b>100,0</b>	<b>4 200</b>	<b>100,0</b>

Note: (1) The increase in the number of hotel licences from 1965 is due to the introduction of the hotel grading system in that year.

Source: National Liquor Board, quoted in "A Survey of the Liquor Industry in South Africa", No. 7, July 1972, page 120.

2. The sale of liquor to Africans

(i) Introduction

Before the Cape Colony obtained self-government, its liquor legislation was regulated solely by the interests of outsiders and was designed to regulate the retail trade in spirits and wine. Later, legislation was broadened to exact from the growing wine industry some return for the security and help it received from a stable government and the protection accorded by authority. Ordinance 9 of 1851 repealed all previous liquor legislation and laid down a new set of rules and regulations which were merely modifications of the old ones and showed no intent to impose severe restrictions on the liquor trade or on the wine industry.

By the late nineteenth century, the Temperance Movement in the Cape began to agitate for prohibition for the "natives", attacked the "tot" system on the Cape farms and demanded stringent new legislation. Although this was an unfamiliar idea in the Cape, as early as 1856 the Orange Free State had introduced a colour bar in drinking <sup>(79)</sup> by prohibiting the sale to, or consumption of, wine by "non-Europeans". Even the gift of a glass of wine to a "non-European" was forbidden and drunkenness was made a crime. This Ordinance was amended in 1880 and 1883, but Clause 25 was left unaltered. The Cape did not pass similar legislation, but, in 1865, the Incorporation of Kaffraria Act fixed severe restrictions on the granting of liquor licences as far as the new Native Territories were concerned.

A clause was inserted in the Liquor Licensing Act of 1883 (No. 28 - Cape) forbidding the granting of a liquor licence in any native location, or area defined by the Governor, within which no liquor licence was to be granted, or liquor supplied to any aboriginal native. With Union in 1910, the Cape had to conform with the northern provinces and legislation affecting the African and Coloured peoples became increasingly restrictive. Certain old Cape laws were repealed to achieve this objective. <sup>(80)</sup> Finally,

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(79) Clause 25 of Ordinance 10 of 1856.

(80) Pure Natural Wines Facilities Act of 1907; Light Wines Licences Act of 1908; Sale of Pure Natural Wines Amendment Act of 1909.

the consolidated Liquor Act (No. 30) of 1928 (as amended by the Liquor Act Amendment Act of 1934) repealed nearly all liquor legislation previously existing in all the four provinces. Clause 94 of this Act states: "Save as is otherwise specially provided by this Act, no person shall supply or deliver any liquor to any native, and no native shall obtain, or be in possession of, any liquor".<sup>(81)</sup> In the Transvaal and Orange Free State, this prohibition was extended to the Coloured and Asiatic peoples and, in Natal, to the Asiatic population. In the Cape, farmers were permitted to give their African, Coloured or Asiatic labourers (those who were male and over twenty-one) 1½ pints of wine or Kaffir beer a day. The Native Territories were made prohibited areas by the Transkeian Territories Liquor Law of 1933, which stated that no liquor could be supplied to "prohibited persons" - these being any persons other than Europeans.

(ii) The effects of the 1928 Liquor Act

The 1928 Liquor Act prohibited the sale of liquor to Africans and prescribed the restrictions under which Coloureds and Asiatics were permitted to, or prohibited from, obtaining liquor supplies. In the Transvaal and Orange Free State, total liquor prohibition was applicable to Coloureds and Asiatics, as well as Africans. In Natal, Asiatics and Coloureds were permitted to obtain liquor only for consumption on premises licensed under the 1928 Act and were prohibited from buying, or being in possession of, liquor off such premises. In the Cape, Coloured people were permitted to buy liquor both for on- and off-consumption, subject only to certain quantity restrictions.<sup>(82)</sup>

The Act made provision for exemption from prohibition,<sup>(83)</sup> but the conditions for such exemption were so stringent (including ministerial approval, as well as quantity and locational restrictions), that few permits were issued. As could be expected, an illicit liquor trade developed. Although the Wine

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(81) Clause 94 of the Liquor Act (No. 30) of 1928.

(82) Liquor Act (No. 30) of 1928, Chapter IX, Sec. 94 & 95.

(83) Ibid., Sec. /C/101.

Commission of 1937 had recommended that a special investigation be made of the advisability of liquor distribution to Africans, this was not done until 1956, when the Malan "Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor" considered the advisability and consequences of a freer supply of liquor to the African, Asian and Coloured peoples.

The findings of the Commission emphasised the existence of a large and expanding illicit trade in liquor, as a result of the fact that Whites had legal access to all alcoholic beverages, while Africans were subject to total prohibition and the Coloured and Asian peoples were subject to differing provincial regulations. In the Transkei, for example, the illicit liquor trade accounted for up to 60% of overall liquor sales. The 1928 Liquor Act had made illicit trading in liquor highly profitable and the Commission found that, in fact, every racial group was involved in it, both separately and jointly.

During 1956, Africans were responsible for 76,5% of all offences under the Liquor Act and for 96% of the offences regarding the illegal possession of liquor. In contrast, Coloured people accounted for 18% of all liquor offences and Asiatics and Whites together for 6,5%. The two major contraventions of the Liquor Act were illegal possession of liquor and drunkenness and all persons submitting evidence to the Commission stressed that as far as the latter was concerned, the Liquor Act should not be associated with the number of distribution points, but rather with the conditions prevalent at such liquor outlets. This opinion was endorsed by the Commission, which came to the conclusion that the abuse of liquor was far more important an issue than the acquisition of liquor. Thus, it recommended a freer distribution of liquor to the African, Coloured and Asian peoples, with the objective of reducing liquor abuse by eliminating the illicit liquor trade and by making natural beverages available under controlled conditions.

The recommendations of the Commission regarding the lifting of prohibition will be examined in detail, as they were all embodied in

legislation contained under Section 100 of the Liquor Amendment Act (No. 89) of 1962. The current de facto position concerning the sale of liquor to Africans, as well as to the Coloured and Asian peoples, was established by the following recommendations that:

- (a) Natural wines and beer be supplied to Africans for on-consumption by local authorities in beer halls located in African residential areas.
- (b) The distribution of liquor should take place from a central beer hall with various distribution points, which should number at least one per 500 families to prevent the concentration of crowds.
- (c) The revenue from liquor sales should be used for the provision of facilities in beer halls.
- (d) The distribution of liquor for off-consumption by Africans should be carried out by a more extensive permit system, than existent, and should include all types of liquor.
- (e) In the Transvaal and Orange Free State, Coloureds be allowed to purchase liquor for on-consumption in their own areas and to erect their own hotels in these areas, but be allowed to obtain liquor for off-consumption only under the permit system.
- (f) The provisions of the 1928 Liquor Act regarding Coloureds in the Cape and Natal remain unaltered in respect of liquor purchase for on- and off-consumption.
- (g) The hours and days for liquor purchase by Coloureds for on- and off-consumption should be the same as those for Whites.
- (h) Liquor should be supplied to Asiatics for on-consumption in approved hotels and for off-consumption by permit.

- (i) Liquor should be supplied to Chinese for on- and off-consumption and they should be regarded as White for the purposes of the Liquor Act.

Local authorities were made responsible for the provision of municipal drinking places for Africans, while the Coloured and Asiatic peoples were permitted access to liquor in all provinces, subject to the provisions of the Group Areas Act (No. 77) of 1957.

For the wine industry, the most important effect of the lifting of prohibition of the sale of liquor to non-White racial groups was that the size of the (legal) local market was greatly increased. The existence, however, of illegal sources of liquor meant that African/Coloured demand was, to some extent, reflected in pre-1962 consumption figures. For this reason, although demand rose rapidly after 1962, consumption figures do not show as sharp an increase as could be expected (cf. Table 22). A more accurate indication of the importance of the previously-excluded racial groups is given by the fact that quotas were raised in 1964 and 1970 to match supply with increasing demand. Although racial consumption patterns are discussed, in detail, in the next Chapter, it is significant to note that, by 1970, Africans and Coloureds accounted for more than 70% of total wine sales, 27% of total brandy sales and 45% of the total amount of gin and vodka sold in South Africa in that year <sup>(84)</sup> (cf. Table 24). The removal of racial liquor consumption restrictions, therefore, allowed domestic demand for vine products to attain its true level within the existing market structure.

### 3. The change in drinking habits

Domestic demand for South African vine products was further affected in the 1960's by official encouragement of a change in national

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(84) "A Survey of the Liquor Industry in South Africa", No. 7, July 1972, pages 31 - 95.

drinking habits. The investigations and findings of the Malan Commission<sup>(85)</sup> led it to the conclusion that liquor abuse occurred, amongst the White population of South Africa, because there was a marked consumer preference for strong liquor. A study of liquor consumption in Europe, North America, Australia and New Zealand revealed that, with the exception of Norway and Holland, South Africa had the lowest per capita consumption of light wines and beer. In contrast, South African per capita consumption of spirits was higher than that in any other country considered.<sup>(86)</sup> Table 15 shows per capita wine, beer and spirit consumption in the countries studied by the Commission in its attempt to isolate the causes of liquor abuse in South Africa.

The Commission found that the liquor industry placed too much emphasis on the production, sale and consumption of strong liquor. Owing to the low alcohol content of natural beverages, these were less harmful to the human system and, thus, less open to abuse, so that it was sound practice to encourage their consumption at the expense of strong liquor. It also concluded that liquor abuse occurred particularly at places where its consumption was not associated with that of food and that where there were meals served, as in hotels and restaurants, it was seldom, if ever abused.

According to the Commission, the promotion of new drinking habits could be effected, firstly, by making natural beverages more readily available, i.e. by allowing their sale by hotels, shops and restaurants - channels of distribution which provided other than liquor services to the public. Secondly, the change in drinking habits would be expedited by ensuring that the prices of natural beverages were much lower than those of strong liquor. The Commission was of the opinion that the cheapest natural wine should never cost more, per bottle, than a quarter of the price of strong liquor.<sup>(87)</sup> Further, it was argued that a greater demand for natural beverages would bring down the price of wine as a larger and more dynamic demand might induce greater competition amongst wine-growers.<sup>(88)</sup>

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(85) The Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor.

(86) "Report of the Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor" 1960. V.G. No. 55 - 1960, page 13.

(87) Report of the Malan Commission, op. cit., page 13, para 113(b).

(88) Ibid., para 113(b).

TABLE 15

Liquor Consumption per Capita - 1958 (in litres)<sup>(1)</sup>

Country	Beer	Wine	Spirits
France	22,7	140,9	3,6
Italy	3,6	100,0	2,0
Australia	110,0	5,4	1,8
Belgium	140,9	6,8	1,1
Switzerland	47,2	34,1	3,2
<u>South Africa</u>	<u>16,8</u>	<u>16,6</u>	<u>7,7</u>
West Germany	65,9	8,2	3,9
New Zealand	100,0	5,0	2,1
U.S.A.	59,0	3,4	4,8
Sweden	39,5	2,2	6,8
United Kingdom	79,1	1,5	1,8
Canada	59,0	1,6	3,2
Norway	20,0	1,0	6,8
Denmark	66,3	2,8	1,1
Netherlands	16,8	1,4	2,6

Note:

(1) The original figures were in gallons.

Source: "Report of the Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor", V.G. No. 55 - 1960, page 13.

On this point, however, it may be argued that a more effective way of bringing down retail prices would be a decrease in excise duty on wine, malt and beer.

Thus, the Malan Commission considered that liquor consumption should be associated with food and that legislation controlling liquor distribution should facilitate this, as well as encouraging a change in drinking habits through the promotion of natural beverages. It made recommendations to this effect and submitted its report in April 1960.

The Liquor Further Amendment Act (No. 88) of 1963, gave legal effect to the following recommendations of the Malan Commission and, thereby, to the encouragement of new drinking habits:

- (a) Hotels complying with certain conditions may sell liquor for off-consumption.
- (b) All standing bars must disappear and wine and malt houses must serve meals during meal-times.
- (c) Restaurants, cafes and private hotels, complying with certain conditions, may be allowed to serve natural wines and beer during meal hours.
- (d) No restrictions are to be placed on wholesalers selling direct to the public.
- (e) Grocery shops, in urban areas, must be allowed to sell natural wines and beer.
- (f) Liquor Licensing Boards should authorise the establishment of depots and other places where liquor can be stored.
- (g) The keeping of compulsory stocks must be extended to include South African beer.
- (h) Wine-growers and manufacturers may extend financial assistance to one another, provided that their interest in the retail trade are not extended.

- (i) Late hours occasional licences may be issued three times per week and hours extended to 2.00 a.m., except on Saturdays. (The 1928 Act prescribed 12.00 a.m.).
- (j) Renewal of existing licences takes place automatically and the Licensing Boards consider renewals only if objections are lodged against continued granting.

Although the intention of the 1963 Act was to make light wines and beers more readily available, no amendment was made to the licence limitation on the basis of population, so that the total number of licences granted to hotels, wine and malt houses, restaurants, clubs and grocers, from 1964 to 1971, was only 627 (cf. Table 14). The objective of encouraging the association of food with liquor consumption, however, was promoted in that the 627 new licences granted to hotels, etc. constituted 92% of the total number of licences granted in the period 1964 - 1971. The first grocery licences were granted by Licensing Boards in 1966 and by 1971 a total of 22 grocers' licences were granted - mainly to selected branches of large chain store organisations (e.g.) O.K. Bazaars Ltd., Food Town (Pty) Ltd., and Fontana Ltd.). The low proportion of grocers' licences is due to the reluctance of small and medium-sized concerns to apply for wine licences, as the costs of complying with Licensing Board conditions, concerning quantity and variety of stock and space, are too high in relation to the profits on wine sales. Another limiting factor is the restriction of grocers' licences on the basis of consumption.

Despite limiting restrictions, domestic demand for light wines and beer grew rapidly in the 1960's and 1970's, as can be seen from the consumption figures for this period in Table 22. Wine consumption, in particular, shows a significant rise after 1962/3 and this can reasonably be attributed to the joint effects of easing wine distribution through the 1963 Act and of lifting the prohibition of the sale of liquor to Africans, Coloureds and Asiatics through the 1962 Liquor Act.

#### 4. The Oligopolistic Pattern of Distribution

Two trends are, therefore, discernable in recent liquor legislation: the desire to increase retail outlets, while at the same time

discouraging liquor abuse by linking these outlets to places where food is sold. Successive liquor legislation, however, inadvertently encouraged another development - that of the growth of a few large concerns controlling the domestic distribution of liquor. The 1905 Committee had cautioned that, under the existing licensing system, the liquor trade might eventually be controlled by a few giants<sup>(89)</sup> and, by 1975, this prediction had become fact.

Subject to the provisions of the 1928 and 1962 Liquor Acts, the distribution of wine and spirits on the local market is in the hands of wholesale and retail merchants, who also distribute imported liquor and beer and are known, collectively, as "the liquor trade". The chain of distribution goes from the producer to the co-operatives, or the K.W.V., which sell wine products to wholesale merchants who, in turn, supply the retail liquor outlets which consist of bottle stores and hotels (including hotel off-sales and bars), from whom the consumer buys his requirements.

Wholesalers obtain their supply mainly from co-operatives, which are preferred suppliers (as they provide large quantities of uniform quality wine from a single source) and, to a lesser extent, directly from wine farms. There are two distinct types of wholesalers, viz. the manufacturing wholesalers and the purely distributing wholesalers. The former buy wines and spirits and distill spirits, blend and mature liquor and dispose of their products to the distributing wholesalers as well as to the retail trade. Distributing wholesalers, who do not possess facilities for distillation, generally acquire their supplies, in a processed form, from the K.W.V. and then sell to the retail merchants. In terms of the 1940 Control Act, all wine merchants have the right to demand certain supplies from the K.W.V., which is obliged not to discriminate between buyers as regards the price and supply of its products. Every wine merchant is, therefore, entitled to receive supplies from the K.W.V., irrespective of his size, standing, manner of operation, or methods of marketing - provided only that he qualifies for such supplies as a wholesaler by buying at least the stipulated minimum legal quantity.

