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Black Economic Empowerment in the South African Agricultural Sector: A Case Study of the Wine Industry

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Abstract

This paper explores the extent and forms of black economic empowerment (BEE) in the South African agricultural sector through a case study of the wine industry in the Western Cape. Compared to the mining and fisheries sectors, the progress of BEE in the agricultural sector is still in the early stage. However, various forms of black entry into the wine industry, not limited to BEE deals by large corporations, began to emerge, especially since the enactment of the Broad-based Black Economic Empowerment Act (BBBEE Act), Act 53 of 2003. This paper identifies two types of BEE wineries as unique forms of black entry into the wine industry and investigates in detail their features, backgrounds and challenges by referring to several prominent examples of each type of BEE winery.

Keywords: black economic empowerment, wine industry, South Africa

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Introduction

Black[1] economic empowerment (BEE) is one of the key items on the social and political agenda in democratic South Africa. BEE is the most advanced in such sectors as mining, fishing and state-owned enterprises, where the government can impose pressure on individual companies through policy instruments such as the granting of prospecting and mining rights and the allocation of fishing quotas (Cargill 2010, Ponte and van Sittert 2007, Ponte et al. 2007, Southall 2007). In contrast, the progress of BEE in the agricultural sector is still in the early stage. The purpose of this paper is to discuss to what extent and in what form the entry of black people is being achieved in the agricultural sector, where the regulatory power of the government is still relatively weak, through a case study of the wine industry in the Western Cape.

Even in the sectors and industries where the government has strong regulatory power, it has been pointed out that the outcome of the BEE policy is mixed and varies in each sector. For example, Ponte and van Sittert (2007) have revealed that the regulatory power of the government alone cannot realize meaningful BEE in industrial fishery. On the other hand, while BEE is most advanced in the mining sector, it has been noted that there are problems of corruption and abuse of power by politicians and officials in the Department of Mineral Resources when granting prospecting rights (Cargill 2010: 95-102, Marais 2011: 141-144). Thus, the degree and practices of BEE differ widely among the sectors and industries. It is necessary to analyse the unique characteristics of each industry, and not least, the dynamic interactions among principal actors. Thus, this paper will discuss both the BEE policy in the agricultural sector and the specific measures introduced in the wine industry to promote black entry and empowerment.

Currently, the agricultural sector accounts for 2.4% (2010) of the gross domestic product (GDP) of South Africa. It has nearly halved since 1990 (4.6%) when political transition began. However, the gross added value of agricultural products has increased significantly in recent years, to 129.5 billion rand (2009/10) from 21.9 billion rand (1990/91) (DAFF 2012: 77-78). In particular, the exports of fruits and vegetables for the European market have grown since democratization and liberalization of the agricultural market in the late 1990s. Wine exports have also increased rapidly and have become the leading agricultural product of the country. The main wine export destinations are European countries including the United Kingdom,

1 Based on the definition of the BEE policy, this paper employs “black” as a general term referring to all three groups classified as “other than white” in the apartheid racial registration, i.e. “coloured”, “African” and “Asiatic (Indian)”.

Germany, Sweden, the Netherlands and Denmark. While South Africa has the twelfth largest area under vine in the world, it produces the eighth largest volume of wine, amounting to 3.6% of total wine production in the world (SAWIS 2012: 27, 34).[2] The wine industry is a key industry in the Western Cape, where most wine farms and cellars are situated. Including wine tourism, the industry employed 8.8% of the total employees in the province in 2008 (Conningarth Economists 2009: 30).

White farmers have historically dominated the commercial farming sector in South Africa. Under apartheid, the prospect for black producers to engage in commercial farming was severely restricted. The wine industry was a typical example of white domination in commercial agriculture. With the start of the political transition in 1990, racial restrictions on land ownership were eliminated, and land reform was introduced after the birth of the administration led by the African National Congress (ANC) in 1994. However, land reform has failed to meet the initial target of transferring 30% of land owned by white famers to black people, and moreover, it has achieved little in terms of the development of black farmers. Various reasons for this have been pointed out, including insufficient post-settlement support, lack of experience, technology and competence among farmers who acquire land, and frequent conflicts among land reform beneficiaries over the issue of how to use land (Sato 2009, James 2007, CDE 2005, Hall ed. 2009).

As the limitations of land reform became evident, researchers began to look at initiatives by industry organizations to promote black farmers (CDE 2008, Kleinbooi 2009). Two things need to be understood as the background of the increased intervention from the agricultural industry led by white farmers. The first is the mounting fear among white farmers. They are worried that a growing discontent among rural residents due to lack of progress in land reform might be converted to political populism, which in turn could bring about a Zimbabwe-style land reform (Greenberg 2006). The second is the progress of the BEE policy. With the consolidation of political power by the ANC especially under the Mbeki Administration, the content of BEE policy became clearer. Amid the mounting pressures from the government to implement BEE, the agricultural industry and individual farmers began their own initiatives to define the scope of BEE in their own terms.

Existing literature on the BEE policy and practices in the wine industry can be divided into two groups. The first group, written by sociologists and political scientists, mainly looks at specific

[2] The area under vine reached 100,568 ha in 2011 with a total wine production of 831.2 million litres (SAWIS 2012: 5, 8). Wine is produced in the Western Cape, the Northern Cape and part of the Free State provinces.

case studies or focuses on particular aspects of transformation. Hamman and Ewert (1999) examine early cases of land reform in the wine industry. Williams (2005) provides a detailed analysis of the transformation process of the Ko-operatieve Wijnbouwers Vereniging van Zuid-Afrika Beperkt (KWV: South African Wine Farmers' Cooperative) which occupies a central position in the historical development of the South African wine industry. Kruger (2008) and McEwan and Bek (2009) discuss the relationship between ethical trade such as fair trade and BEE. Du Toit et al. (2008) critically examine the state of overall transformation in the wine industry. The second group looks at the changes brought about by liberalization of the wine market. Mainly written by agricultural economists, these studies argue that significant qualitative change has occurred in the South African wine industry since exports of wine soared after liberalization (Sandrey and Vink 2008, Ponte and Ewert 2007, Vink et al. 2004).

