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Title
Covid-19 and the South African wine industry: an update

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Conference Presentation

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Keywords
South Africa, wine industry, covid-19, partial equilibrium simulation, structural change

Research Question
What has the impact of COVID-19 been on the South African wine industry?

Methods
Partial equilibrium modelling

Results
The impact was severe especially because of the unprecedented ban on the sales of alcohol on four separate occasions. The industry is only now recovering.

Abstract
1. Introduction

Davids et al (2022) analyses the impact of the COVID 19 pandemic on the South African wine industry in the wake of the third wave of infections. The purpose of this paper is to update the modelling to the period after the fourth wave and the summer season of 2021/2022, following the first recorded cases in March 2020. Like most of the world, the pandemic has dominated politics and social and work life, and has had a devastating impact on the economy across the primary non-agricultural (mostly mining), the secondary, and the service sectors. Because agriculture is largely about the production of food to sustain human life, however, the direct impact globally on the

sector in general has not been large, and in the case of some commodities it has been positive. However, the contribution of food production to GDP was negatively influenced by the indirect impact that the pandemic has had on the low-income and poor segments of societies world-wide. South Africa has been no exception in this regard.

Many countries closed restaurants and bars during strict lockdown periods, effectively ending on-premises sales and consumption of alcoholic beverages. Where South Africa has been an exception, however, is in the four periods where the sale of alcohol, including wine, has also been banned for sale in off-consumption outlets such as liquor stores and supermarkets. The only other country to implement as severe a ban was Greenland, which is, of course, not a wine-producing country. At the same time, wine exports were also banned in the early stages of the pandemic when the first lockdown regulations were promulgated towards the end of the 2020 wine grape harvest.

To this end, the purpose of this paper is twofold, first to quantify the direct impact of the ban on wine sales through 2020, which must be separated from the indirect impact of the collapse in GDP growth and therefore in consumer spending in the economy as a whole, and second to illustrate how long it will take for the industry to recover from this impact.

In this paper, we place the impact of the bans into perspective by first analysing some of the trends that were affecting the wine industry prior to the pandemic. This is followed by a short analytical description of the details of the ban. In section four the model, as developed by the Bureau for Food and Agricultural Policy (BFAP), is first described, followed by a discussion of the results in section five. Section six will conclude.

2. Conclusions

The actions taken to curb the spread of the pandemic through the first four waves of the COVID-19 pandemic are worth considering. The various restrictions placed on trade through periods of lockdown have resulted in significant reductions in sales among alcoholic beverage sectors, where wine is the second largest after beer and a critical contributor to South Africa's export revenue. Within this context, the purpose of this paper was twofold: Firstly to quantify the impact of restrictions on wine sales in 2020 – particularly to separate this direct impact from the indirect impact of collapsed GDP activity and consequently consumer spending. Secondly, it aims to illustrate the time required for the industry to recover from this impact.

Quantification of the impact of sales restrictions must be understood within the context of the structural adjustment evident in the sector over the past decade. The number of producers and area under wine grapes has been declining, while farm sizes and yields have increased. The proportion of wine production exported peaked in 2013 and in recent years, per capita consumption has trended downwards. To some extent, this reflects the industry's premiumisation strategy, which aims to curb a long term decline in real prices. This strategy was starting to bear fruit, with real prices increasing from 2016 to 2019. The pandemic however reversed this trend, resulting in a further decline in 2020.

The evaluation showed that the full year on year decline in domestic sales and export volumes cannot be attributed to sales restrictions, as the indirect impact of collapsed GDP and consequently also consumer spending would in itself have resulted in weaker sales and prices compared to 2019. However, domestic sales and export volumes that materialised in 2020 were respectively 15% and 10% lower than the simulated outcomes, which represent what might have been achieved in the absence of sales restrictions, under the same macro-economic circumstances. The extent of stock build up that occurred through 2020 also implies that the impacts of the pandemic will be with the industry for years to come. Simulations suggest that the gross value of production will only converge to a theoretically attainable scenario (where the 2020 sales restrictions are removed) by 2027.

The impacts of the pandemic have the potential to accelerate the structural adjustment that has occurred in the industry over time. The deterioration in profitability could result in further producers choosing to exit the sector. At the same time, the premiumisation strategy will be more difficult to execute in a substantially weaker macro-economic environment and further complicated by the high level of stock build up.

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