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(89) Report of the 1905 Committee, op. cit., page 7.

(i) The wholesalers

In the late nineteenth century, there were five main distilling wholesalers operating in the Western Cape: Collinsons, established in 1830; Van Ryns, established in 1875; E.K. Greens, formed in 1842; Sedgwick & Co., formed in 1859; Santhagens, making brandy at Oude Molen in 1909. Collinsons and Van Ryns amalgamated in 1878 and then sold out to the Castle Wine and Brandy Co. in the early part of the twentieth century.

In 1937, there were 20 manufacturing wholesalers altogether, of whom six produced only wine and drew their spirit supplies from the K.W.V. or from other manufacturers. The remaining 14 were also distillers, but the majority produced spirits for their own requirements only, or for particular wholesalers, so that the distributing wholesalers and the non-distilling manufacturers were largely dependent on four large distillers for their brandy and spirit supplies.

Of the 68 distribution wholesale merchants functioning in 1937, only 31 operated as independent firms; 31 licences were held by the 16 manufacturing wholesalers and seven by firms dealing almost exclusively in imported liquor. The four large distillers, on whom the wholesalers relied for brandy and spirit supplies, were the Castle Wine & Brandy Company Ltd., E.K. Green & Company Ltd., J. Sedgwick & Company Ltd., and R. Santhagens, who were generally known in the liquor trade as "merchant distillers". Castle Wine & Brandy and E.K. Green amalgamated their interests in 1934 by forming a holding company called South African Distilleries (London) Ltd. Thus, after 1934 there were in effect only three important competing merchant distillers. On the basis of selling values in 1936, 57,5% of the wholesale trade was held by South African Distilleries, 22,5% by J. Sedgwick & Company, and 20% by R. Santhagens, together with the 13 other smaller firms. <sup>(90)</sup>

By 1975, the number of wholesalers had increased to 252, of whom 214 were distributing wholesalers and 38 were manufacturing wholesalers. As in 1937, only four of the 38 possess facilities for distillation and maturation. All the others are either subsidiaries of the four, or they obtain their brandy and spirit supplies from them, or from the K.W.V.

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(90) Report of the Board of Trade and Industries, No. 218, 1937, op. cit., para 12.

- (a) South African Distilleries (London) Ltd. and Oude Meester Cellars Ltd. amalgamated partially in 1969, when Distillers disposed of its wholesale and manufacturing interests to Oude Meester (though it retained its retail liquor interests) and acquired a 50% interest in Oude Meester (while the Rembrandt Group holds a 50% interest in Distillers and, thus, in Oude Meester). All Oude Meester funds are invested in the liquor industry, i.e. 84% of the capital was invested in production and wholesaling and 16% in the retail trade in 1972. As the company also controls Roadside Hotels Ltd., it operates both as a hotel and bottle store owner and as a liquor producer. Through the merger between Oude Meester and Distillers, the latter controls the marketing and production of the two organisations, while Western Province Cellars Ltd., a subsidiary of Distillers, controls the operation of the organisation's 213 bottle stores and 21 hotels.<sup>(91)</sup>
- (b) S.A. Breweries - Stelbos  
Sedgwick Taylor Ltd merged with Stellenbosch Wine Trust Ltd. in 1970 and, through this merger, the latter acquired a 50% interest in John Dwyer Holdings Ltd. Stellenbosch Wine Trust and its subsidiary manufacturing wholesalers (Stellenbosch Farmers' Winery Ltd., Monis of Paarl Ltd., National Distillers Ltd., Stellenbosch Farmers' Wine Trust Ltd., Stellenbosch Wine Farmers Ltd. and Nederberg Estates (Pty) Ltd.) had originally concentrated on the processing and marketing of natural wines, but the merger with Sedgwicks (whose major activity is the production and marketing of spirituous liquor) broadened the product base of the company by significant participation in the spirit industry.

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(91) A Survey of the Liquor Industry - Supplement to the Financial Mail, 28th November, 1975, page 16.

The merger also added 61 retail outlets to those already owned and/or controlled by the Company. These were developed as "self-service" bottle stores under the name "Wineland Liquor Stores".<sup>(92)</sup> In 1975, S.A. Breweries took over Stellenbosch Wine Trust, forming S.A. Breweries - Stelbos.

- (c) Robertson Distillers & Distributors Ltd. is a holding company whose subsidiaries include The Stag Brewery Ltd. and Union Wine and Spirit Corporation Ltd. The brewing activities of Stag Brewery were halted in 1968 when the Robertson Group took over management, but the company operates 29 bottle stores and three hotel companies. Union Wine and Spirit Corporation owns retail and wholesale liquor licences and licensed hotels, and is a subsidiary of the Jan Pickard Group of Companies, so that Robertson Distillers is also part of the Pickard Group. Picardi Investments controls 28 hotels and 27 bottle stores.<sup>(93)</sup>
- (d) Gilbeys (S.A.) Ltd. took over R. Santhagens Ltd., thereby extending its operations from spirit distillation to include the processing, maturation and marketing of wines. It has a 50% interest in 44 bottle stores, 18 hotels and 14 wholesale licences and owns one bottle store and three hotels.<sup>(93)</sup>

These four merchant distillers dominate the liquor trade in that Distillers and Oude Meester hold 49,2% of the market; Stellenbosch Wine Trust holds 36,7%; the Jan Pickard Group 4,9%, and Gilbeys 1,2%, while all other wholesalers together account for only 8,0%. Stellenbosch Wine Trust controls 70% of the market for wines and Oude Meester the same percentage of the market for brandy.<sup>(94)</sup>

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- (92) "Wineland Liquor Stores" form part of the Solly Kramer Group, which is controlled by Stellenbosch Wine Trust Ltd. and South African Breweries. In October 1974, the management of these bottle stores was taken over by the Kramer group and the name changed accordingly.
- (93) A Survey of the Liquor Industry - Supplement to the Financial Mail, op. cit. page 15.
- (94) Data supplied by Stellenbosch Farmers Winery Ltd. and Oude Meester Cellars Ltd. in personal interview.

(ii) Breweries

Although the brewing industry is not, in itself, under consideration, it exerts a great deal of influence over the retail distribution of liquor through its ownership of retail outlets. In 1956, A. Ohlsson's Cape Breweries Ltd. and Union Breweries Ltd. merged their interests to form The South African Breweries Ltd., which, apart from its brewing activities, is the largest hotel operator in South Africa (Southern Sun Hotels) and controls Stellenbosch Wine Trust Ltd. This involves South African Breweries in the distribution of wines and spirits as well as in that of beer.

The wholesale section of the South African liquor trade is, thus, dominated by a few large concerns. The limitation of retail licences, according to the regulations of the 1928 Liquor Act, resulted in competition among these few, as regards the disposal of their products, not on the basis of price-cutting, but through acquisition of retail distribution channels.

(iii) The retail trade

The most important aspect of the retail liquor trade is the influence exerted on it by the breweries and large merchant distillers who either own, or control, a large percentage of the retail outlets. Either these outlets were bought outright, or control was obtained by virtue of "ties" through the advancing of money to the licensee.

Such "ties" were established before 1956 by letting, or sub-letting, owned or leased licensed premises to the lessee on a lease or sub-lease; or by advancing money in the form of loans to a prospective or existing licence-holder for purposes of acquiring or improving the licensed premises. The large wholesalers or breweries so ensured retail outlets for their products. The conditions imposed on a "tied-house" were described by the 1937 Board of Trade and Industries Report on the restraint of trade in the distribution of liquor as follows:

"..... The provisions of the tie agreements vary, but as a rule, it is stipulated that a fixed percentage of a retailer's sales must consist of brands supplied by the holder of the tie, or that the retail dealer must order all his requirements through the tie-holder. In the latter case, the retailer can purchase any brand of liquor, but the fact that all orders have to be placed through the tie-holder appears to be sufficient guarantee that the particular brands supplied by the latter will constitute the bulk of the retailer's sales ....."<sup>(95)</sup>

The extent of wholesale and/or brewery control in 1937 was estimated by the Board of Trade and Industries as covering more than 50% of all bottle stores (either owned or "tied") and 46,4% of all licensed hotels.<sup>(96)</sup> Since the 1928 Liquor Act precluded a wine merchant from tying a licensee for beer and a brewery from tying for wine and spirits, ties were generally held by either a brewer or a wine merchant, but, in some cases, joint ties were held. The observed trend was that the breweries concentrated more on hotels, while the wine merchants favoured bottle stores as regards "tying". The importance of control over these two retail liquor outlets lay in the fact that, together they constituted 78,6% of all retail licences (in 1937).<sup>(97)</sup>

The Board of Trade and Industries also found that the brewers were more exacting than the wine merchants in enforcing "tie" conditions, so that it was common to find the complete exclusion of competing brands in brewery-held ties. As a consequence of these findings, the 1937 Wine Commission, which operated in co-operation with the Board of Trade and Industries (cf. page 39), condemned the "tied-house" system as being conducive to monopoly control of the liquor trade and recommended that:<sup>(98)</sup>

- (a) Wholesalers and breweries should not be allowed to tie the retailer for more than 65% of his turnover in any particular class of liquor.

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(95) Report No. 218 of the Board of Trade and Industries, 1937, op.cit, page 32.

(96) Report of the 1937 Commission, op. cit., page 27, para 126/7.

(97) Ibid., page 26 para 119. (98) Ibid., page 94, para 505.

- (b) Irrespective of ownership, it should be compulsory for the holder of a retail licence to stock the leading lines of all bona fide wholesale merchants.

These recommendations concerning the "tied-house" system were not given legislative effect for twenty years, until the Liquor Further Amendment Act (No. 61) of 1956 prescribed the abolition of all existing "tied-houses" within six years and forbade the mutual negotiation of licences by breweries and wholesalers.<sup>(99)</sup> The 1956 Liquor Act was the direct consequence of the general disapproval of, and dissatisfaction with, existing legislation, especially as regards the Liquor Boards and the "tied-house" system. This had led to the appointment of a Commission of Inquiry, under the chairmanship of Dr A.I. Malan in 1955, which recommended the amendment of the 1928 Liquor Act. In September 1956, the same members of the 1955 Commission were appointed to a new Commission to inquire into and report on the general distribution and selling price of intoxicating liquor. This Commission was, again, chaired by Dr A.I. Malan<sup>(100)</sup> and made its report in April 1960.

Apart from investigating the general distribution and selling price of liquor, the second Commission was instructed that, if further amendments to the 1956 Liquor Act were necessary, these were to be given priority as, prior to the coming into operation of the Act, Union Breweries Ltd., South African Breweries Ltd. and Ohlsson's Cape Breweries Ltd. had amalgamated, thereby causing a postponement in the application of Section 42 of the 1956 Act (which forbade mutual negotiation of licences). This postponement was initially allowed because the amalgamation had taken place prior to the enactment of the 1956 Act and, in terms of the conditions of the amalgamation the three breweries were to transfer some of their retail licences for bottle stores

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(99) This was in keeping with the terms of the Monopolies Act of 1955.

(100) Members of the "Malan Commission" were F.J.C. Cronje, M.P.; P.J. du Plessis; P.E. Loubser; J. de Villiers Louw; H.A. Rust, M.P.; F.W. Waring and P.J. Vermeulen (Secretary).

and wine and malt houses from one company to another. As further amendments to the 1956 Act were under consideration, the Brewers' Institute made strong representations to the Malan Commission to allow an amended form of "tied - houses" in the hotel trade on the grounds that if ties were abolished, loans to hotel owners by the wholesale trade would cease and this source of capital would disappear, to the detriment of the hotel trade.

The Commission gave priority to its additional terms of reference, namely amendments to the 1956 Liquor Act, and, on the basis of its findings, recommended that:

- (a) The three companies: South African Breweries Ltd., Union Breweries Ltd. and Ohlsson's Cape Breweries Ltd., should, for purposes of mutual transfer of licences, be regarded as one company.
- (b) All tied-houses, except those that existed before 4th May, 1956, remain illegal (as declared by the 1956 Act) and existing tied-houses be abolished within six years, according to the provisions of the 1956 Act.
- (c) The acquisition of financial interests in the wholesale liquor trade by the retail trade should be as stringently prohibited as the reverse. This was felt necessary as nothing in existing legislation prevented anyone from first acquiring an interest in the retail trade and then becoming a shareholder in the wholesale trade.

These recommendations were embodied in legislation contained in the Liquor Further Amendment Act (No. 58) of 1957, the provisions of which were intended to check the tendency towards oligopolistic control of liquor distribution.

Neither the 1956, nor the 1957 Liquor Acts, however, amended the provisions of the 1928 Liquor Act as regards the limitation of licences in urban centres on the basis of population. Further, they did not prevent the distilling merchants and breweries (being prohibited from "tying" retail licences) from acquiring control of

retail outlets through outright ownership (cf. pages 98 - 100). Despite statutory prohibition of tying, it has been estimated by the K.W.V. that there are currently about 400 de facto "tied-houses", of which Distillers/Oude Meester control about 160; Stellenbosch Wine Trust 140; the Jan Pickard Group 60, and Gilbey's 40.

As regards hotels and bottle stores which in 1971 constituted 65% of all retail liquor licences (cf. Table 14), the bottle store trade is dominated by two large bottle store "chains" - the Solly Kramer Group and Western Province Cellars Ltd., both of which are subsidiaries of the large merchant distillers. South African Breweries Ltd. is the largest hotel operator in South Africa (through Southern Sun Hotels), while Distillers/Oude Meester and Robertson's Distillers also own and operate hotels. Hotel liquor licences have become increasingly valuable, in terms of revenue, as hotel liquor sales account for about 40% of total national liquor sales.<sup>(101)</sup> This is shown in Table 16, which also emphasises the importance of hotel off-sale outlets. These outlets, in fact, often constitute separate bottle stores at places far removed from the hotel. As a result of the hotel grading system, introduced in 1965, the capital needs of hotels have increased markedly, with the result that large hotel chains possess a far stronger competitive position.

It follows, therefore, that under the present system of liquor distribution, small independent hotels and bottle stores operate under a strong disadvantage. Their small scale of operation precludes bulk-buying and the availability of long-term credit, and this limits their scope for price competition and consumer services relative to retail outlets controlled by the large merchant distillers and breweries. In this regard, the change from traditional methods of display and promotion to contemporary "self-service" techniques, with improved layouts and varieties of stock, also plays a major role. As in most other branches of

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(101) "A Survey of the Liquor Industry in South Africa", op. cit., page 123.

TABLE 16

Liquor Sales by Licensed Hotels 1964 - 1970

(R)

Year	Bar Takings	Off-sales	Total Hotel Sales	Total <sup>(1)</sup> National Sales	Hotel share of Total
1964	49 779 000	34 747 000	84 526 000	-	-
1965	53 330 000	39 089 000	92 419 000	-	-
1966	54 995 000	44 049 000	99 044 000	240 m.	41,3 %
1967	58 269 000	50 966 000	109 235 000	270 m.	40,5 %
1968	58 170 000	59 167 000	117 337 000	304 m.	38,6 %
1969	61 111 000	69 901 000	131 012 000	333 m.	39,3 %
1970	66 248 000	82 952 000	149 200 000	389 m.	38,4 %

Note:

(1) These figures exclude Bantu Beer.

Source: "A Survey of the Liquor Industry in South Africa", No. 7, July 1972, page 123.

retailing, it is doubtful that the small "independents" will be able to compete with the horizontally and vertically-integrated distribution oligopolies in the long-run, although there are currently a few successful "independents", such as "Landsdowne" in Claremont.

(iv) The importers

Liquor imports accounted for R7,6 million, or 1,9%, of total liquor sales in South Africa in 1970, and whisky constituted the major single liquor import.

Two important importing organisations exist which promote and regulate the sale of imported liquor in South Africa - The Whisky Shippers' Association and the South African Federated Wholesale Wine and Spirit Merchants' Association.