Market liberalization and BEE are two important keywords for understanding the South African wine industry after democratization, but many of the previous studies have so far focused on one aspect or the other, but not both. There is little research that explicitly examines the relationship between the changes after liberalization and the forms of black entry into the wine industry.[3] Against such background, this paper attempts to explore to what extent and in what way the changes brought about by market liberalization have expanded or narrowed the conditions of and the prospect for black entry and empowerment in the South African wine industry. I will also examine the relevance of policy (i.e., land reform, BEE) in facilitating black entry into the wine industry and highlight the challenges facing BEE.

This paper consists of three sections. The first section discusses the transformation of the wine industry after democratization and market liberalization and explores its implications for new black entrants into the industry. The second section deals with policies and measures introduced by the industry organizations to facilitate black entry into the wine industry and is divided into two phases: the first phase is centred on the activities of the South African Wine Industry Trust (SAWIT) and the second phase is about the efforts by the wine industry to comply with the government's BEE policy. The third section discusses the two unique forms of black entry into the wine industry in detail, questioning the meaning of empowerment and highlighting the challenges that each form of entry poses. In conclusion, I will summarize the findings of this paper and shed light on the prospects and challenges of BEE.

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[3] As an exception, Ewert and Du Toit (2005) discuss the effects of intensifying international competition after liberalization on the condition of farmworkers in the Western Cape. They argue that, together with labour legislation reform, market liberalization accelerated the process of dividing farmworkers into a small number of core regular workers and the majority of seasonal workers.

The South African Wine Industry after Democratization

Transformation of the Wine Industry

It is relatively new that South African wine has been recognized as a fine export commodity. Except for the period during the British colonial era,[4] most of the wine produced in South Africa was consumed domestically. The wine production, which was started by European settlers in the mid-seventeenth century,[5] was heavily regulated by the KWV (wine farmers' cooperative) during most of the twentieth century. KWV regulated the size of vine cultivation, wine production, domestic distribution and exports (Williams et al. 1998: 67-69). The purpose of the formation of KWV in the early twentieth century was to ensure a fair price for grape producers. However, the institutional mechanism by which KWV guaranteed minimum prices to grape producers, who were paid by the amount of grapes they produced, lacked incentive for the producers to improve the quality of their product. As a result, the wine industry produced a large quantity of wine of inferior quality mainly for the domestic market. Farms and cellars which produced good table wine were confined to a small number of estates (where the farmers cultivated grapes, made wine and bottled it on the estate) in the Constantia and Stellenbosch regions. The widespread international boycott of South African products in support of the growing anti-apartheid movement in the 1980s also hampered wine export (Vink et al. 2004: 232, 236, Ewert and Du Toit 2005: 318).

KWV's control over the various aspects of grape cultivation and wine production was gradually removed, and in 1997, the marketing of wine was liberalized.[6] Since then, both the area under grape cultivation and the wine production have increased year by year. The area under vine increased from 83,717 hectares in 1993 to 100,568 ha in 2011. Wine production increased from 395.03 million litres in 1993 to 831.2 million litres in 2011 (SAWIS 2012: 5, 8; 2005: 9, 14). At the same time, wine export surged thanks to the termination of the international boycott of the South African products. The proportion of exports to total production of wine was just 6.2% in 1993. By 2000, it had increased to 26% of total production, and in 2008 the export amounted to 53.9%, exceeding domestic sales (SAWIS 2011: 26; 2005: 24). In contrast, growth in the

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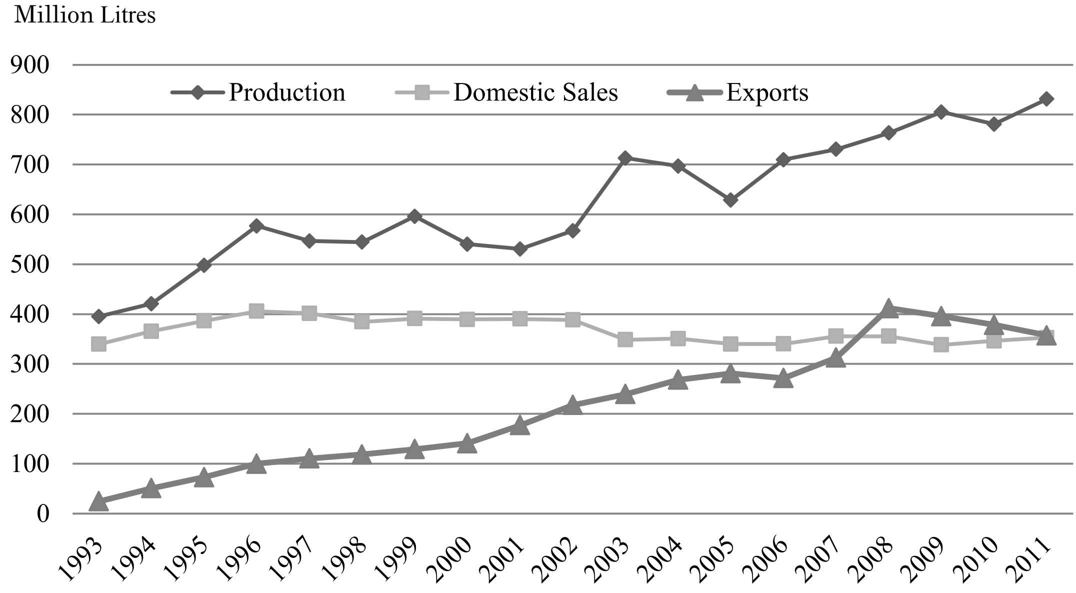
4 Wine was an important export commodity from the Cape Colony to England from late eighteenth century to the first half of the nineteenth century, before England concluded the trade agreement with France in 1860.