The Whisky Shippers Association was formed in 1921 with the purpose of promoting the interests of the overseas distillers and to regulate the whisky trade in South Africa by control of whisky distribution. To effect this control, the Whisky Shippers' Association and the South African Federated Wholesale Wine and Spirit Merchants' Association (formed in 1922 through the federation of the six existing wholesalers' associations) compiled an "Importers' List" which restricted the importation of the brand lines of whisky manufactured by the Whisky Shippers Association to listed merchants only. To be placed on the list, a wholesale merchant must be approved by both Associations which grant or refuse applications for admission.

The main function of the Federation is the regulation of competition amongst its members and the fixing of wholesale prices for imported liquor, chiefly whisky, which accounted for 82% of the total value of liquor imports in 1970,<sup>(102)</sup> and constitutes South Africa's most important liquor import, in terms of value. The operations of the Federation, as regards price maintenance, are confined exclusively to imported liquor and are carried out with the assistance of the Whisky Shippers Association, which controls 90% of all whisky sold in South Africa.

5. The scope and effect of "Wines of Origin" legislation

Legislation governing the production and marketing of "good" wine from estates was initially requested by the Cape Estate Wine Producers' Association, as the term "estate wine" was being used as a marketing device and was often applied to wines not associated with a specific estate.

The reasons for this request were economic. From 1941 to 1958, a minimum price had been set for "quality" (i.e. estate) wines and this price was R1,04 - R1,73 higher per hectolitre than that of "good" wine.<sup>(103)</sup> After 1958, no minimum "quality" price was set and market forces were

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(102) Ibid., page 14.

(103) "A Survey of Wine-growing in South Africa", 1972/3, op.cit., pages 56 and 57.

left to determine the price level. While estate wines were associated with superior quality and so retailed at higher prices than did "good" wine, the benefits of the price differential were not felt by estate wine producers. Manufacturing wholesalers bought "good" wine of varying quality at the set price, they then blended vintages and marketed the processed product as "estate wine", which fetched a higher price than the product would have done otherwise. <sup>(104)</sup>

Estate wine producers wished to ensure that all wines described and marketed as "estate wines" were, in fact, from grapes grown, fermented and bottled entirely on the specific estate. Their request was granted by the government and the "Wine, Other Fermented Beverages and Spirits Amendment Act" (No. 62) of 1972 established the necessary authority for the recognition and protection of wines of origin. The Act was, in fact, an instrument of brand protection to benefit the estate wine producers, as its provisions covered all estate wines and wines with an indication of the particular cultivar from which they were made, or the year of production. The Act also provided for the official certification of certain of these wines, complying with prescribed standards of production, manufacture and quality. The application of the Act was placed in the hands of the Department of Agricultural Technical Services, to be administered by the Research Institute for Oenology and Viticulture at Stellenbosch.

In June 1972, fourteen different areas in the wine-producing regions of the Cape were designated as areas in which "wines of origin" could be produced. <sup>(105)</sup> To qualify for such a designation, 100% of a specific unfortified wine must be derived from such a defined area and, in the case of fortified wine, at least 80%. A producer wishing to have a particular area, or estate, defined for the purposes of producing wines of origin must first apply to the Wine and Spirits Board, <sup>(106)</sup> furnishing full particulars about the area and the application is then submitted to the Minister of Agriculture for approval.

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(104) This practice was confirmed in personal interview with Stellenbosch Farmers' Winery Ltd.

(105) The regulations were promulgated in the Government Gazette No. 3569 of June 1972.

(106) Established in 1970 by the Wine, Other Fermented Beverages and Spirits Amendment Act (No. 56) of 1970.

As regards estate wine, it must comply with certain quality standards determined by the Wine and Spirit Board and must be produced, or manufactured, in a cellar on the estate from grapes grown on the estate. A distinction is made between estate wines produced, manufactured and bottled on a particular estate and wine produced and manufactured on the estate, but bottled elsewhere.

Under the first phase of legislation, from 1973 to 1978, wines claiming to be made from a particular cultivar must contain not less than 30% of the cultivar. From 1978 to 1982 the cultivar content must be 80% and, after 1982, 100%. Further, the 1972 Act laid down that as from 1st September, 1973:

- (a) No wine with an indication of the year in which produced must be sold or exported, unless the Wine and Spirit Board has certified that the wine was, in fact, made from grapes harvested during that year.
- (b) No wine may be sold, or exported, under the name of any wine cultivars allowed for the making of wine unless 75% of such wine was made from vines of that cultivar. In the case of superior wines of origin, it must be derived entirely (100%) from grapes of the cultivar under which it is sold. Provision for a nine-year transitional period is made, however, for Cabernet Sauvignon, Cabernet Franc, Pinotage, Riesling and Shiraz.
- (c) In addition to the certificate attesting that a particular wine complies with the prescribed requirements and standards, the Wine and Spirit Board may also issue certain seals, to be affixed to the bottle, as a guarantee of the genuineness of its contents.
- (d) Producers must market their wines within the above regulations, or lose the right to name a place of origin on the label.

Thus, the regulations concerning "Wine of Origin" introduced a system of vineyard delimitation and wine classification resembling the French "appellation contrôlée" system. In terms of this, producers of a specific estate, area, or region market wines under such names as "Château Latour", similar in geographic terms to a wine from the Bellingham estate, for example: "St. Emillion", similar to a wine from the Helderberg division, and "Burgundy", which would correspond, in geographic terms, to a wine produced in a number of divisions making up a "district", such as Stellenbosch. Fantasy names, such as "Roodeberg" are debarred. On 31st December, 22 wine estates and 14 areas were demarcated under the new system for the production of wines of origin. (107)

The benefit of such regulations for the producer is that his geographical place name is protected; he acquires a "brand name", virtually without cost, apart from that of meeting the required standards; he receives a premium if his product is of a particular quality. For the consumer, the "W. of O." system means greater certainty about quality wines, as he is assured of getting exactly what he asks for in terms of origin, grape variety and vintage year in his purchases of high price wine. At the same time, the system does not affect the low-price wines, such as "Lieberstein" and "Roma Red". In economic terms, the "W. of O." system allows producers of estate wines to take full advantage of the lower price elasticity of demand of quality wine consumers.

Complaints about the new regulations were made by spokesmen for large wine firms, (108) who criticised the emphasis on geographical origin

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(107) The geographic areas so approved are: Caledon, Malmesbury, Paarl, Piketburg, Robertson, Stellenbosch, Tulbagh, Worcester, Swellendam, Constantia, Durbanville, Oliphants River, the Little Karoo, and an area known as Boberg. The estates defined for the production of Estate Wine of Origin are: Alto, Middlevlei, Muratie, Neethlingshof, Overgraauw, Simonsig, Spier, Uiterwyk, Verdun, Koopmanskloof, Uitkyk, Vergenoegd and Devon Valley Estate in the Stellenbosch area; Backsberg, Oude Weltevrede and Johan Grau in the Paarl area; Montepellier, Theuniskraal and Twee Jongegezellen in the Tulbagh area; Groot Constantia and Meerendal in the Cape Town area; De Wetshof in the Robertson area.

(108) In particular, L.A.O. Barth, Managing Director of Stellenbosch Wine Trust Ltd., quoted by "The Cape Times", 25th July, 1972.

and the lesser stress on quality. More basically, wholesaling profits are affected by the prohibition of blending, as this can no longer cover vintage bad years, as it did before.

The first phase of the "W. & O." legislation came into effect on 1st January, 1973, and three interrelated factors affecting the wine industry were considered likely to take on increasing significance in the next few years - the implementation of the legislation, a natural trend in consumer demand towards red wines, and rises in retail wine prices; the last factor being partly a result of the first two and partly flowing from general price inflation.

While the main impact of these factors is restricted to quality wines, which account for only 4% of natural wine sales in South Africa, rises in retail wine prices spread quickly to cheaper natural wines and spirits. In February 1974, it was estimated<sup>(109)</sup> that the prices of cheaper lines of unfortified wines would rise by 17,5% and those of spirits (brandy, vodka, gin, etc.) by about 5%, while fortified wines (sherries, ports) would increase in price by about 10%. This estimate was based on the fact that in January 1974, the K.W.V. announced that the minimum wholesale price for "good" wine in 1974 would increase by 25% and that of distilling wine by 15% (cf. Table 10).

While white wines retained much of their popularity, the trend towards red wines (ascribed to increasing sophistication in taste) was more and more noticeable, so that the inevitable result was a relative shortage of top quality red cultivars (such as Cabernet, Pinotage, Sauvignon and Shiraz), while not all white grape varieties were in abundant supply, especially quality cultivars, such as Riesling. In 1973, Cabernet, Pinotage, Shiraz and Riesling vines together constituted only 2,86% of the total 88 508 hectares under wine grapes in the Cape,<sup>(110)</sup> while 70% of the area under wine grapes is planted to only four cultivars - Chemin Blanc, Palomino, Cinsault and Muscat d'Alexandrie.<sup>(111)</sup>

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- (109) By P. Neethling, Regional Director of Stellenbosch Farmers' Winery Ltd. - quoted by "The Cape Times", 8th February, 1974
- (110) Figures obtained in personal interview with the K.W.V.
- (111) "Viticulture in South Africa" - paper compiled and edited by the OVRI and presented by Johann Deale of the K.W.V. at Symposium International sur la Qualité de la Vendage, February 1977, Cape Town, page 6.

Although wine farmers turned to such cultivars as Cabernet and Pinotage (which are low-bearing varieties with high production costs) in response to new demand patterns, supplies of red wine from new plantings would only be available after six to eight years. The time-lag inherent in adjusting the supply of an agricultural product to changes in demand would mean that new plantings could play no immediate part in alleviating the shortage of "noble" red wine and could, in fact, become productive at a time when there is decreased demand and not shortage.

The immediate effect of the cultivar control regulations, combined with increasing consumer demand, was a sharp increase in demand for some of the scarcer wine stocks. In 1974, certain noble cultivars were being bought at nearly R34,60 per hectolitre, while the minimum "good" wine price remained at R15,20 per hectolitre.

Thus, the distribution of wine products in South Africa takes place within the framework of the restrictions on sale imposed by the licensing system and through the oligopolistic market structure which this licensing system inadvertently helped to create. The extent of the potential market for wine products has been increased since 1962 by official encouragement in the form of increased retail liquor outlets and by the inclusion of racial groups previously debarred from purchasing liquor. Demand for wine products since 1962 has, therefore, been allowed to find its true level on the domestic market, especially as regards the non-White racial groups.

C H A P T E R   V I

THE GROWTH OF THE MARKET FOR SOUTH AFRICAN WINE PRODUCTS

Given the framework of licensing and distribution outlined in Chapter V, the growth of the domestic market for South African wine products is now considered in terms of the components of demand, national consumption figures and regional and racial demand patterns. Attention is also given to the factors responsible for the creation of foreign demand and to the development of foreign markets for South African wine products. A brief introduction serves to describe the individual products of the wine industry, as an accurate discussion of demand requires clear identification of the separate components of the general term "wine products".

1. Introduction

The products of the wine industry may be divided, broadly, into fortified wines, unfortified wines, sparkling wines and spirits.

Fortified wines are wines to which a proportion of alcohol has been added and are semi- to very sweet, varying in colour from dark red to white, or amber. They include ports, muscatels (and blends of these two) and sherries, which are blended to range from "very dry" to "sweet". Fortified wines have an alcohol content of 16,6 - 20% by volume, while sherries have an alcohol content of 17 - 20% by volume.

Unfortified wines are of two main types - red table wines and white table wines. The former are made from red grapes fermented with their skins, the two main types being claret, which is light-bodied, and burgundy, which is heavy-bodied, both of which types have an alcohol content by volume of 12,6 - 13,2%. White table wines are made from white grapes fermented without skins and are either "dry" or "semi-sweet", with an alcohol content of 11 - 12% by volume.

Sparkling wines are generally white table wines (although there are red varieties) charged with carbon dioxide, either by conducting the final fermentation in a closed vessel (sparkling wines proper), or by adding the gas artificially after the bottling process (aerated wines).

The best known sparkling wine is Champagne, but other types include the wines marketed under the name "Perl  ". Alcohol content is between 10% and 12% by volume.

Spirits are mainly produced by distilling wine spirits (or fermented sugar cane juice) and include brandy, which has a prescribed minimum alcohol content of 43% by volume at 75% proof spirit; vodka, for which alcohol content is not regulated, and varies from brand to brand; gin, for which alcohol content is, again, dependent on brand; liqueurs which are alcoholic beverages sweetened and blended with herbs, roots, seeds, leaves or fruit flavours to instill aromatic characteristics. Alcohol content varies considerably from brand to brand.

Gin, vodka and liqueurs can also be produced from sugar cane, but brandy can only be processed from (a basis of) wine spirits, while cane spirits and rum can be produced only from sugar cane.

## 2. The domestic market

Of the total turnover in the domestic market in 1970 of R381,4 million, spirits accounted for R202,3 million (53%); fortified and unfortified wine for R87,2 million (23%), and beer for R99,5 million (24%). In that year, exports (chiefly of wine) totalled R4,3 million and imports (chiefly of whisky) were R7,6 million, making the total domestic consumption in 1970 R393,3 million. The market for South African liquor products, in general, and wine products in particular, is thus very much a domestic market (96,9% of total turnover). Total domestic consumption, including imports, represented 98,9% of total turnover and exports only 1,1%.<sup>(112)</sup>

Domestic demand for wine products is primarily for unfortified wine, a consumption preference encouraged by legislation. On a per capita basis, wine consumption has changed comparatively little from 1958 to 1972 in South Africa (as in other countries), as can be seen from Table 17.

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(112) "A Survey of the Liquor Industry in South Africa", op. cit., page 31.

TABLE 17

Per Capita Wine Consumption : 1958 - 1972  
(in litres)

Country	1958	1969	1970	1971	1972
Italy	100,0	115,0	114,5	110,9	110,9
France	140,0	111,8	106,8	106,8	110,0
Portugal	(1) -	92,7	71,8	90,9	75,4
Argentina	(1) -	88,6	93,1	85,4	79,1
U.S.A.	3,4	4,1	4,5	5,0	1,3
Britain	1,5	2,7	3,6	3,6	3,6
South Africa	12,0	10,4	10,0	11,3	10,9

Note:

(1) Figures were not available.

Source: "A Survey of Wine-growing in South Africa",  
1972/3, page 63.

(i) Determinants of demand

The main determinants of demand for liquor are income, population and tastes, as well as excise duties, which influence both the prices of the taxed liquors and their substitutes. Apart from these variables, consideration of the South African market must also take into account the effects of the lifting of African "prohibition" in 1962, which gave the freedom of legal sale of liquor to this racial group.

(a) Income

In consideration of the effect of income changes on demand, attention must also be given to changes in gross domestic product. These are significant in that, since private consumption expenditure represents about 62% of G.D.P., they provide an indication of changes in consumption expenditure, subject to the qualification that personal disposable income is not affected by changes in the level of indirect taxation.

South African gross domestic product from 1963 to 1973 increased, in nominal terms, by an annual average of 11%, while personal disposable income increased by 16,5%. Total private consumption expenditure increased by 17,6% from R3 970 million in 1963 to R10 964 million in 1973. The average annual increase in per capita income in this period was about 2,6%.<sup>(113)</sup> Table 18 shows detailed comparative figures for population, G.D.P., P.C.E. and per capita income for the period 1963 - 1973.

As can be seen from the table, there has been a steady rise in population, per capita income, and private consumption expenditure from 1963-73. Expenditure on liquor, which constituted 4,2% of private consumption expenditure in 1963, increased to 5,3% of private consumption expenditure in 1973.<sup>(114)</sup>

The effect of increases in income on liquor expenditure (and on private consumption expenditure, in general) is more marked in the lower-income groups which have a higher marginal propensity to consume, as can be seen from Table 19.

The table also seems to indicate fairly low price and income elasticities of demand for liquor in general. Demand for individual liquor products, however, shows a marked degree of sensitivity to changes in price and income, owing to the existence of close substitutes for most liquor products. As excise duty on liquor is an important constituent of consumer price, increases in the excise duty levied on any one product can affect the overall liquor consumption pattern - and has been used to do so by the government.

(b) Excise duty

Up until 1958, excise duty on South African wines and spirits was levied as a source of government revenue. After 1958, the

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(113) Ibid., pages 96-106.

(114) Ibid., page 104.

TABLE 18

1963 - 1973

Year	Total Population (in million)	Gross Domestic Product (Rm)	Private Consumption Expenditure (Rm)	Average Annual per Capita Income (R)	% Rise
1963	17,461	6,555	3,974	375	3,4
1964	17,979	7,209	4,463	388	3,6
1965	18,513	7,879	4,857	402	1,7
1966	19,062	8,595	5,271	409	4,2
1967	19,628	9,521	5,685	426	1,2
1968	20,210	10,221	6,237	431	3,5
1969	20,810	11,486	6,902	446	2,0
1970	21,448	12,543	7,710	454	1,1*
1971	22,006	13,921	8,527	459*	3,0*
1972	23,100*	15,657	9,462	465*	2,6*
1973	24,510*	18,694	10,964	471*	2,6*

\* Estimates

Source: "A Statistical Survey" 1974/5, W.P.B. 1974, page 43.

TABLE 19

P.C.E. and Liquor Expenditure by Race: 1970

Racial Group	Total P.C.E. (Rm)	% of Total	Total Expenditure in Liquor (Rm)	% of Total P.C.E.
Europeans	5,813	76,0	238,1	4,1
Africans	1,033	13,5	149,0 <sup>(1)</sup>	14,4
Coloureds	573	7,5	54,9	9,6
Asiatics	230	3,0	8,0	3,5
	7,649	100,0	450,0 <sup>(1)</sup>	5,8

Note:

(1) This includes expenditure on "Bantu" beer, which totalled R61 million in 1970.

Source: "A Survey of the Liquor Industry in South Africa", No. 7, July 1972, page 104.

TABLE 20

Excise Duty on Alcoholic Beverages : 1913 - 1972  
(in cents per litre)

Year	Wine (per litre)			Wine, Spirit and Brandy (per litre)	Other Spirit (per litre)		
	Fortified	Unfortified	Sparkling		Class "A"	Class "B"	Class "C"
1910-1913	-	-	-	6,6c	13,2c		
1913-1921	-	-	-	11c	22c	33c	
1921-1942	-	-	-	27,5c	38,5c	27,5c	
1942-1943	-	-	-	33c	44c	55c	
1943-1951	4,2c	-	16,5c	55c	66c	77c	
1951-1958	6,3c	-	19,8c	60,5c	71,5c	88c	
1958-1962	6,3c	-	19,8c	R1,15	R1,26	R1,43c	
1962-1965	12,7c	3,3c	26,4c	R1,47	R1,58	R1,74	
1965-1966	12,7c	1,3-3,9c <sup>(1)</sup>	26,4c	R2,57	R3,05		
1966-1971	12,7c	1,3c	26,4c	R3,13	R3,61		
1971-1972	15,1c	1,3c	31,2c	R4,67	R5,15		
1972-1973	15,1c	1,3c	31,2c	R4,67	R5,15		

Note:

(1) Duty on unfortified wine from March 1963:

F.O.R. value up to R1,50 per bulk litre	-	1,3c
F.O.R. value from R1,50-R3,00 per bulk litre	-	2,6c
F.O.R. value above R3,00 per bulk litre	-	3,9c
From March 1968, all unfortified wine	-	1,3c

Source: "A Survey of Wine-growing in South Africa", 1973/4, pages 60-63.

change in drinking habits advocated by the Malan Commission (the Second Interim Report was tabled in 1958) was given force by the imposition of heavier excise duties on spirits, including wine spirits. Table 20 shows the structure of duties on all types of liquor and reflects government policy regarding spirit consumption after 1958, which aimed to change the traditional pattern of South African demand for liquor.

Up to 1943, no excise duty was levied on wines, owing to their small market and elastic demand. As excise duty was then purely a source of government revenue, it was imposed on spirits, the demand for which was both greater and less elastic. Excise legislation, from 1910 to 1913 and again from 1965, has distinguished solely between spirit distilled from wine and that distilled from other materials. From 1913 to 1968, however, excise duty varied according to alcohol content. This is shown on Table 20 as Class "A", Class "B" and Class "C" spirits, which represent alcohol content ranging between 55<sup>o</sup> to 78<sup>o</sup> proof spirit, or ~~32%-44%~~ by volume.

As can be seen from the table, excise duty on spirits increased by ~~60%-82,5%~~ in 1958, while that on fortified and sparkling wines remained unchanged. A blanket duty was levied on unfortified wine in 1962, which was modified according to price during 1965/66. This was reduced in 1966 in keeping with the policy of encouraging wine consumption through maintenance of a relatively low price. The same policy was furthered in 1971, when excise duty on spirits increased by 60% over the previous period, while duty on unfortified wine remained the same and that on fortified and sparkling wine rose by only 18%.

The increases in duty had a marked effect on domestic demand in terms of reducing relative sales of "strong" liquor, as can be seen from Table 21.

TABLE 21

Volume of Sales of Liquor : 1960 - 1971  
(in millions of litres)

Year	Unfortified Wine		Fortified Wine		Brandy		Vodka, Cane, etc.		Gin		Whisky		Beer		Total
		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total	
1960	53,6	25,3	43,6	20,5	18,3	8,6	7,5	3,0	5,9	2,3	3,1	1,4	80,1	37,7	212,1
1966	90,0	24,0	46,4	12,3	27,6	7,3	13,8	3,6	7,7	2,0	3,7	0,9	188,0	49,0	377,2
1971	174,8	30,7	53,8	9,2	30,1	5,1	30,1	5,1	6,5	1,1	5,0	0,8	280,4	48,2	580,7

Source: "A Survey of the Liquor Industry in South Africa", No. 7, July 1972, pages 40-95.

In absolute terms, all liquor types, except gin, showed a steady increase in volume sales from 1960 to 1971. In relative terms, however, unfortified wine increased its share of the total liquor market by almost 5 percentage points during this period. The market share of all other types of liquor decreased, save that of beer which increased by 10,5 percentage points. Unfortified wine and beer constituted 63% of the total liquor market (by volume) in 1960 and 78% in 1971, showing a changing pattern of consumption from spirits to the "natural" beverages.

(ii) Domestic patterns of consumption

For the sake of clarity, overall domestic demand from 1945 to 1973 will be considered in terms of liquor type and in close conjunction with the figures shown in Table 22 (pre-1945 consumption patterns have already been discussed in Chapter III). Attention will then be given to the structure of this demand in terms of region and racial group.

(a) Wine (fortified, unfortified and sparkling)

Consumer preference from 1945 to 1950 was in favour of fortified, rather than unfortified wines, as can be seen from Table 22. During this period, volume sales of fortified wine were sometimes nearly double those of unfortified wine. In 1951, increased duty was imposed on fortified and sparkling wine, but this was not reflected by sales figures in 1952 which showed an increase over the previous year.

From 1950 to 1960, the pattern of domestic wine consumption began to change and unfortified wine sales first matched and then, by 1960, exceeded sales of fortified wine by 47%. Total wine consumption in this period, however, increased by 73,6%.

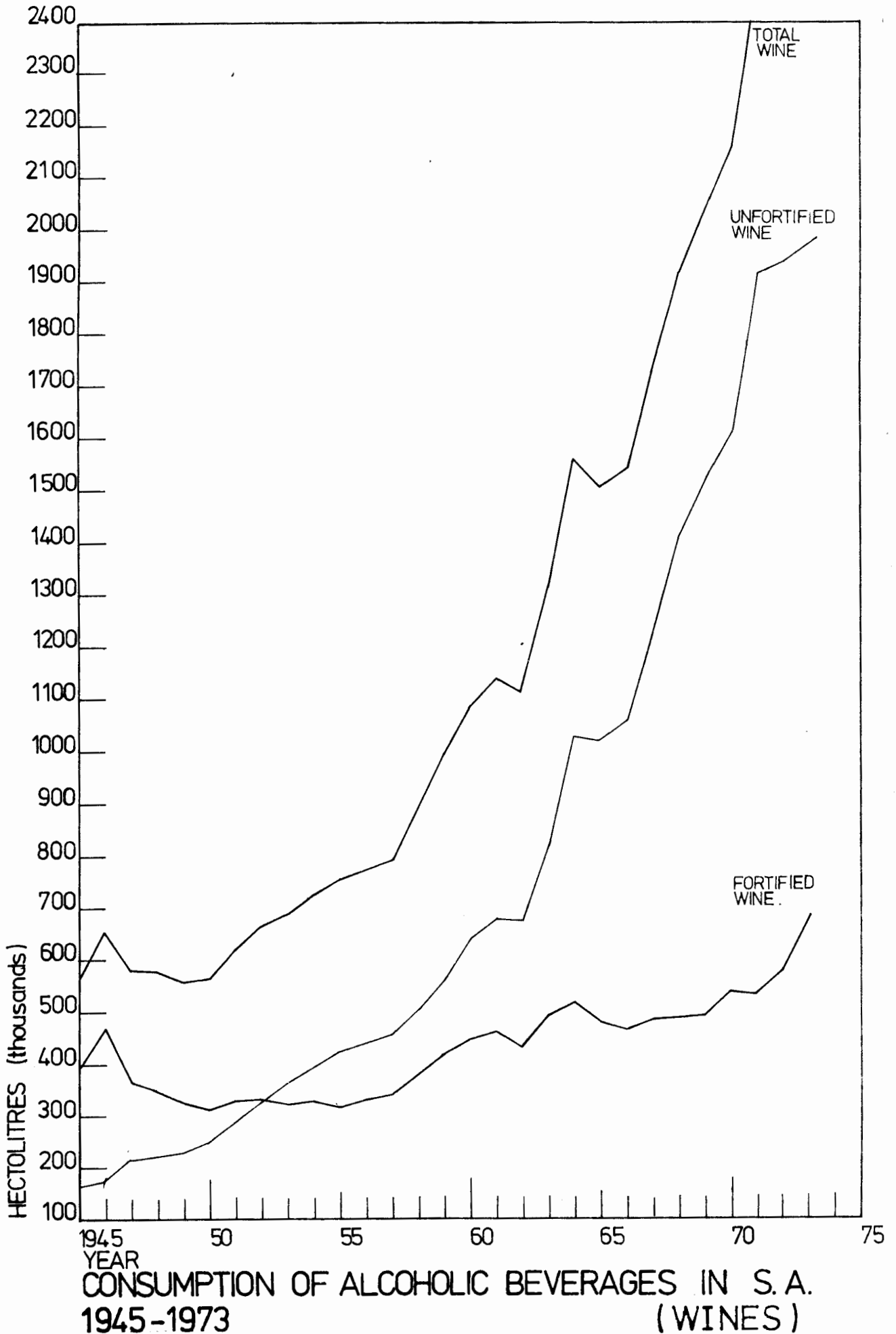
Following the imposition of excise duty, geared to encourage consumption of natural beverages, in 1958, sales of unfortified

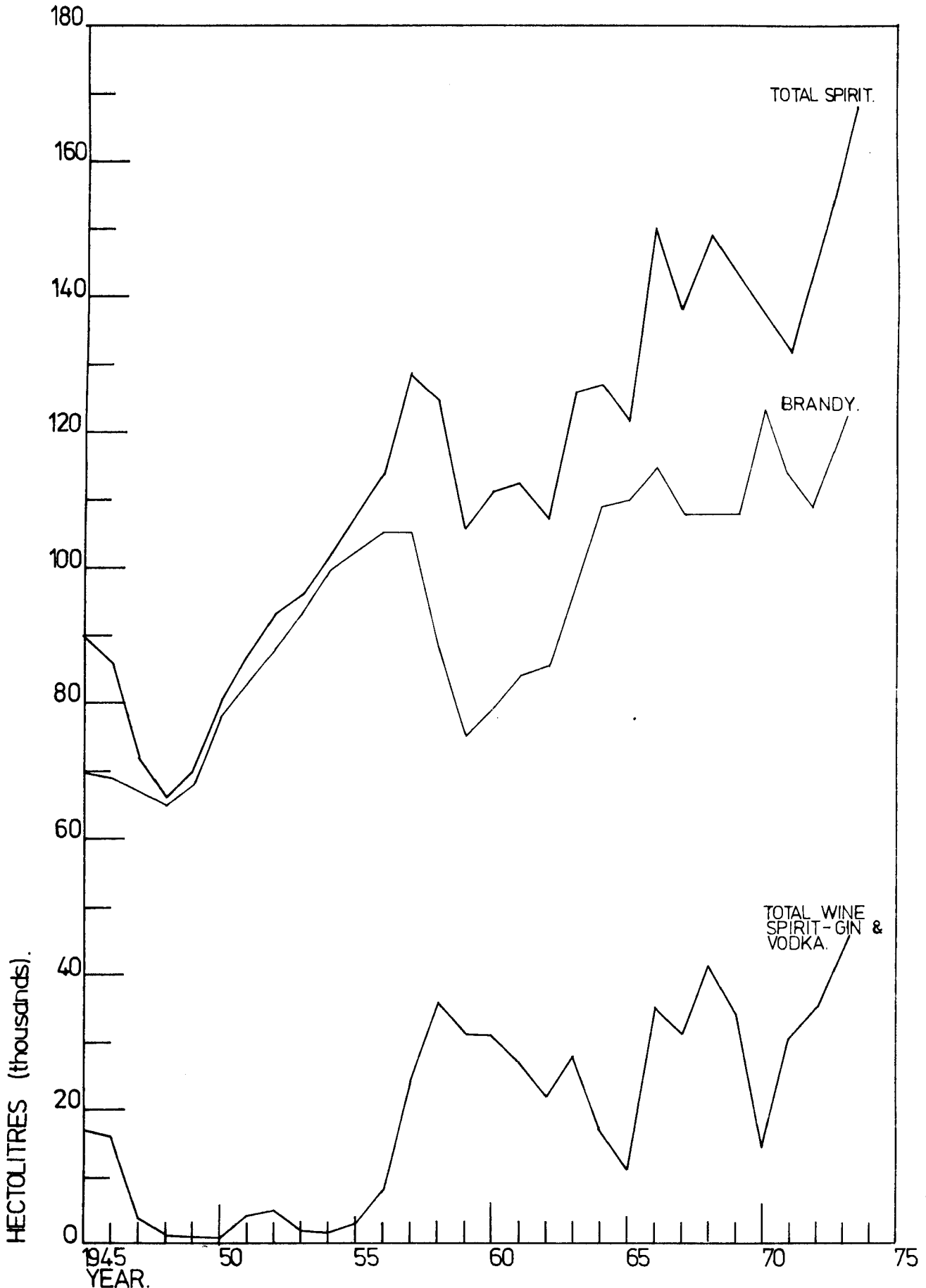
TABLE 22

Consumption of Alcoholic Beverages in South Africa : 1945 - 1973  
(in thousands of hectolitres)