5 The origin of wine production dates back to when the Cape Colony was under the reign of the Dutch East India Company. Wine production expanded when the Huguenots settled there from France in the second half of the seventeenth century (Kench et al. 1983, Vink et al. 2004: 229).

6 The quota system involving the acreage of grape production was abolished in 1992 (Williams et al. 1998: 73, Van der Merwe 2000: 13). The price guarantee system for wine was removed in 1995 (Williams 2005: 482), and the monopoly on wine exports by KWV was reviewed in 1997 (Ewert and Du Toit 2005: 318).

domestic sale of wine was slow throughout the 1990s, and it shifted to a decrease in 2003 (Figure 1).

Figure 1 Wine Production, Domestic Sales and Exports



Source: SAWIS [2005; 2010; 2012].
Note: Not all wine produced in a given year is sold or exported.
Thus, domestic sales + exports ≠ production.

One of the reasons for the massive growth of South African wine exports during this period lay in its novelty. South African wine was "new" to the market. In particular, thanks to the "Mandela magic", South Africa attracted enormous interest from the international community during the period immediately after democratization.[7] It was also fortunate for South Africa that the wine market in the Nordic countries and the UK expanded and the sales of "New World" wine grew during the same period (Anderson ed. 2004). Ponte and Ewert (2007: 59) note that the inferior quality of South African wine was hidden during this early period thanks to its novelty. This situation did not endure, however. Various efforts were made to improve the quality of the wine in order to benefit from the boom in exports. As a result, it is said that wine production in South Africa has been fundamentally changed in the following three aspects.

Firstly, the production of table wine (wine not used for distilling liquor or brandy) increased. In particular, the production of red wine grew by leaps and bounds due to high international

7 Interview with Mr. Henry Petersen, Manager of BEE Programmes and Master Mentorship, Wine Industry Development Association (WIDA), 17 September 2010, Paarl.

demand for it as well as the high price it commanded.[8]

Secondly, the types of grape under cultivation shifted from high-yield to high-value varietals, and the growing area of the latter expanded. While the cultivated area of the six noble varietals (Cabernet Sauvignon, Shiraz, Pinotage, Merlot, Sauvignon Blanc, Chardonnay) was only 6.5% of all the vineyards in 1980, it increased to 19% of the vineyards and 42.5% of new plantings in 1995 (Vink et al. 2004: 237). The proportion of noble varietals had risen to 52.9% of the vineyards as of 2011 (SAWIS 2012: 11).

Thirdly, producer structure in the industry has changed. Whereas both grape growing area and the amount of wine production were on the rise starting in the mid-1990s, grape producers decreased by more than 20%, to 3,527 entities in 2011 from 4,646 entities in 1996 (Table 1). Small-scale growers who produce less than 100 tons per year decreased to 1,461 entities in 2011 from 2,173 entities in 2002, while large-scale growers who produce in excess of 1,000 tons per year increased to 336 entities (2011) from 224 entities (2002). This means that grape production has become increasingly concentrated among large-scale growers, while small-scale growers have continued to leave the land.

Table 1 Number of Grape Producers Per Production Category

Year/Tons	1996	2002	2005	2006	2007	2008	2009	2010	2011
1-100	n.a.	2,173	2,084	1,648	1,717	1,544	1,536	1,542	1,461
>100-500	n.a.	1,545	1,582	1,421	1,475	1,423	1,314	1,304	1,273
>500-1,000	n.a.	404	453	432	482	498	462	415	457
>1,000-5,000	n.a.	223	238	265	318	367	348	329	329
>5,000-10,000	n.a.	1	3	5	7	7	7	6	7
Total	4,646	4,346	4,360	3,771	3,999	3,839	3,667	3,596	3,527

Source: SAWIS [2008; 2009; 2010; 2011; 2012], SAWIC [2007], Vink et al. [2004], Williams [2005], Ponte and Ewert [2007].

It seems that the opposite change has happened among the cellars (Table 2). The total number of cellars increased to 582 in 2011 from 295 in 1996. In particular, private cellars which operate on a relatively small scale increased rapidly. On the other hand, producer cellars operated by

[8] In 1997, 85% of the wine produced in South Africa was white wine. Its ratio was reduced to 79% in 2000 and 61% in 2005. However, the proportion of white wine increased again to 65% in 2011 (SAWIS 2012: 14; 2005: 14).

cooperatives decreased to 52 cellars in 2011 from 69 cellars in 1996. In this regard, Williams (2005: 477) points out that many cooperative cellars have merged or converted into private companies since 1998 in order to increase their flexibility in procuring grapes and to develop a market strategy and wine brand.

Table 2 Number of Wine Cellars Which Crush Grapes

Year	1996	2002	2005	2006	2007	2008	2009	2010	2011
Producer Cellars	69	66	65	66	59	58	57	54	52
Private Wine Cellars	218	349	495	477	481	504	524	493	505
Producing Wholesalers	8	13	21	18	20	23	23	26	25
Total	295	428	581	561	560	585	604	573	582

Source: Same as Table 1.

As for the wine merchants (traders who purchase bulk wine[9]) including producer-wholesalers, there was an increase in new entrants, in particular exporters, until the global financial crisis of 2008 (Table 3). On the other hand, mergers of existing large-scale enterprises took place once again. Stellenbosch Farmers Winery (SFW) and Distillers, which had merged in 1979 but separated ten years later, merged again in 2000 to form the Distell Corporation (a listed company). Distell is the second largest wholesale liquor company (and the largest wine and distilling company) in South Africa (Ewert and Du Toit 2005: 323).

Table 3 Number of Wine Merchants (Bulk Wine Buyers)

Year	1996	2002	2005	2006	2007	2008	2009	2010	2011
Wholesalers	46	70	70	n.a.	51	47	61	60	57
Exporters	10	34	48	n.a.	70	71	41	40	44
Total	56	104	118	n.a.	121	118	102	100	101

Source: Same as Table 1.