Year	Fortified Wine	% Change	Unfortified Wine	% Change	Sparkling Wine	% Change	Total Wine	% Change	Total Wine Spirit <sup>(1)</sup>	% Change	Brandy	% Change	Total Spirit	% Change
1945	396,6	-	162,9	-	5,4	-	565,0	-	17,0	-	69,2	-	86,2	-
1946	471,6	+ 19,0	173,9	+ 6,8	6,2	+ 13,3	651,7	+15,4	16,8	-	69,1	- 0,1	86,0	- 0,2
1947	356,4	- 24,0	218,7	+ 25,7	4,3	- 30,7	579,4	-11,1	4,1	-	67,9	- 1,7	72,0	- 16,2
1948	341,2	- 4,3	225,4	+ 3,0	4,7	+ 11,3	571,4	- 1,4	1,4	-	65,2	- 4,0	66,6	- 7,5
1949	321,9	- 5,6	231,4	+ 2,6	5,3	+ 12,3	558,7	- 2,2	1,6	-	68,4	+ 5,0	70,0	+ 5,2
1950	312,9	- 2,8	247,9	+ 7,0	5,9	+ 10,4	566,7	+ 1,4	1,9	-	78,2	+ 14,3	80,1	+ 14,4
1951	325,4	+ 4,0	286,8	+ 15,7	7,3	+ 23,0	619,5	+ 9,3	4,2	-	83,3	+ 6,5	87,5	+ 9,3
1952	327,0	+ 0,5	325,5	+ 13,5	8,6	+ 18,5	661,2	+ 6,7	5,1	-	88,1	+ 5,8	93,2	+ 6,4
1953	318,9	- 2,5	361,3	+ 11,0	8,0	- 7,0	688,2	+ 4,1	2,9	-	93,9	+ 6,5	96,8	+ 3,9
1954	321,8	+ 0,9	395,8	+ 9,5	8,8	+ 10,0	726,5	+ 5,5	2,4	- 16,5	99,6	+ 6,1	102,0	+ 5,4
1955	314,8	- 2,1	423,5	+ 7,0	8,9	+ 0,3	747,3	+ 2,8	3,6	+ 47,0	102,3	+ 2,7	105,9	+ 3,8
1956	323,1	+ 2,6	439,9	+ 3,8	8,8	- 0,2	771,9	+ 3,3	8,4	+135,0	105,8	+ 3,4	114,2	+ 7,9
1957	327,9	+ 1,5	455,3	+ 3,5	9,8	+ 11,0	793,1	+ 2,7	24,1	+188,0	105,8	-	129,9	+ 13,8
1958	365,3	+ 11,4	506,0	+ 11,1	10,5	+ 6,5	881,8	+11,2	36,7	+ 52,0	88,7	- 16,1	125,5	- 3,5
1959	415,4	+ 13,7	568,8	+ 12,4	10,6	+ 1,4	994,9	+12,8	31,3	- 14,7	75,5	- 15,0	106,8	- 14,8
1960	435,8	+ 4,9	633,3	+ 11,3	11,4	+ 7,4	1 080,5	+ 8,6	31,9	+ 2,1	79,5	+ 5,2	111,4	+ 4,3
1961	448,0	+ 3,1	675,9	+ 6,7	10,9	- 4,1	1 134,9	+ 5,0	27,8	- 13,1	84,5	+ 6,3	112,3	+ 0,8
1962	423,4	- 5,5	673,5	- 0,4	11,1	+ 1,1	1 107,9	- 2,4	22,1	- 20,5	85,3	+ 1,0	107,4	- 4,3
1963	491,2	+ 16,0	813,9	+ 20,8	11,9	+ 7,4	1 317,0	+18,8	28,8	+ 30,7	97,5	+ 14,2	126,4	+ 17,6
1964	516,6	+ 5,2	1 024,0	+ 25,8	12,8	+ 7,9	1 553,4	+17,9	17,5	- 39,0	109,5	+ 12,3	127,1	+ 0,6
1965	474,6	- 8,1	1 013,0	- 1,0	13,3	+ 4,0	1 501,5	- 3,3	11,8	- 32,5	110,9	+ 1,3	122,8	- 3,4
1966	465,1	- 2,0	1 057,6	+ 4,4	13,8	+ 3,6	1 536,6	+ 2,3	35,5	+200,0	115,4	+ 4,1	150,9	+ 23,0
1967	487,5	+ 4,8	1 222,5	+ 15,6	15,0	+ 8,4	1 725,0	+12,3	31,6	+ 10,9	108,2	- 6,2	139,8	- 7,3
1968	485,9	- 0,3	1 406,7	+ 15,0	16,3	+ 9,0	1 909,0	+10,7	41,0	+ 29,7	108,6	+ 0,4	149,6	+ 7,0
1969	491,0	+ 1,0	1 512,7	+ 7,5	18,5	+ 8,0	2 022,2	+ 5,9	34,6	- 18,6	108,7	+ 0,1	143,4	- 4,2
1970	535,7	+ 9,0	1 602,8	+ 6,0	20,1	+ 9,0	2 158,6	+ 6,7	14,4	- 58,0	123,7	+ 13,7	138,2	- 3,6
1971	531,9	- 0,6	1 914,2	+ 19,4	21,5	+ 7,2	2 467,7	+14,3	18,1	+ 25,0	114,0	- 7,8	132,1	- 4,4
1972	572,3	+ 7,6	1 930,8	+ 0,9	22,4	+ 3,8	2 525,5	+ 2,3	35,9	+ 98,0	109,2	- 4,2	145,1	+ 9,8
1973	682,8	+ 19,3	1 981,5	+ 2,6	25,1	+ 4,9	2 690,1	+ 6,5	45,9	+ 28,0	122,3	+ 12,0	168,3	+ 15,8

Note: (1) For Gin and Vodka. Source: "A Survey of Wine-growing in South Africa", 1973/4, Pages 56 and 57.





CONSUMPTION OF ALCOHOLIC BEVERAGES IN S.A.:  
1945 - 1973  
(SPIRIT AND BRANDY)

wine increased by an annual average of 11,3% from 1960 to 1971, while those of fortified wine increased by an annual average of only 2% during this period. Apart from increased excise duty, which raised the relative price of fortified wine, the other factor responsible for the relative decline in its consumption was a shift in drinking habits away from "heavy" fortified wines to "light" cocktail-type liqueurs and unfortified wines. The market for fortified wine is also limited by the fact that sherry and port are poor "mixers" and cannot be combined with other drinks. As can be seen from Table 22 and the illustrative graph on page 122, however, it was not so much that fortified wine sales dropped, but that sales of unfortified wine rose sharply. One reason for the increase in demand for unfortified wine could have been the introduction of "Lieberstein" on the domestic market in November 1959. From the beginning of November 1959 to the end of December of that year, 113 000 litres of "Lieberstein" were sold<sup>(115)</sup> and from January to December 1960, total sales of "Lieberstein" amounted to 1 055 000 litres.<sup>(115)</sup>

Unfortified wine sales also rose significantly after the lifting of prohibition to Africans in 1962 - by 20,8% from 1962 to 1963 and by 25,8% from 1963 to 1964 (cf. Table 22).

(b) Brandy

Brandy consumption in the period 1945-50 fluctuated slightly between 1 371,5 hectolitres and 1 139,2 hectolitres, but sales figures show a steady increase during the next decade, despite increased excise duty in 1951. The increase in excise in 1958, however, did affect brandy consumption adversely, causing a fall of 31% over 1958/9. Although Table 22 shows an increase in brandy sales after 1960, demand for brandy fluctuated sharply in the period 1960 - 1971 and fell by nearly 8% after the increased excise imposed in 1971.

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(115) Figures obtained in personal interview with Stellenbosch Farmers' Winery, February 1974.

Brandy sales increased in absolute terms from 1960 to 1971, but brandy lost some share of the spirit market to vodka, gin and cane spirit. This was partly due to increased duties and partly due to the change in tastes among young European consumers towards the lighter spirit drinks.

(iii) Regional and racial demand patterns

The above discussion gives some indication of the general pattern of domestic demand for liquor, but fails to show the diverse components of this demand in terms of region and racial group. In the following section, an attempt is made to analyse regional and racial demand for liquor. As in the above section, the discussion is in terms of liquor product and with reference to Tables 23 and 24.

(a) Unfortified wine (including sparkling wine)

The market for unfortified wine is largely in the wine-producing areas of the Cape. Consumption of unfortified wines in the Transvaal, Orange Free State and Natal is disproportionately low, as until recently these had not been traditional wine-drinking areas. In terms of total liquor consumed in each province, unfortified wine constituted 85% in the Cape, 15,0% in the Transvaal, 24% in the Orange Free State and 6,6% in Natal in 1970 (cf. Table 23).

As can be seen from Table 24, the Coloured population accounted for 46% of total unfortified wine sales, while the European and the African bought 22,5% and 31% , respectively, in 1970. Racial consumption habits show high income elasticity of demand in that Coloured and African demand is almost entirely for the cheaper grades of unfortified wine, while that of the European group is for the more expensive grades. African per capita consumption of natural wine has been found to be higher in the Cape than in the

TABLE 23

Volume Consumption of Types of Liquor by Region : 1970  
(as a % of total liquor consumed in the area)

Town or Region	Unfortified Wine	Fortified Wine	Whisky	Brandy	Gin	Vodka, Cane, Liqueurs	Beer
Johannesburg - Vaal Triangle	7,0	5,0	9,1	23,7	6,8	11,6	35,7
Pretoria	3,1	4,4	8,1	28,8	6,9	16,3	31,3
Northern Tvl.	2,0	5,2	6,4	32,4	8,4	12,8	32,0
Rest of Tvl. & N.O.F.S.	4,9	4,4	10,2	32,3	7,9	13,0	26,5
Bloemfontein & S.O.F.S.	8,5	7,7	2,3	35,7	6,2	7,8	31,0
Cape Peninsula	33,6	8,4	5,1	20,2	5,9	4,5	20,5
Port Elizabeth	16,5	17,6	6,1	21,1	6,1	8,5	23,0
East London	21,2	9,6	9,6	17,3	4,8	16,4	19,2
Border, Transkei <sup>(1)</sup>	12,9	16,1	5,7	37,1	4,0	14,5	8,1
Northern Cape & O.F.S.	26,9	17,2	6,8	20,7	4,4	5,0	18,4
Durban, Pmb. & South Coast	3,8	5,4	16,6	17,1	10,5	24,8	20,9
Rest of Natal	2,8	5,6	9,0	15,2	7,3	38,1	22,5

Note:

(1) Liquor consumption in the Border/Transkei areas consists mainly of "Bantu" beer.

Source: Figures taken from "A Survey of the Liquor Industry in South Africa", No. 7, July 1972.

TABLE 24

Consumption of Types of Liquor by Racial Group : 1970

(a) As a % of all liquor consumed by that group.

(b) As a % of the total for the product.

Liquor Type	Europeans		Coloureds		Africans		Asiatics	
	a	b	a	b	a	b	a	b
Unfortified wine	5,1	22,5	45,4	46,0	19,1	31,0	2,5	0,5
Fortified wine	4,0	29,0	22,4	37,0	12,4	33,0	3,8	1,0
Whisky	12,9	95,0	0,5	1,0	1,3	3,5	2,5	0,5
Brandy	26,4	69,0	12,4	7,5	22,7	22,0	17,5	1,5
Gin	6,4	15,2	2,9	6,0	10,4	35,0	3,8	1,0
Vodka	4,1	48,0	3,6	10,0	9,0	39,0	7,5	3,0
Beer <sup>(1)</sup>	31,8	76,0	9,1	5,0	20,3	18,0	12,5	1,0
Cane	8,1	68,0	2,4	4,5	4,2	13,5	50,0	14,0
Liqueurs	0,2	71,5	0,07	16,0	0,05	12,0	0,1	0,5

Note:

(1) Excluding "Bantu" beer.

Source: "A Survey of the Liquor Industry in South Africa", No. 7, July 1972.

other provinces because Africans in the Cape have developed a taste for natural wine through living in proximity with the Coloured population in the wine-producing areas.<sup>(116)</sup>

Medium-priced unfortified wines are becoming increasingly popular among the young of all racial groups, especially those in the educated, relatively higher income groups, while increasing sophistication in taste among Europeans, especially in the Transvaal, is expanding the market for good and high-quality unfortified wines, such as Cabernet and Pinotage.<sup>(116)</sup>

(116) Information supplied by Stellenbosch Farmers' Winery in personal interview, February 1974.

The market for high-price wines increased by 50% from 1972 to 1973, chiefly among European consumers, partly because this expanding demand coincided with the introduction of new wines (such as "Autumn Harvest") onto the market. At the same time, a shortage of good varieties, such as Cabernet, Riesling and Pinotage, has developed, not only because of unexpectedly rapid expansion of demand (especially in the Transvaal), but also because of limited supply, owing to both unfavourable climatic conditions from 1972 to 1974, and to "Wines of Origin" legislation which restricts blending.

(b) Fortified wine

The fortified wine market is divided among three main product/price ranges: high- and low-price fortified wines and low-price wine aperitifs. The high-price range includes port, sherry, vermouth, dessert wines and Cinzano, while the low-price fortified wines consist of "imitation" sherries (e.g. ginger wine) and other natural wines to which distilling wine has been added. Domestic demand for fortified wines is small (9,2% of total liquor sales in 1971) and regionally pocketed in that the Cape accounted for 52% of total consumption in 1970 and 64% in 1973; Natal for 10% and 6% respectively in the two years; the Transvaal for about 22%; the Orange Free State for 11,4% and 3,1%. The South West African market for fortified wine has only been developed since about 1970, leading to a 10% share in 1973, mainly due to African demand. (117)

As in the case of unfortified wines, Coloured consumers constitute the main market for fortified wines (cf. Table 24), particularly the low-price products, such as muscatel, while African consumers (who constituted 33% of the market for fortified wines in 1970), similarly demand mainly the low-price fortified wines. The European market for high-price

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(117) "A Survey of the Liquor Industry in South Africa", op. cit., page 53.

fortified wines is regionally concentrated in areas with an English tradition, such as Cape Town and Port Elizabeth and, for low-price fortified wines, it is concentrated in the lower-income groups.<sup>(118)</sup>

(c) Brandy

In terms of domestic demand for spirits, brandy is the single most important type both in volume sales and in value (cf. Table 22), although excise duties and changing tastes have decreased its share of the market for "strong" liquor.

Geographically (cf. Table 23), the Transvaal and Orange Free State constitute the main markets for brandy. The Transvaal accounted for 32% of total brandy consumption in 1970 and 50% in 1973, and the Orange Free State for 32% in 1970 and 24% in 1973.<sup>(119)</sup> The Cape constituted 16% of the brandy market in 1973 and 24% in 1970; Natal 10% in 1973 and 12% in 1970, so that there is enough of a disparity between the coastal provinces and the hinterland to indicate a marked preference for "strong" liquor on the part of the latter, while the Cape is basically (as has been noted) a wine-drinking area and Natal a cane-drinking area.

Although European consumers account for the bulk of brandy sales (cf. Table 24), and it constitutes about a quarter of their total liquor consumption, brandy also forms a fair proportion of non-European demand for liquor, especially among African consumers. One of the factors responsible for the expansion of the brandy market in the Transvaal from 1970 - 1973 is the rapidly-increasing African population combined with the increasing cash income of this racial group. This can also be seen in the proportion of total liquor consumed in the Border/Transkei area (cf. Table 23), where brandy constituted

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(118) Ibid., page 55.

(119) Ibid., page 66.

37,1% of total consumption in 1970. As regards the European market, there is a clear market trend between the English and Afrikaans-speaking groups and, further, between Afrikaners in different provinces. Demand for brandy is concentrated in the Afrikaner population of the Orange Free state and the Transvaal, which is brandy-drinking by tradition, while the Afrikaner of the Cape is wine-drinking, by tradition. <sup>(120)</sup>

(d) Gin

Gin consumption, in South Africa, is a small proportion of total liquor consumption and is concentrated mainly in urban areas, especially in the Durban/Pietermaritzburg/South Coast region (cf. Table 23). European consumers accounted for 58% of total gin consumption in 1970 (cf. Table 24), while of the non-European consumers, the African group was the most important. Demand for gin by European consumers is mainly as a "mixer" for cocktails; hence its concentration in urban areas. African consumer demand is directly related to the price of brandy, so that increased excise duty on brandy, making gin relatively cheaper in comparison, will generally increase gin sales. The high price elasticity of demand for African consumers of gin was demonstrated in 1971, when the rise in excise duty on spirits resulted in a fall of about 40% in gin sales. <sup>(120)</sup>

(e) Vodka, cane, liqueurs

Vodka and cane spirit consumption is concentrated in urban areas (cf. Table 23) and is most prevalent among the young of all racial groups. <sup>(121)</sup> Vodka is demanded particularly as a "mixer" as it has little taste of its own. The regional distribution of consumer demand for both vodka and cane spirit is similar, with the exception of the Natal area. Natal accounted for 43,1% of total national consumption of

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(120) Information supplied by W. Cooper-Williams, Marketing Officer of Oude Meester Cellars Ltd. in February 1974.