Note: Wholesalers include Producing Wholesalers.

Implications for Black Entry into the Wine Industry

What are the implications of these changes in the wine industry since late 1990s for black entry? I would argue that at least three issues can be identified. Firstly, as for entry into grape

9 Wine merchants purchase unpackaged wine (bulk wine) from cellars. After blending, maturing and bottling it, they sell the wine under their own brand name. Not all of them have cellar facilities of their own.

production, we must admit that new black grape producers have to start in very difficult circumstances. Even small-scale white farmers are no longer able to maintain their production under the liberalized market conditions. The South African wine industry as a whole has undergone remarkable growth thanks to the increase in exports after liberalization. However, the increase in production volume and wine exports did not confer equal benefits on all grape producers. In spite of the increase in wine exports, most grape producers' incomes did not improve. According to Conningarth Economists (2009), this was because the price of grapes purchased by cellars remained sluggish, while the cost of grape production soared.

Secondly, the increase in private cellars meant that some grape producers were able to invest in their farms and construct their own cellars, moving up in the value chain of wine production. They are now not only growing grapes but also have created and sold their own wine brand. Generally speaking, selling brand wine is considered to realise a higher rate of return than grape production. Since the majority of wine exported from South Africa is packaged wine[10] (SAWIS 2012: 26), creation of a popular brand in the international market has become an important business strategy for wine producers. The increase in wine merchants (i.e., traders who purchase bulk wine) is probably a reflection of the change in the nature of the wine business. Given that the initial entry cost of becoming a wine merchant is relatively small, this might be an expedient way for black people to enter the wine industry.

Thirdly, it is also important to note that domestic sales stagnated during the period when wine exports grew. Historically speaking, domestic wine consumers have mainly been the white population, which comprises a mere 10% of the total population in the country. In this sense, the domestic wine market is very limited. African people, who account for more than 75% of the total population, tend to prefer malt beer or traditional sorghum beer. While the market share of malt beer expanded to 46.1% in 2010 from 42.9% in 2000, that of wine decreased to 12.6% from 14.0% during the same period (SAWIS 2011: 31; 2010: 30-31).[11] This stands in stark contrast to the European countries, especially the UK, the main destinations for South African wine exports, where rapid expansion in the sale of wine in supermarkets contributed to an increase in wine consumption in the 1990s (Anderson ed. 2004). Thus, European countries have become important potential markets for new black entrants, who are now forced to participate in the global competition over the shelf space in supermarkets.

10 Packaged wine refers to wine in a bottle or box that is ready to be put on the shelf. Seventy percent of wine exported from South Africa in 2003 was packaged wine (SAWIS 2005: 25).

11 Sorghum beer, which occupies the second largest market share, has also significantly reduced its share over the same period, to 16.6% in 2010 from 24.2% in 2000.

Policies and Practices to Facilitate Black Entry into the Wine Industry

Next, I will outline the policy framework and practices to facilitate the entry of black people into the wine industry. This is divided in two phases. The first phase refers to activities of the trust fund established as a result of the internal transformation process within the wine industry in the mid-1990s. The second phase deals with the initiatives and efforts that were started in the wine industry in accordance with the development of the overall framework of the BEE policy.

Establishment of the South African Wine Industry Trust (SAWIT)

As mentioned in the previous section, there existed various regulations and protections for grape producers exercised by KWV that formed the centre of the historical development of the South African wine industry. KWV controlled the amount of wine in the market and obtained the exclusive use of the "surplus grape" thus created. The "surplus grape" was utilized by KWV to make fortified wine (i.e., wine with an enhanced alcohol level such as port wine and sherry) and distilled brandy and sprits. The sale of these products made from "surplus grape" contributed to the formation and expansion of KWV's assets.[12] With the liberalization of the market in the 1990s, however, KWV lost its central regulatory position in the industry. In response to this development, KWV announced in October 1996 its application to the Supreme Court to convert itself from a cooperative to a private company. Derek Hanekom, Minister of Land Affairs and Agriculture at that time, intervened in the process by imposing several conditions on the approval, which included that a new trust fund for the promotion and restructuring of the entire wine industry was to be established and that KWV was to contribute to the trust fund a total amount of 300 million rand over 10 years. Consequently, KWV became a private company in 1997, and the South African Wine Industry Trust (SAWIT) was established in Stellenbosch in early 1999 (SAWIT 2010a: 16-17, Williams 2005: 482-483, Du Toit et al. 2008: 12-13).

SAWIT set up two substructures called the Wine Industry Business Support Committee (BUSCO) and the Wine Industry Development Company (DEVCO). The latter was given a mandate to facilitate black entry into the industry and to provide support to projects for improvement of living conditions of farmworkers.[13] From 1999 to 2009, DEVCO provided

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12 It has been said that the exclusive use of surplus grape contributed to the formation of KWV's huge assets which are close to 800 million rand (Vink et al. 2004: 238-239).

13 BUSCO's mandate is to conduct research for the development of the wine industry as a whole. The organisations which received financial assistance from BUSCO include the following: Wines of South Africa (WOSA) which promotes the export of South African wine, Wine Industry Network of Expertise and Technology (Winetech) which carries out research on production technology and the supply chain, South African Wine Industry Information and System (SAWIS) which collects statistical information on the wine industry, and VinPro which represents grape producers and provides agricultural extension services (SAWIT 2010a: 8).

financial assistance in the following four areas. The first was provision of financial and other types of assistance to wineries owned and/or managed by black people, known as BEE wineries. In total, 23 BEE wineries received financial and other types of support from SAWIT. The second was scholarship and international exchange programmes. SAWIT granted scholarships to black students who majored in oenology, viticulture or business administration. It also organised short-term study programmes in the winemaking region of Burgundy, France, and the United States for black people. The third was provision of funding to NGOs and community organisations. In total, 15 such organisations in the Western Cape benefited from the scheme.[14] The fourth was provision of financial assistance to farmworkers' unions. Thirteen such unions in the Western Cape received funding in order to organise workshop and awareness projects about labour legislation reform (SAWIT 2010a: 10-14).