(121) Ibid.

cane spirit in 1970 (as compared with 24,8% for vodka), mainly because cane spirit, which is indigenous to Natal, is a popular drink among Indians, most of whom live in Natal (cf. Table 23), and it accounted for 50% of all liquor consumed by this racial group in 1970.

European consumers constituted 48% and 68% of the vodka and cane spirit markets in 1970, and these liquors together formed 12,2% of total liquor consumption by this racial group. African consumption of vodka was not far behind that for Europeans (34% of the total), but cane spirit formed only 4,2% of total liquor consumption by Africans.

In terms of marketing and promotion, vodka and cane are closely related as they are presented as "fashionable" and, since image is an important factor in the demand for spirit, the popularity of these two spirits arises out of successful advertising as much as out of consumer taste.

Liqueurs as a product resemble high-priced fortified wines, as they are drunk occasionally and in small quantities, chiefly by consumers in high-income groups. The Cape Peninsula alone accounted for 26,8% of the national total in 1970 and the Johannesburg-Vaal area for 19,5%. The balance was fairly evenly spread over the rest of the country (cf. Table 23). In terms of race groups, the main consumers are Europeans (71,5% of the total in 1970), while the market among Coloureds (16%), Africans (12%) and Asiatics (0,5%) is restricted by the price element and by the general absence of the social and environmental factors associated with liqueur drinking.

(g) Beer (excluding "Bantu" beer)

Beer is South Africa's major drink, as can be seen from the fact that it constituted 48% of total volume of liquor sales in 1971 (cf. Table 21) and formed a major proportion of total liquor consumed in most areas (cf. Table 23). The tables

show that beer formed a higher proportion of all liquor consumed in the northern areas than in the south and south-eastern coastal areas, especially in the Johannesburg-Vaal region.

In terms of racial groups, beer is the major drink for both European and African consumers, constituting 31,8% and 20,3% respectively of total liquor consumed by these two groups in 1970 (cf. Table 24). The European group also accounted for 76% of total beer consumption in 1970.

(h) General trend

Thus, the general trend in liquor consumption, as a whole, seems to have been away from "strong" liquor and towards natural beverages (cf. pages 122 and 123), with wine-consciousness spreading beyond the traditional Cape area (cf. Table 23). Total wine sales increased by 59 percentage points (from 994 900 hectolitres to 2 690 100 hectolitres) from 1959 to 1973, indicating that the government-encouraged movement towards wine-drinking was supplemented by an actual change in tastes.

After the increase in excise duty on spirits and fortified wines in 1971, there was a period of decline in the rate at which sales were increasing in the domestic market, especially sales of brandy, gin, vodka and liqueurs (cf. Table 22). The only locally-manufactured liquor product which showed any advance was beer, with an increase in consumption of nearly 14% from 1971 to 1972.

At the same time, the 1972 wine crop was approximately 173 205 hectolitres smaller than that of 1971, mainly as a result of unfavourable weather conditions, which were also experienced during the 1972-73 season. This decrease in production was accompanied by a strong demand for "good" wine at the beginning of 1972 and for the first time since 1918 the entire distilling wine crop was sold in the year of production on the local market to manufacturing wholesalers.

There was, thus, no surplus to export (or to dispose of locally for non-potable purposes) and export demand was supplied from accumulated stocks of wine and spirits.

The 1973 wine crop was at almost the same level as the 1972 crop (in hectolitres, the 1972 crop was 5 351 745, and the 1973 crop 5 387 519),<sup>(122)</sup> again, owing to unfavourable climatic conditions. Demand for wine and wine products continued to increase, so that, again, the entire 1973 distilling wine crop was sold and it was also necessary to draw upon stocks. Factors contributing to the sharper demand for distilling wine were the gradual recovery of the brandy market, after its decline due to increased excise duties; the revival of demand for fortified wines, and a marked increase in the consumption of gin, vodka and liqueurs.

The 1973 wine crop yielded about R62 million and the full fixed minimum distilling wine price. for the entire distilling wine crop was paid to producers for the first time and, taking into account bonus payments, producers received nearly 11% more than the fixed minimum price for their distilling wine in 1973.

In the light of these developments, the 1974 wine crop (estimated to be 10% lower than the 1973 crop) created an immediate problem as regards the satisfaction of demand for wine and for wine products. The relatively small wine crops from 1971 to 1974, combined with increasing domestic demand, have faced the wine industry, as in the immediate post-war years, with the possibility of shortage of supply.

(iv) Imports

South African liquor imports, of which the most important is whisky, are controlled by the Whisky Shippers' Association and

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(122) Cf. Table 8(b).

the South African Federated Wholesale Wine and Spirit Merchants' Association (cf. page 105). These Associations also control the distribution of imported liquor by means of an "Importers' List" which specifies the wholesale merchants permitted to import the standard brands of whisky at the fixed f.o.b. price laid down by the whisky distillers.

Whisky, which is almost entirely an imported product, has constituted about 83% by value of total liquor imports into South Africa since 1960, as can be seen from Table 25. The domestic market for this product is a small one, confined largely to upper-income Europeans who account for 95% of total whisky sales.<sup>(123)</sup> Whisky has a relatively low price elasticity of demand for this consumer group, but relatively high income and price elasticities for the remaining 5% of the market, which consists of lower-income consumers of all racial groups.

The imposition of increased excise duty, however, was not the sole cause of the fall in consumption in 1971/72. In November 1971, supplies of whisky and other imported liquors were curtailed by the two controlling Associations until such time as they had agreed to a higher retail price, covering the increased duties. The resumption of supplies in early 1972 restored domestic consumption to its previous level and due to the inelastic demand, the burden of taxation was borne by the consumer.

Total South African liquor imports in 1970 had a value of about R7,6 million and consisted of 83% whisky, 8% wines and 8,5% beer, with a smaller percentage of spirits such as rum, arak and vermouth. It is significant to note that despite the publicity surrounding exports of South African liquor products, from 1965 liquor imports, in terms of value, in fact exceeded exports. The comparative figures for 1960, 1965, 1970 and 1973 are shown on Table 26.

The imposition of increased excise duty in 1971 was expected to reduce liquor imports, as was the application of strict import control. Increased imported liquor retail prices since 1971,

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(123) Cf. Table 24.

TABLE 25

South African Liquor Imports : 1960 - 1970

(in Rands)

Year	Wines		Spirits <sup>(1)</sup>		Beer		Total Imports	
	Value	% Change	Value	% Change	Value	% Change	Value	% Change
1960	278 890	-	3 054 425	-	-	-	3 333 315	-
1961	217 545	- 22,0	2 648 775	- 13,3	262 384	-	3 128 613	- 6,1
1962	213 620	- 1,8	2 945 739	11,2	321 553	22,5	3 480 912	11,3
1963	329 014	54,0	3 113 571	5,7	325,065	1,1	3 767 650	8,2
1964	1 215 451	269,0	3 385 809	8,7	437 654	34,6	5 038 914	33,7
1965	1 442 046	18,6	4 212 262	24,0	570 184	30,3	6 224 492	23,5
1966	233 253	- 83,8	4 324 902	2,7	734 233	28,8	5 292 388	- 15,0
1967	348 006	49,0	4 014 957	- 7,2	645 979	- 12,0	5 008 942	- 5,3
1968	422 503	21,4	5 120 292	27,5	766 633	18,7	6 309 428	30,0
1969	512 371	21,3	5 646 934	10,3	783 650	22,2	6 942 955	10,0
1970	643 625	25,6	6 310 444	11,7	669 743	- 14,5	7 623 812	9,8

Note:

(1) Almost exclusively whisky.

Source: Customs and Excise statistics.

TABLE 26

Value of South African Liquor Imports & Exports : 1960 - 1973

(in Rm.)

	1960	1965	1970	1973
Imports	3,637	6,204	7,662	8,685
Exports	3,988	5,772	4,321	5,605

Source: Customs and Excise statistics.

however, have left demand virtually unchanged and, by 1973, liquor imports had risen by 13% over 1970. Thus, although liquor exports also showed an increase from 1970 to 1973, the deficit on liquor account remained. Further, owing to bad harvests, which have resulted in shortages of "good" and distilling wine since 1972, liquor imports, especially of wine, are expected to increase rapidly in the future.

### 3. The export market

South African wine exports during the twentieth century were initiated on a permanent basis in 1925, when the British Government restored preferential tariffs on high-strength Commonwealth wines. The expansion of exports consequently began first with the development of the British market and then of other overseas markets.

#### (i) Development of the export market

South African wine exports to Britain, during the nineteenth century, were halted by the abolition of the preferential tariff, previously accorded them, in 1861. During the first quarter of the twentieth century, Cape wine merchants opened up a small export trade to Mauritius and by 1920 this accounted for about 75% of total South African wine exports. The imposition of duties in 1925, however, ended this. After 1918, Cape wine merchants also began to export to New Zealand, but no large, permanent export market developed until the granting of preferential tariffs by Britain. (124)

In 1919, Britain introduced a system of preferential tariffs on Empire produce and in terms of this, light wines were accorded a preference of 1,1c per litre. In 1927, this preference was raised to 2,2c per litre and, under the Ottawa Agreement of 1932, the preference was increased to 4,4c per litre. In 1925, a preference of 8,8c per litre was accorded to Empire "heavy" wines. As a result of these preferences, a few farmers attempted to start an export trade in light wines, but made little progress owing to strong competition from established French and German light wines. It

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(124) Report of the 1937 Wine Commission, op.cit., page 78.

was the action of the K.W.V., attempting to find outlets for "surplus" production, which began an effective export trade in fortified wines to Britain in 1927 and, subsequently, expanded this to markets in other overseas countries. The pattern of the expansion of liquor exports from 1923 - 1935 is shown on Table 27.

The effects of the disappearance of the export trade to Mauritius in 1925 can also be seen from the table, i.e. there was a marked reduction in exports of both light and fortified wines in 1925 and 1926. From 1927 onwards, the influence of the preference on the British market is reflected by the rising exports of both fortified and unfortified wine, particularly the former. Up to 1935, liqueurs played a minor role in the export trade, but brandy exports rose from 1931 onwards. (The brandy figure for 1935, however, is inflated due to the inclusions in that year of exports to Southern Rhodesia which, until 1935, were not included.)

In 1935, the British market was the most important, as regards both light and fortified wines, taking 88,2% and 86,6% respectively of total exports in that year.

Table 28 shows the most important countries of export in respect of each product in 1935.

After Britain, the most important other countries were again parts of the Empire, where South African wines were accorded preferences under the Ottawa Agreements. With the exception of Denmark (both in the case of light and of heavy wines) and Sweden (in the case of fortified wines), exports to countries outside the British Commonwealth were negligible up to 1935.

The early export trade to Britain in light wines was developed by wine merchants and individual producers in association with a British wholesale firm, P.B. Burgoyne Ltd. Fortified wines were marketed by the K.W.V. and Vine Products Ltd., which had the sole rights of distribution of South African fortified wine in Britain, from 1927 to 1931, when the K.W.V. and Vine Products Ltd. combined to establish the S.A.W.F.A., each holding a 50% interest (cf. Chapter III). This Company marketed South African fortified

TABLE 27

Exports of Wines, Brandy and Liqueurs : 1923 - 1935

(in hectolitres)

Year	Brandy	Liqueurs	Claret, Light & Sparkling Wines	Port, Sherry & Heavy Wines
1923	1,54	1,19	63,63	241,95
1924	0,61	0,75	54,93	147,89
1925	1,48	0,97	17,29	58,80
1926	0,55	0,86	26,01	50,85
1927	0,81	0,77	76,03	96,57
1928	0,60	0,79	41,61	121,02
1929	1,15	0,60	82,34	178,93
1930	1,19	0,41	52,94	240,84
1931	3,07	0,48	89,91	318,93
1932	2,97	0,21	73,39	304,44
1933	5,79	0,43	95,35	487,52
1934	9,53	0,69	61,53	533,51
1935	22,16 <sup>(1)</sup> (13,35) <sup>(2)</sup>	0,56	60,30	560,03

Notes:

- (1) This figure is inflated by the inclusion of exports to Southern Rhodesia not previously included.
- (2) This is the brandy figure, excluding exports to Southern Rhodesia.

Source: "Report of the Wine Commission", V.G. 25, 1937, page 79.

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wines in Britain until 1950, when the K.W.V. acquired full control by buying out Vine Products Ltd. (From 1931 to 1950, the effects of the depression and then the war had limited the expansion of the K.W.V., but post-war conditions were such as to enable this expansion.) Light wine exports remained in the hands of private individuals working in association with British wholesalers.

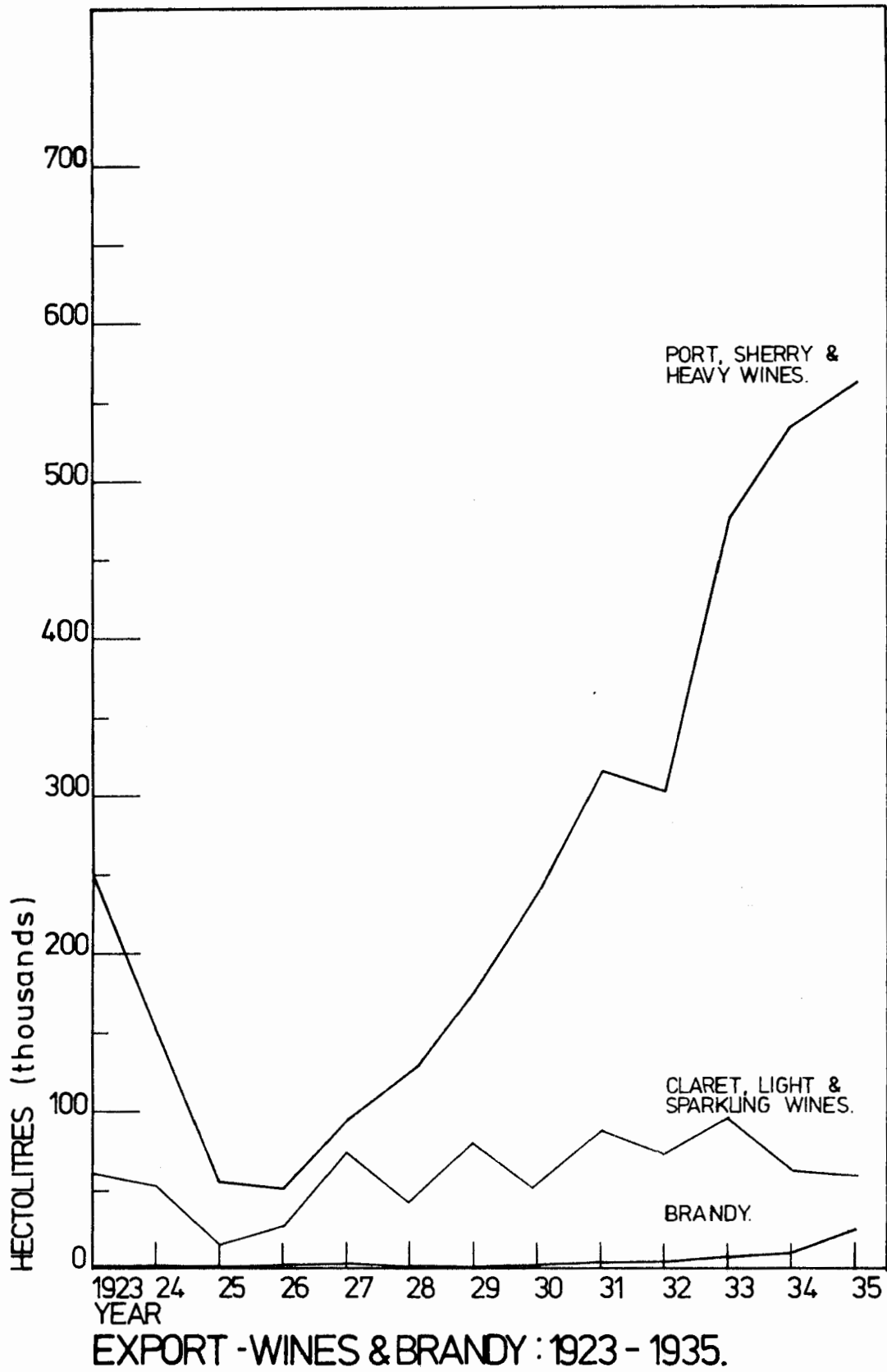


TABLE 28

South African Wine Exports : 1935

Product / Country	Hectolitres	% of Total
<u>Brandy</u>		
Southern Rhodesia	8,81	39,7
Canada	7,83	35,3
Britain	3,17	14,3
All other countries	2,35	10,7
TOTAL	22,16	100,0
<u>Light Wines</u>		
Britain	53,21	88,2
Southern Rhodesia	2,31	3,8
Denmark	1,86	3,1
New Zealand	0,80	1,3
All other countries	2,12	3,6
TOTAL	60,30	100,0
<u>Heavy Wines</u>		
Britain	485,01	86,6
Denmark & Sweden	20,59	3,7
Canada	17,80	3,2
Southern Rhodesia	14,41	2,6
New Zealand	14,19	2,5
All other countries	8,00	1,4
TOTAL	560,00	100,0

The marketing of K.W.V. products follows the traditional British pattern<sup>(125)</sup> in which the merchant, or shipper, buys the wine in bulk and sells it in his own area or through his own distribution channels under his own label. The K.W.V. often blends the wine as specified by the merchant before it is shipped from South Africa.

Some development of brand names took place during the 1950's and 1960's, but mostly in the South African market, where a high percentage of table wine came to be marketed under brand names. On the British market, "South African Sherry" was the brand name given to the Cape product and it became known as such on this and other overseas markets. The labelling of South African fortified wines for export was made more complicated by the fact that the wines were subject to the customs, practice and laws of the various overseas markets (a position which is unchanged in the 1970's). In several countries, "sherry", "port" and "champagne" were accepted as generic names, reflecting the nature of the wine; in others these designations were regarded as appellations of origin and, therefore, as the names of wines produced exclusively in prescribed areas of production. Thus, on the British market, the development of distinctive brand names for fortified wines has not progressed beyond "South African Sherry", while "port" reaches the British consumer as branded "Tawny" or "Ruby" wines, rather than as "port".

Endeavours were made to formulate a system of names for South African wines on the lines of European criteria, but since the European countries themselves have been unable to agree on a uniform set of standards in respect of wine nomenclature, proposals for application to South African wines failed to prove practical. Where it could, however, the K.W.V. established its own brands - "Cap Constantia" and "Kap Brandy" were marketed in Scandinavia. The K.W.V.'s most successful brand name is "PAARL", which was established securely in Canada and which is also marketed, to a lesser extent, in the U.S.A., Japan, New Zealand, Australia and Britain.

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(125) It follows the same pattern at present as during the 1950's.

In 1966, Finland and Sweden placed a complete political embargo on the importation of South African wines and brandies and this affected exports as, until then, Sweden had been South Africa's third largest export market after Britain and Canada. In 1973, the Swedish Liquor Monopoly lifted its seven-year boycott of South African products and efforts were made to re-establish previous export levels.

The growth of export markets from 1938 to 1973 established an export trade which increased in value from R613 542 in 1938 to R5,6 million in 1973 and in which Britain and Canada emerged as the major markets for South African wine products. This can be seen from the figures shown on Table 29.

Britain has constituted South Africa's major export market since 1927, but a comparison of export figures indicates the growing importance of the Canadian market. In 1938, Britain accounted for 64% of total wine product exports and Canada for only 8,9%. Exports to Britain declined during the 1950's, however, while the Canadian market showed a steady rate of growth. During the early 1960's, both markets were subject to fluctuations, but a marked trend emerged after 1965. The Canadian market expanded rapidly from 13,9% of total export value in 1965 to 29,8% in 1973, while the British market contracted from 54% to 33,8% during this period.

The importance of these two markets is stressed further by a consideration of exports by liquor product. Fortified wine constituted 59% of total wine product exports in 1970 and the British market accounted for nearly 80% of total fortified wine exports. Brandy exports in 1970 came to about 11% of total exports and Canada constituted the major market, with 42,1% of total brandy exports. South African brandy represented about 30% of total Canadian brandy imports in that year. Brandy sales to Britain were negligible in that year. Unfortified wine is a relatively minor South African export product, but, of the quantity exported during 1970, Canada imported 22,4% and Britain 18,6%.<sup>(126)</sup>

TABLE 29

Value of South African Wine Product Export to Britain and Canada  
1938 - 1973  
 (in R million)

Year	Britain		Canada	
	Value	% of Total Value (1)	Value	% of Total Value(1)
1938	0,394	64,2	0,054	8,9
1953	1,124	32,5	0,383	11,1
1955	1,084	32,2	0,391	11,6
1957	1,121	32,2	0,527	15,1
1959	1,448	39,7	0,576	15,8
1961	2,285	53,2	0,531	12,4
1963	2,206	51,0	0,585	13,6
1965	2,887	54,0	0,740	13,9
1967	2,135	52,4	0,797	19,6
1969	1,529	38,3	1,104	27,6
1970	1,356	36,8	0,955	26,0
1971	1,755	41,5	1,256	29,7
1972	1,743	37,3	1,467	31,4
1973	1,892	33,8	1,669	29,8

Note:

(1) Total value of exports is shown on Table 30.

Source: Figures adapted from Table 22, "A Survey of Wine-growing in South Africa", 1972/73, page 64.

Since Britain and Canada constitute South Africa's most important overseas markets for wine products, trade developments in these two countries have a direct effect on South African wine exports. Thus, Britain's first application to join the European Economic Community aroused fears that South Africa might lose this market. These fears were allayed for a time by France's veto of the application. When the British application was finally accepted in 1970, it became imperative for the South African wine industry to re-assess the extent and importance of the British market and to consider the consequences of Britain's membership of the E.E.C.

The effects of Britain's membership and E.E.C. import policies will be discussed in the next section.

(ii) Expansion of the British market

While Britain has long been the major export market for South African wine products, these exports play an extremely small role in total British wine product imports, a situation which is unaffected by the existence of preferences.

A survey of British liquor consumption patterns in 1970<sup>(127)</sup> showed that beer accounted for 94,9% of total liquor consumption and wine and spirits for only 5,1%. Within the total market for wine, beer and spirits, domestic (British) production constituted 93% of the supply and imports only 7%. Of this latter percentage, Britain imported only 4,1% of total wine imports from South Africa (i.e. 0,3% of the total consumption). Its main sources of supply were 31,1% from the E.E.C. countries, 24% from Spain, 7,9% from Cyprus and 9,2% from other areas.<sup>(127)</sup>

In the light of these figures, it is understandable that a loss of South African wines and brandy would not have any serious adverse effect on the British market. On the other hand, Britain's entry into the Common Market could result in the loss of the British market for South African wine exports, as Britain is subject to

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(127) G.R. de Bruyn, op. cit., page 7.

the E.E.C. regulations in respect to wine. This loss would have an extremely adverse effect on the South African wine industry. Brief attention can now be given to the possible effects of Britain's entry into the E.E.C.

Firstly, since world wine production up to 1970 was characterised by undisposable surpluses (as in South Africa), the E.E.C., representing the world's largest wine-producing and wine-consuming countries, formulated legislation and regulations geared to prevent surpluses. With respect to South Africa, three impediments hampering wine export to Britain, as a member of the E.E.C., can be distinguished:

(a) The Common External (Customs) Tariff (C.E.T.)

This tariff consists of a five-tier duty structure increasing in step with the alcohol content of the wine product and with reduced duty on (competitive) wines with registered designations of origin (R.D.O.'s). Since the main South African wine exports to Britain consist of fortified wines, the C.E.T. would impose high duties on these wines, while Spanish sherry, which constitutes South Africa's strongest rival in the fortified wine market, enjoys a 60% duty reduction on the C.E.T. through possessing a registered designation of origin (i.e. the traditional "sherry zone" covering Jerez de la Fontera, Puerto de Santa Maria, Sanliver de Barrameda and Puerto Real). The C.E.T. also includes special tariff concessions made to particular products such as Spanish Meghrels red wine, which enjoys duty-free quotas.

(b) Import quotas are applied by France, thus making this country a closed market.

(c) The Common Agricultural Policy (C.A.P.)

C.A.P. has application to all agricultural goods and, in respect to wine, it fixes intervention prices for domestic

wines which are translated into "sluice-gate", or minimum reference prices at the frontiers of Common Market countries. The following calculation gives an idea of the effect of the imposition of such a reference price. Given present conditions, this effect could be to raise the price of South African wine products to an uncompetitive level:

Taking fortified wine (at 20% vol. alcohol) sold at 22c per litre f.o.b. Cape Town and the E.E.C. reference price as 61c per litre<sup>(128)</sup> -

Price f.o.b. Cape Town	0,22
Freight and insurance	<u>0,02</u>
c.i.f. cost E.E.C. country	0,24
E.E.C. Common External Tariff	<u>0,13</u>
"Normal" landed cost	<u>0,37</u>
<u>But</u> , minimum reference price	0,61
Less "normal" landed cost	<u>0,37</u>
Potential equalising duty	<u>0,24</u>

At this point there are two options:

(a) "Normal" c.i.f. cost	0,24
E.E.C. duties (13c & 24c)	<u>0,37</u>
Duty paid cost to importer	<u>0,61</u>

OR

(b) Inflated price <sup>(129)</sup> and c.i.f. cost	0,48
E.E.C. customs duty	<u>0,13</u>
Duty paid cost to importer	<u>0,61</u>

The landed cost price would, therefore, be 61c, in either case, instead of 37c.

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(128) Example from K.W.V. sources.

(129) Since the E.E.C. duty is levied on litres, not on c.i.f. prices, the South African exporter can inflate the c.i.f. price so that the duty represents a smaller proportion of it.

In the past, the application of E.E.C. tariff regulations has had a significant effect on South African wine product exports to Common Market countries. These exports (excluding those to Britain) fell from a value of R571 548 in 1958 to R71 180 in 1970, with a further decrease from 1970 to 1971 of almost 50%, down to R45 000.<sup>(130)</sup> The protectionist attitude adopted by the E.E.C. towards wines of other countries is understandable, given its dominant position in the world wine trade, where E.E.C. wine production accounts for 48% of total world wine production and for 51% of total world wine imports. The C.A.P., moreover, is geared to protect the cheaper wines of the E.E.C. and the imposition of the reference price system does not extend to quality wines with registered designations of origin. South African wines with R.D.O.'s would not be subject to this tariff. The restrictive effects of the C.A.P. on South African wine exports up to 1972 were due to the fact that South African wines were not produced in conformity with R.D.O. requirements and, therefore, did not qualify for exemption from the imposition of duty under the reference price system.

Although "Wines of Origin" legislation was originally instituted in South Africa to protect producers of estate wines, export wines also fall under its control so that there would be nothing to prevent their export to Britain, or to any other E.E.C. country. Fortified wines, however, do not as yet fall under "W. of O." legislative control and the application of the reference price system to this product could have a highly adverse effect on British demand, especially given the system of bulk exporting (cf. page 141).

The future of the British market is presently uncertain, because the E.E.C. Committee on wines has not yet made a decision regarding South Africa's application for approval of its system of registered designations of origin. Until such time as the above issue is decided, South African wine product exports to Britain continue on the same basis as before.

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(130) G.R. de Bruyn, op. cit., page 19.

(iii) Expansion of alternative export markets

Faced with the possible loss of the British market, the South African wine industry must needs focus more attention on alternative export markets, especially the Canadian market, to maintain its present export revenue.

Potential overseas markets for South African wine exports fall into three main categories:

- (a) The closed markets - these include all Socialist countries which are closed for political reasons, as well as African states north of the Zambezi, and Malaysia.
- (b) The restricted markets - these consist of Norway and Sweden, both of which have a State Liquor Monopoly limiting liquor imports, and Japan with import quota regulations. Finland can also be included in the category for, despite an official political boycott of South African products, some brandy exports have been made to this country.
- (c) The free markets - these are mainly Canada, New Zealand, Australia, Hong Kong, South America and the United States of America.

Export expansion into the first two categories would be limited, although brandy exports to Norway and Finland have been established. These are relatively insignificant, accounting for only about 8% of total wine product exports, by value, in 1970,<sup>(131)</sup> and decreasing to 4,1% in 1973, owing to political factors (cf. Table 30).

Attention must, thus, be given to the free markets, to some of which South African wine product exports are already being made.

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(131) "A Survey of the Liquor Industry in South Africa", op. cit., page 149.

(a) Canada

As has been discussed in the previous section, Canada constitutes South Africa's second most important export market after Britain. The only limitation as regards the future development of this market is restrictive advertising control.

(b) New Zealand, Hong Kong and others<sup>(132)</sup>

As can be seen from Table 30, wine product exports to all countries other than Britain, Canada, Scandinavia and Europe have formed a relatively small proportion of total export revenue since 1938. Of these countries, New Zealand and Hong Kong have been the most important markets: New Zealand is a market mainly for South African sparkling wines, while that of Hong Kong is mainly for brandy. In terms of relative share of total export value in 1970, New Zealand accounted for 4,2% and Hong Kong for 2,3%.<sup>(133)</sup> The expansion of exports to the above two markets would not prove particularly difficult, as South African products have already been established on these markets and efforts could be made to promote them further.

More difficulty, however, would be experienced in the development of markets in Australia, South America and the United States of America. Both Australia and South America are self-sufficient as regards satisfaction of domestic demand for wine, although given the relatively small quantities exported, South African wines might enter these markets if they competed on the basis of quality. The U.S.A. market has been supplied by the Californian wine industry up to the present and has also been almost entirely self-sufficient. To enter this market, South African wine producers would have to compete with quality French and German wines for the small proportion of U.S.A. wine imports.

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(132) Other countries include Australia, Mauritius, Taiwan, U.S.A., West Indies, Aden, Bahrain, Thailand, Singapore, Borneo, New Guinea, and Rhodesia.

(133) "A Survey of the Liquor Industry in South Africa", op.cit., page 149.

TABLE 30

Value of South African Wine Product Exports : 1938 - 1973

(in R000's)

Year	Scandinavia		Europe		All Other Countries (1)		Total (2) Value of Exports
	Value	% of Total Value	Value	% of Total Value	Value	% of Total Value	
1938	53,6	8,8	-	-	111,3	14,4	613,5
1953	298,0	8,6	-	-	1 649,9	47,8	3 454,4
1955	470,6	14,0	139,3	3,7	1 285,0	38,2	3 371,0
1957	468,3	13,4	228,2	6,6	1 142,0	32,8	3 486,3
1959	407,5	11,2	255,9	7,0	957,3	26,3	3 644,7
1961	581,3	13,5	172,9	4,0	728,6	16,9	4 299,6
1963	359,9	8,3	226,0	5,2	945,3	21,9	4 322,8
1965	403,0	7,5	270,8	5,1	1 041,0	19,5	5 342,1
1967	98,8	2,4	143,5	3,5	900,5	22,1	4 072,0
1969	96,8	2,4	207,3	5,2	1 056,2	26,5	3 992,9
1970	303,1	8,2	138,7	3,8	928,5	25,2	3 681,9
1971	134,2	3,2	130,0	3,1	953,9	22,5	4 229,0
1972	217,3	4,7	140,4	3,0	1 101,9	23,6	4 669,5
1973	232,3	4,1	149,4	2,7	1 662,2	29,6	5 605,0

Notes:

(1) Mainly New Zealand and Hong Kong.