Black Economic Empowerment (BEE) Policy and the Wine Industry Charter

The enactment of the Broad-based Black Economic Empowerment Act, Act No. 53 of 2003 (BBBEE Act) opened a new era in the process of facilitating participation of black people in the mainstream economy. The BBBEE Act is regarded as the second phase of the BEE programme. The first phase of BEE was initiated in the early 1990s, just before democratization, by white-owned large corporations in the form of selling their subsidiaries to a small number of black elites. However, such practices of BEE were heavily criticized by both trade unions and black businesspeople. Critics argued that only a small number of black elites benefited from BEE projects, while most black people remained poor. Moreover, some of the companies owned by black people were forced into bankruptcy in the wake of the Asian economic crisis in 1998. Faced with the growing criticisms against the outcome of BEE projects, the government enacted the BBBEE Act, which aimed to broaden both the practices and beneficiaries of BEE. Moreover, the government began to make it clear that it would encourage private companies to comply with the scope of BEE, through exercising the provision of licenses and the process of public procurement. Thus, BEE became an important compliance matter for companies who wished to do business in South Africa (Cargill 2010, Marais 2011: Chap 5, CDE 2007, Ponte et al. 2007).

The BBBEE Act introduced a BEE scorecard consisting of seven elements (ownership,

[14] The organisations which received financial assistance from SAWIT include the following: Rural Development Network (RUDNET) which runs social development projects for farmworkers, Dopstop, Centre for Legal Rural Studies, Women on Farms Project (WFP) which advocates the improvement of the rights of female farmworkers and runs development projects, Foetal Alcohol Syndrome Facts (FASFacts) which advocates the prevention of foetal alcohol syndrome among the children of farmworkers, and the Wine Industry Ethical Trade Association (WIETA) which promotes fair trade activities (SAWIT 2010a: 13).

management control, skills development, preferential procurement, employment equity, enterprise development and socio-economic development) in order to measure the degree of BEE compliance of a company. The Act also stipulated that, by drafting their own BEE Charter, different sectors of the economy and industries would be allowed to determine the specific gravity of each element, taking into account the specific needs and conditions of each sector and industry. In the agricultural sector, the Ministry of Agriculture drafted the basic framework of the Broad-based Black Economic Empowerment in the Agricultural Sector (known as AgriBEE) through a consultation process with representatives of five commodity sectors (grain, cotton, sugar, wine and beef) (SAWIT 2010a: 6, DoA 2004). While it was becoming clear that land reform could not achieve the planned targets in both quantity and quality, a new framework to facilitate the advancement of black people in the agricultural sector began to materialize in the form of AgriBEE. Williams (2005: 479) states that the policy focus of support for black farmers in the agricultural sectors "shifted from land reform to BEE" through the BBBEE Act. With the implementation of the BBBEE Act, people increasingly began to think of economic transformation as synonymous with BEE.

SAWIT and the South African Wine and Brandy Corporation (SAWB) convened a conference at the end of 2003 in order to commence discussion about the BEE Charter in the wine industry (SAWIT 2010a: 6). SAWB had been formed in the previous year at the initiative of the two largest companies in the industry, i.e., the Distell Corporation and KWV. Its Board of Directors was comprised of representatives of four components of the industry: grape producers, cellars, farmworkers and marketing agents. The latter includes wine merchants, retailers such as liquor shops and distributors. At the time when this first conference was held, black ownership in the wine industry was less than 1%. In 2006, SAWB was reorganized to the South African Wine Industry Council (SAWIC), and SAWIC took over the BEE Charter drafting process (Williams 2005: 484, Du Toit et al. 2008: 17-18, Ponte and Ewert 2007: 12, footnote 4).[15]

The Wine Industry Transformation Charter (Wine Charter) was announced by SAWIC in November 2007. Thus, it preceded the official publication of the AgriBEE Sector Charter in 2008 that had been prepared by the Ministry of Agriculture. The Wine Charter adopted the same standards as the generic BEE scorecard with slight modifications, in regard to both the weight of each of the seven elements in the BEE scorecard and the scope of the charter in terms of the size of the business entity. Thus, companies with an annual turnover of more than 35 million

[15] An advisory forum was newly established within SAWIC, in which representatives of the following organizations participated: Vinpro (grape producers), Wine Cellars of South Africa, SAWIT, Black Association of Wine and Spirits Industry (BAWSI), National African Farmers Union-Western Cape (NAFU-Western Cape) and RUDNET. The latter three organisations represented black farmers, black entrepreneurs and farmworkers.

rand must comply with all seven elements in the scorecard, while the companies with an annual turnover between 5 and 35 million rand must comply with four elements.[16] Companies with an annual turnover of less than 5 million rand are exempted from compliance with the BEE scorecard (SAWIC 2007: 2, 8, 23-24).

The question arises here with regard to how many farmers or companies will be exempted from compliance with the BEE scorecard in the wine industry. The Wine Charter states that “grape farmers have to supply 500 – 2,500 tons of grapes in order to obtain [an] annual turnover exceeding 5 million rand, assuming that half of their turnover comes from the sale of wine grapes.” Therefore, it continues that “about 80% of grape growers” will be exempted from the scope of the Wine Charter (SAWIC 2007: 9). In other words, the Wine Charter has excluded the possible transfer of individual farms, which form the majority of the white commercial farming sector, to black people by exempting business entities with smaller amounts of annual turnover.[17] On the other hand, it is understood that not only producer (cooperative) cellars and producing wholesalers, which produce large amounts of wine every year, but also a small number of private cellars whose annual turnover exceeds 5 million rand, are required to comply with the BEE scorecard (SAWIC 2007: 18).

The wine industry succeeded in gathering representatives of the four principal actors in the industry (grape producers, cellars, farmworkers and marketing agents) at SAWIC and announced the BEE Charter. It was thus able to show its eagerness to tackle the challenge of transformation and to engage in the political and social demands of BEE. However, in the year after the announcement of the Wine Charter, the SAWIC chairperson suddenly resigned. Following him, most directors who represented various organisations within the industry also resigned. In consequence, SAWIC became dysfunctional, and it became impossible to implement the Wine Charter without a responsible organization (SAWIT 2010a: 7). It is not known why SAWIC collapsed. According to a former employee of SAWIT who was involved in the Wine Charter drafting process, SAWIC became dysfunctional when large players such as Distell and KWV withdrew from the process. As for the cause of their withdrawal, he believes it is related to the fact that representatives of grape producers (white famers) and farmworkers were no longer able to sit together at the negotiating table due to the intensification of conflict between them.[18]

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16 Each element is treated equally and calculated at 25 points per element.

17 Due to the same standard, more than 93% of farming units in the commercial agricultural sector are exempted from compliance with AgriBEE.

18 Interview with Dr. Gerhard van Wyk, former employee of SAWIT, 28 September 2011, Somerset West.

While the implementation of the Wine Charter remains stalled, the circumstances surrounding the AgriBEE Charter are progressing.[19] The AgriBEE Charter is currently based on Section 12 of the BBBEE Act, which means that compliance with the Charter is not compulsory. There is no penalty even in cases of non-compliance. The Ministry of Agriculture is preparing to convert the AgriBEE Charter into the sector code, which is based on Section 9 of the BBBEE Act and thus has legally binding status.[20] Once the AgriBEE Charter becomes the BEE sector code, the Ministry of Agriculture obtains the power to force business entities to comply with the scorecard through the granting of licenses such as water rights and regulatory powers concerning import and export activities. Therefore, it is not necessary for the wine industry to have its own BEE charter. Once this happens, there is a possibility that relatively large cellars and producer wholesalers may lose their right to export their wine unless they comply with the BEE scorecard. In the Olifants River region in the north-western part of the Western Cape Province where water resources are scarce, the provincial Department of Water Affairs has already demanded that farmers, who applied for construction of a small dam to irrigate their vineyards, involve farmworkers in the management as a condition to obtaining water rights. Several such cases are reported in this region (VinPro and Nedcor Foundation 2004: 31-32, 37-38). It is possible that similar practices will spread to other areas when the AgriBEE Charter becomes the sector code.

Moreover, it is conceivable that a chain reaction of BEE might occur within the value chain of the wine industry through preferential procurement practices with black producers. According to VinPro's BEE officer, cellars are increasingly asked by retailers such as supermarkets to purchase grapes from producers who have complied with the BEE requirements. As a result, even small-scale grape producers who are not obliged to comply with the Wine Charter are feeling pressure from cellars to comply with the BEE programmes by involving farmworkers in the ownership and management structure of their farms. How each producer is trying to comply with the BEE requirements will be discussed in the next section.[21] Before turning to a detailed analysis of farm-level BEE projects, I will briefly note the progress in the compliance with the

[19] The wine industry was asked by the AgriBEE Council in 2011 to decide whether it would restore the Wine Charter process or take up the AgriBEE Charter without having its own BEE charter (from interviews with several members of the AgriBEE Council at the SAWIT conference during 27-28 September 2011 in Somerset West, South Africa. The conference was entitled "2011 SAWIT Conference: Beyond Charter and Scorecard").

[20] Interview with Mr. Madime Mokoena, Director, BBBEE Charters Compliance, DAFF, 20 September 2011, Pretoria. After this paper was completed, the AgriBEE Sector Code was finally gazetted on 28 December 2012 (http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71619?oid=349516&sn=Marketingweb+detail, accessed on 14 February 2013).

[21] Interview with Mr. Johan Giliomee, Manager, BEE Advisory Service, VinPro, 26 September 2011, Paarl.

BEE scorecard in the wine industry.

Progress in the Compliance with the BEE Scorecard in the Wine Industry

In the wine industry where only a few large corporations exist, the number of companies obliged to comply with the BEE scorecard is not many.[22] However, since the BBBEE Act was legislated in 2003, business entities that are subject to the BEE policy began to acquire the BEE compliance status by selling shares to a black consortium, even though AgriBEE is still voluntary in nature. Instead of the AgriBEE scorecard, they use the BEE generic scorecard prepared by the Department of Trade and Industry. Most of the BEE transactions in the South African economy as a whole were carried out during 2003 to 2008 (SAIRR 2010: 336). The wine industry is no exception to this trend, and the BEE transactions of large corporations in the wine industry were concentrated in this period. This means that large corporations in the industry took the initiative in converting themselves to BEE compliance companies, without waiting for the completion of the AgriBEE policy.

The first BEE transaction in the wine industry took place in 2003. The Boschendal Estate owned by the Anglo American Farms, a subsidiary of the Anglo American group, sold part of its shares to a group including black investors (Du Toit et al. 2008: 18). In the following year, the BEE transaction of KWV, no longer a cooperative but a private company known as KWV Holdings, was completed.[23] In 2005, the Distell group sold 15% of its subsidiary's shares to an employees' trust fund, a Corporate Social Responsibility (CSR) trust, and an investment company owned by black women (Wiphold) (Distell 2010: 12). Several cellars also sold shares to black investors and investment companies owned by black people (Ponte and Ewert 2007: 13, footnote 5).[24] It seems that so far the significance of these BEE transactions remains more symbolic than practical. Nonetheless, if the chain reaction of BEE as described above continues, these large

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22 The Distell group is the only wine-producing company on the list of companies with sales results in the top 100 in South Africa in 2009.