(2) Including Britain and Canada.

Source: Figures adapted from Table 2,2 "A Survey of Wine-growing in South Africa" 1973/74, pages 58 and 59.

The development of these markets, however, is not impossible and the possible consequences of the loss of the British market could be cushioned effectively by such a development. In the past, the South African wine industry has made little effort to expand its exports, particularly for fortified wine, into other than the British and Canadian markets, despite ample warning of Britain's entry into the E.E.C. The maintenance of export revenue in the future would, therefore, depend on how successfully the South African wine exporters can expand into the many other potential overseas markets.

C H A P T E R   V I I

CONCLUSION

A study of the South African wine industry reveals several themes which lead into each other and which are closely linked with the supply of and the demand for wine products.

Low quality restricted demand in the early years of South African viticulture, then, as quality improved, production began to expand at a faster rate than did the demand for wine products, leading to low wine product prices through a simple demand/supply relationship. It was found<sup>(134)</sup> that it was not so much that too much wine was being supplied, as that too little was being demanded, because of undue restriction of the domestic market through the licensing system and, above all, through the prohibition of the sale of liquor to Africans. Although this judgement may have placed too little importance on the fact that production was not closely enough linked to demand, its accuracy regarding the causes of the unduly low demand schedule were born out when racial restriction of demand for liquor was removed in 1962.<sup>(135)</sup>

An interesting point arising out of an examination of the licensing system, as it was in 1905, was that its structure lent itself to eventual oligopoly control of liquor distribution in the domestic market. The distribution channels were to develop as predicted until the market was, indeed, dominated by four major manufacturing wholesalers.<sup>(136)</sup> Although a detailed study of the mechanics of oligopoly is not within the scope of this dissertation, it is interesting to note that the behaviour of the large concerns controlling the domestic market is that of a classic oligopoly. Barriers to entry exist owing to the high costs of establishing distilling and marketing facilities and are maintained by use of the 'tied-house' system. Joint profit maximisation policies lead to general price rigidity (punctuated by brief price-wars as one or other concern tries to increase its share of the market) at a market price higher than it would be under conditions of perfect or imperfect competition.

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(134) By the 1905 Committee of Inquiry (cf. page 14).

(135) cf. Table 22 and its supplementary graphs, pages 122 & 123.

(136) cf. pages 97-99.

The encouragement of co-operatives led directly from the recommendations of the 1905 Committee and was aimed at raising demand by improving the quality of wine products. By their nature, co-operatives could spread the risk and cost of production and, with financial assistance from the government, could provide the capital equipment and technical training required to produce wines and brandy of quality; equipment and training which would be beyond the means of most individual farmers. Nothing was done, however, to remove the legislative restrictions on demand and wine production rose steadily in the first quarter of the twentieth century, while demand lagged behind with the result that prices remained low.

In 1918, the problem of low prices was attacked from the supply side by wine farmers who combined forces to form a single large co-operative - the Co-operative Wine Growers Association of South Africa (K.W.V.). Efforts at price stabilisation through voluntary co-operation were only partially successful and an appeal was made to the government for assistance in the form of statutory control of production to combat low prices.

With the establishment of a statutory fixed price for distilling wine in 1924, the relationship between supply and demand for wine products was thrown further out of balance as supply increased rapidly with no corresponding increase in demand. The question of "surplus", i.e. unsaleable stock at the set price, became the subject of unofficial agreement - the K.W.V. was to dispose of it on "other than domestic markets".<sup>(137)</sup>

By 1937, the depressed state of the wine industry was again the subject of official inquiry, as was the agricultural sector in general. The 1937 Wine Commission found that there was "undue expansion of production in relation to the consumption requirements"<sup>(138)</sup> owing to the control of distilling wine by the K.W.V., but did not find it feasible to recommend a removal of this control. A return to a laissez-faire system, where the interaction of supply and demand give the market price, would result in extremely low prices, given the respective levels of supply and demand at the time. Although this would seem the simplest solution in the long run, the importance of the agricultural sector, in political terms, made it impossible to implement. Marketing Boards were set up to stabilise prices for other sectors of agriculture, while in

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(137) cf. page 25.

(138) cf. page 41.

the wine industry control was extended to "good" wine in 1940 and provision was made for the establishment of a quota system, should it be required.

Intervention in the operation of supply and demand forces through the imposition of statutory fixed prices led, predictably, to an excess of production over demand for wine products. Great efforts were made to find and develop export markets to absorb the "surplus", but unless demand could be increased, or supply cut back, this "surplus" could only be an ever-increasing problem. In 1957, the relevant provisions of the 1940 Act were invoked and the Wine & Spirits Control Amendment Act (No. 47) of 1957 incorporated a detailed scheme for the limitation of wine production through a quota system.<sup>(139)</sup>

In effect, the relationship between supply and demand was to be put back into balance through legally enforced reduction in supply, because this balance could not be achieved through a voluntary reduction of supply in response to demand conditions.

In 1962, the prohibition on the sale of liquor to Africans was lifted and the potential market for wine products was greatly increased by the inclusion (legally) of the greater part of the population. Demand increased sharply after 1962<sup>(140)</sup> to the extent that the production quota was increased by 50% in 1964 and by another 60% in 1970.<sup>(141)</sup>

Enforced reduction of supply and legally unrestricted domestic demand finally resulted in the attainment of a more stable demand and supply equilibrium at a fixed price close to the free market price for wine products.

The prevailing price for wine products merits some attention in another direction - that of level. Minimum prices for "good" and distilling wine were fixed above the free-market price so as to stabilise prices (and, indirectly, incomes) for wine farmers and this raised the price of wine products on the domestic market. Government encouragement of a change in drinking habits towards "natural" beverages, which was effected through the levying of excise duty on spirits, resulted in wine prices being low relative to those of spirits, i.e. statutory minimum prices raised the price of wine, while government action made this increased price a relatively low one in terms

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(139) cf. page 50.

(140) cf. Table 22 and supplementary graphs - pages 122 and 123.

(141) cf. page 50.

of other liquor products on the domestic market. As a result of the former, wine production increased and, through the latter, demand for wine was encouraged. The balance that this seems to suggest is deceptive, as it does not establish market equilibrium - it merely underlines the protection afforded wine farmers through price stabilisation on one hand and official encouragement of demand for their products on the other.

Within the existing framework of price control in the wine industry, true demand/supply equilibrium depends heavily on the retention of controls over production in the form of quota restrictions. For long-term equilibrium, these quotas must be allocated in such a way as to ensure that wine production is directly linked to demand for wine products - thereby eliminating the "problem of surplus". The fact that, in the past few years, demand has exceeded supply through the interaction of various factors (mainly climatic), in no way obviates the necessity for quota restrictions, as these factors cannot reasonably be assumed as remaining constant in the long-run. Demand could fall and climatic conditions could result in bumper crops. Given the existence of minimum prices below which wine may not be sold, however, removal of quota restrictions in response to present prevailing supply/demand conditions would inevitably result in a recurrence of the "problem of surplus" should these conditions be reversed.

Thus, for the wine industry to maintain a stable demand/supply relationship for its products in the long-run, provision must always be made for the implementation of production limitation through quota restrictions. Otherwise, intervention in the free interplay of the demand and supply functions through legally enforced minimum prices will result in continued and ever-increasing "surpluses". The question of intervention can be taken further - economic development involves a continual shift of resources from agriculture to industry and the tertiary sector due to higher income elasticities of demand for non-agricultural compared with agricultural products. Thus, if the government wishes to maintain farmers' incomes, it must continue to interfere with the free market mechanism in favour of the agricultural sector.

APPENDIX AEmployment and wages

In terms of employment, viticulture plays a relatively minor role in the economy of the Western Cape. All branches of agriculture employed only 4,8% of the total White labour force and 13,7% of the total Coloured labour force in 1970<sup>(1)</sup> and, of the total labour force engaged in agriculture in 1972, viticulture employed 47%, according to information supplied by the Minister of Agriculture.

Although K.W.V. returns indicate that there were approximately 9 400 wine growers in the Western Cape in 1974, the number of employees on their farms is unknown, as no census has been taken of the number of Coloured and, to a lesser extent, Xhosa workers on the wine farms of the Cape. The computation of the exact number of people engaged in viticulture is further complicated by the fact that prison labour is used on many wine farms. Twelve prison outstations exist in the Western Cape, housing about 3 590 prisoners. These jails have been erected since 1948 by groups of farmers in co-operation and then handed over to be filled and run by the Department of Prisons. The capital cost was borne by the individual farmers who bought shares in the building and so held "rights" to convict labour in proportion to their shareholding. During the mid-1960's, it was estimated that rights to convict labour raised the value of farms in the Western Cape by about R1 000 per convict.<sup>(2)</sup> The use of convict labour was still common during the early 1970's, but is being replaced gradually by the employment of migrant labour.<sup>(3)</sup>

Although information on this subject is difficult to obtain from official sources, informal field interviews suggest that the slow change from convict to migrant labour is the result of a combination of factors working together. On the supply side, prison authorities seem increasingly reluctant to make convict labour available to farmers, thereby reducing the supply. On the demand side, farmers consider that the quality of labour provided by migrants is of a higher order than that of convicts, who have no incentive to work well. In cost terms, the low level of productivity found in convict labour is more

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(1) "Long Term Development of the Western Cape", NDMF Cape Town, 16th & 17th May, 1973, page 30.

(2) "South African Outlook" March 1972, page 37.

(3) Ibid., page 46.

expensive in the long-run than the comparatively higher wages paid to migrant workers. Decreasing demand for convict labour, however, also seems to be partially due to increasing reluctance on the part of wine farmers to use what they consider to be forced labour - on moral grounds.

In terms of racial groups, Coloured workers constituted 78% of the viticultural labour force in 1969, according to a survey made by P.G. Louw,<sup>(4)</sup> while the remaining 22% was made up of White wine-growers and foremen and Xhosa migrants. The racial components of the labour force engaged in viticulture are significant in that income earned shows marked differences from one racial group to another.

As indicated by Table 12, the income earned by wine-growers from the sale of their "good" and distilling wine increased by 327,5% from R8,03 million in 1948 to R34,35 million in 1968 and by 79,0% to R61,42 million from 1968 to 1973. The figures indicate that there were fluctuations in income, despite the marketing control of the K.W.V., but the overall trend has been one of continuous increase in the revenue obtained from the sale of wine products.

The same trend is not observable as regards wages paid to the viticultural labour force. The Agricultural Census of 1963/64 gave the annual average cash wage of Coloured labourers in the Cape Province as R155; that of the Black labourers as R83; that of White farm workers as R1 285. In 1970, the Commission of Inquiry into agriculture found that, for the period 1966/67, average annual cash wages of regular Coloured farm labourers in the Malmesbury district were R152,43. Payments in kind, not estimated by the Agricultural Census of 1963/64, totalled another R287,05. Average monthly cash wages were, thus, R12,70, with payment in kind to a value of R23,90 per month.<sup>(5)</sup>

The Argus conducted a survey of the area around Malmesbury in 1973 and found that monthly cash wages ranged between R6 and R16, with an average of about R10 - R12.<sup>(6)</sup> Little information is available regarding wages in the other wine areas of the Cape outside of thesis research into Stellenbosch farm

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(4) P.G. Louw - "Labour for the Production of Wine Grapes in the Western Province". Agrekon, Vol. 8, No. 3, July 1969.

(5) Tabled in "The Second Report of the Commission of Inquiry into Agriculture" RP 84/1970, Page 144.

(6) The Argus, 11th August, 1973.

labour in 1969. This indicated that average monthly cash wages were R23,24, but that, in fact, monthly cash wages ranged between R14,00 and R44,00. Although comparisons cannot be made with the other wine areas, the above figures indicate that there are regional differences in the wage level.

From the data available, however, it seems that the wage level in the wine industry seems to have remained relatively stable from 1963 to 1973 while income from the wine-farming increased by 180% during this period. This trend reflects the findings of the Commission of Inquiry<sup>(7)</sup> into Agriculture as regards income and wage levels in South African agriculture as a whole. The Commission found that labour costs had remained virtually unchanged in the agricultural sector from 1948 to 1968, while personal income of farmers had increased fourfold.<sup>(7)</sup>

As stated above, however, wage costs constitute only a portion of total agricultural wages. The Agricultural Commission<sup>(8)</sup> found that "payment in kind" formed 65,3% of the total.<sup>(8)</sup> These non-cash benefits vary from farm to farm, but generally include housing, vegetables, meat and fish, medical services, clothing and some form of accident insurance. A small percentage (8,7%) of these payments in kind is in the form of wine.<sup>(9)</sup>

The custom of supplying a "tot" to farm labour was widespread in the wine areas of the Cape and, up to 1928, it was left to individual farmers to determine how and when they would supply wine to their labour. In some cases as many as 9 - 10 "tots" per day were given, as well as about two bottles to take home to drink.<sup>(10)</sup> The 1928 Liquor Act gave legal sanction to the "tot-system" by stipulating the conditions under which "tots" could be supplied. By the time that the Malan Commission<sup>(11)</sup> investigated the liquor industry in 1958, this system had become part of the pattern of agricultural life. The most frequent argument advanced in favour of its

- (7) "The Third Report of the Commission of Inquiry into Agriculture", RP 19/1972, page 15.
- (8) "The Second Report of the Commission of Inquiry into Agriculture", op. cit., page 144.
- (9) Ibid., page 144.
- (10) David Graaff - "Farming in the Hex River Valley", SALDRU Farm Labour Conference, September 1976, Paper 42, page 2.
- (11) "The Commission of Inquiry into the General Distribution and Selling Price of Intoxicating Liquor", V.G. 55/1960.

maintenance by wine farmers was that farmers would be unable to retain labour should they withdraw the "tot". This argument is fast losing force, however, as many farmers have left the system without experiencing labour problems. It has been estimated that 50% of wine farmers now give no "tot" at all and that those who still do so give only a tot in the evening.<sup>(12)</sup> The maintenance of adequate supplies of labour has been seen to depend on factors other than the availability of a "tot"; the quality of housing, the availability of credit, the cash wage and the personal attitude of the employee, are far more important in determining whether a worker will work for one farmer and not for another.<sup>(13)</sup> Thus, although still part of the agricultural life of the Cape, the "tot-system" is becoming a waning custom with decreasing importance in terms of non-cash agricultural wages.

Despite assurances<sup>(13)</sup> that the quality of life among farm workers is undergoing a dramatic change in terms of housing, real wages and hours of work, farm labour is not a highly-paid sector of the labour force and the supply of "Coloured" labour is becoming scarce, relative to demand. Instead of raising wages, the trend seems to have been towards the employment of migrant workers from the Transkei, although this, too, presents problems in that the low wages offered fail to attract labour in any great numbers.<sup>(14)</sup>

Brief mention must also be made of the fact that farm workers are covered not by the Industrial Conciliation Act, but by the Masters and Servants Act and the low level of agricultural wages, as well as its relative stagnation, could be partly due to this. The Masters and Servants Act is a colonial piece of legislation in terms of which the "desertion" of an employee is a criminal offence; an employer can hold back wages to pay off debts owed him by the employee, and the employee is liable for offences such as absence without permission, disobedience and using the master's property. No wage claims, nor increase may be negotiated on a collective basis by committees or unions as in other industries. Thus, although not the full answer to the low level of agricultural wages, lack of the right to use collective bargaining is, in some part, responsible. This is particularly true of viticulture which is labour-intensive by its very nature and in which demand for labour generally exceeds supply, at the going wage rate.

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(12) David Graaff - op. cit., page 2

(13) Ibid., page 5.

(14) Brian Levy - "The Seasonal Labour Market in Agriculture - An Empirical Study" (Paper presented at SALDRU Farm Labour Conference - September 1976), page 13.

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