23 Williams (2005) critically examines the process and content of KWV's BEE deal by discussing the price of the stock, the source of the money and the structure of the black consortium. In February 2011, Hosken Consolidated Investments Limited (HCI), one of the major black investment firms, became the largest shareholder in KWV by acquiring a 34.8% stake. HCI was founded in the early 1990s through the integration of the investment arms of the Southern African Clothing and Textile Workers Union (SACTWU) and the National Union of Mineworkers (NUM). The investment department of NUM later withdrew. As of June 2011, three BEE entities (HCI, the investment company Withmore 1, and KWV Employees Empowerment Trust Fund) owned the total of a 61.9% stake in KWV (KWV 2009, 2010, 2011; HCI 2011; Cargill 2010: 136-148). It is not clear yet how having a black investment company as the largest shareholder affects management strategy of KWV. Still, one cannot ignore the symbolic significance of the fact that KWV, which had been the centre of the domination by white farmers in the wine industry, is now under black control.

24 Tokyo Sexwale, a prominent ANC politician and famous tycoon who currently serves as the Minister of Human Settlements, is known to own several wine farms.

corporations can potentially become principal actors in exerting a significant impact on the overall transformation of the wine industry.

Two Forms of Black Entry into the Wine Industry

As mentioned in the previous section, wineries owned and/or managed by black people are known as BEE wineries. In this section, I will discuss two forms of black entry into the wine industry by dividing BEE wineries into two groups depending on the ownership of land: (1) BEE wineries that own land and (2) BEE wineries that do not own land. By referring to several case studies, I will describe in detail the nature and characteristics of each type of BEE winery. Most examples discussed in this section have received some sort of assistance from SAWIT. They are also listed in a booklet called *Ithemba: 15 years of democracy, 350 years of wine making* (*Ithemba* means "hope" in isiZulu), published by the Wines of South Africa (WOSA: an organization promoting export of South African wine) in order to advertise BEE wineries and black winemakers. In this sense, BEE wineries discussed here are relatively well-known in the South African wine industry (WOSA 2009).

Landed Entry: Share Equity Schemes and Joint Ventures

The first type of BEE winery involves land ownership by black people. The earlier cases of this form of black entry into the wine industry were the result of land reform. The chief component of South African land reform policy, introduced soon after democratization, concerned granting a governmental subsidy to black people who wished to purchase land. In the wine and fruit industry where the price of land is relatively high and where it takes years before one can realise a return from an initial investment, a land reform model called the "share equity scheme" was devised and promoted (VinPro and Nedcor Foundation 2004: 8). For instance, the Wine Charter proposes the share equity scheme as the most desirable option for land reform in the wine industry. According to the Wine Charter, it has two advantages. Firstly, it can give black people access to the funding as well as access to the necessary knowledge and experiences in viticulture and wine making. Without these, the Charter states that it is highly likely that new black businesses in the wine industry will fail. Secondly, it can increase black land ownership, while maintaining the existing businesses (SAWIC 2007: 20).

The share equity scheme is a kind of joint venture. Under this scheme, both farmers and farmworkers provide capital and manage the farm jointly (Mayson 2003). Capital can be in a variety of forms including cash, land, labour, agricultural equipment and machinery, and cellar facilities. For example, farmworkers can provide part of the capital by purchasing part (or all) of the farm with the governmental subsidy for land acquisition. They can also provide cash for the daily expenses of running the farm through loan arrangements with a bank, by utilizing the purchased farm as collateral. White farmers, on the other hand, can provide capital by donating part of their farms, providing agricultural equipment and machinery such as tractors, and/or granting the right to use cellar facilities on their farms. Profits accrued from the project will be divided between the farmer and farmworkers based on the ratio of share equity ownership.

One of the earlier examples of such a scheme is Thandi (meaning “nurturing love” in isiXhosa) in Elgin, located in the north-eastern part of the Western Cape.[25] The Thandi Project began in 1996 as a land reform project which aimed to sell 200 hectares of land (known as the Lebanon Farm) owned by South African Forestry Company Limited (SAFCOL) and the De Rust Estate (which manages Paul Cluver Wines) to a group consisting of farmworkers and local residents. It was formulated as a joint venture between three entities (SAFCOL, De Rust, and Lebanon Farm Community Trust which consists of 147 households in total), with each owning a 33.3% stake in the project. SAFCOL contributed part of the land. De Rust contributed part of the land, agricultural machinery and management support. The Lebanon Farm Community Trust purchased part of the land with a land acquisition subsidy from the government. Lebanon Farm, which had been covered in forest, was cleared and cultivated. With further assistance from the provincial Department of Agriculture, members of the Lebanon Farm Community Trust planted apples and pears, which are grown widely in the area, and wine grapes. In 2000, a new project to produce wine from grapes harvested at Lebanon Farm and sell it under a new brand (Thandi Wine) was added in order to improve the overall profitability of the Thandi Project.

Lebanon Farm and Thandi Wine are separate business entities, and two new farms (both partly owned by black people) joined the latter as suppliers of grapes and as shareholders.[26] In 2003, Thandi Wine became the first wine brand in the world to obtain fair trade certification. Since then, tasting and cafeteria facilities were built for tourists on the Lebanon Farm where the Thandi Project started. Initially, Thandi Wine was produced in the cellar of the neighbouring De Rust Estate, but this task was later transferred to Vinfruco (a producer-wholesaler company) in Stellenbosch. Vinfruco also took up the responsibility of marketing Thandi Wine. The production and marketing of Thandi Wine was then taken over by The Company of Wine

25 The following discussion on Thandi is based on Hamman and Ewert (1999), Kruger (2008: Chap. 6), SAWIT (2010b), the Thandi Wine website (http://www.thandiwines.com/, accessed on 2 February 2012), and an interview with Mr. Vernon Henn, General Manager, Thandi Wine, 5 October 2011, Elgin.

26 The composition of shareholders of Thandi Wine is as follows: Lebanon Farm Community Trust owns 52%, newly-joined farm owners own 14%, and The Company of Wine People which had a management contract owns 34%. Thus, half of the dividends from the sales of wine are to be returned to the Lebanon Community Trust.

People, a successor company to Vinfruco. In late 2009, the management of Thandi Wine became independent from The Company of Wine People upon the termination of the contract between the two.

In the 2000s, a new type of joint venture between farmers and farmworkers emerged. In this new case, farmworkers did not receive land acquisition grants from the government. Instead, some farmers decided to give part of their farm to the workers. One such example is Thokozani (meaning "celebration" in isiZulu and isiXhosa) in Wellington. It was initiated in 2006 by the Diemersfontein Wine Country Estate, which is run by the founding family of the giant retail chain Woolworths.[27] According to Ms. Denise Stubbs, director of the Thokozani Project, it was born out of the desire of Mr. David Sonnenberg, a member of the founding family and current owner of the estate who does not have an heir to inherit his family business, to leave a lasting legacy. The Thokozani Project is a three-party joint venture: the Diemersfontein provided a 40% of share in the form of land, an invited black investment consortium contributed capital equivalent to a 30% share, and the remaining 30% share was to be distributed to the employees of the Diemersfontein who wished to participate in the project. For employees, Thokozani is essentially a kind of stock option system. A stock option system is a type of remuneration system where executive board members and employees of a company are allowed to purchase a company's shares at a fixed price and to obtain profits by selling their shares when the stock price rises. All the employees who worked for the Diemersfontein for at least one year were given a certain amount of shares free of charge, depending on their position and length of service. In addition, all the employees who wished to participate in the project were asked to devote 2% of their monthly salary to the purchase of further shares. Ms. Stubbs emphasizes that this serves the purpose of developing a sense of responsibility among participating workers as co-shareholders. When the project began, only 35 workers participated. The number of participating workers increased to 75, half of all workers of the Diemersfontein, by October 2011.

The Thokozani Project consists of two businesses. One is the management of a conference centre which it took over from the Diemersfontein Estate. Thokozani borrowed money from a bank by using the land donated by the Diemersfontein as collateral and built new accommodations for conference participants. The other business is the development and sale of

[27] The following discussion on Thokozani is based on SAWIT (2010b), the Thokozani website (http://www.thokozani.co.za/, accessed on 12 February 2012), and an interview with Ms. Denis Stubbs, Director, Thokozani, 5 October 2011, Wellington. It should be noted that Thokozani had originally applied to the Department of Land Affairs to receive a land acquisition grant in order to purchase a piece of land near Diemersfontein. However, its application was unsuccessful due to lack of funds in the Department.

Thokozani brand wine. Thokozani wine is made in the Diemersfontein cellar through a contract agreement between the two. While most of the Diemersfontein brand wine is made of single varietals, Thokozani concentrates on developing and selling blended wine. The Diemersfontein Estate continues to bear most of the running cost of Thokozani, including the salaries of workers who have joined the project.

Another example of a joint venture in which the interests of the farmer and farmworkers are integrated further is the Solms-Delta Wine Estate in Franschhoek.[28] Originally, the Estate consisted of three farms. Two people who each bought one farm decided to purchase a third farm by utilizing their two purchased farms as collateral, and they gave the third farm to a group of farmworkers and residents.[29] In this way, a framework was created for a joint venture in which each of the three entities (two farm owners and one trust of farmworkers and residents) owned 33.3% of the Estate. One of the owners initiated archaeological and historical research on the Estate and then decided to exhibit the findings in a small museum on the premises. The exhibition in the museum not only tells us the names of historical owners of the Estate, but also those of farmworkers and slaves who worked and died there. According to the Estate manager, acknowledging the contributions of these farmworkers and slaves in the historical development of the Estate led the two farm owners to decide to give one-third of the ownership of the Estate to farmworkers and residents. The Estate has chosen not to create a special BEE brand, but the three owners share profits from sales of the Solms-Delta brand wine.

One common feature of these joint ventures is that the farmers usually take the initiative in forming such a venture with farmworkers. Even in cases like Thandi where farmworkers decide to buy land with the governmental land acquisition subsidy, it is often the farm owner who proposes a share equity scheme with the farmworkers. Due to this, some researchers criticise this kind of land reform as a mere attempt by the white farmer to gain investment in his or her farm by utilizing the governmental grant (Mayson 2003: 12). Others question whether the share equity scheme can bring tangible benefits to farmworkers (Du Toit et al. 2008: 24-25). There are few cases where a dividend from the scheme is paid out regularly to shareholders. This is because the sales proceeds from grapes and wine are usually either reinvested in the farm or used to repay a loan. It took seven years before the first dividend was paid to shareholders of the Lebanon Farm. Thandi Wine managed to sell well in the export market right from the beginning, thanks to its fair trade certification. This enabled it to pay dividends on a regular basis until the

28 The following discussion on Solms-Delta is based on the Solms-Delta website (http://www.solms-delta.co.za/, accessed on 2 February 2012) and an interview with Mr. Craig MacGillivray, CEO, Solms-Delta Wine Estate, 4 October 2011, Franschhoek.

29 As of October 2011, the Solms-Delta Estate employs 140 people, and 220 people reside on the estate. Not all residents are employed by the estate, nor do all employees live on the estate.

global financial crisis in 2008. Nonetheless, due to the large number of shareholders in the Thandi Project, the amount of the dividend received by each farmworker household was paltry.[30] Moreover, Derman et al. (2010) is sceptical about the level of understanding of the share equity scheme among the local community members and farmworkers, as it tends to entail complex arrangements and each scheme has different components and structures.

However, it is also true that a joint venture has several benefits for farmworkers. Firstly, the initial capital investment requirement is relatively cheap, as the venture can use agricultural machinery and cellar facilities belonging to the farmer. In some cases, farmers bear the majority of the operational costs. As mentioned above, the Diemersfontein pays the salary of Thokozani employees, and in Solms-Delta, two farm owners bear the daily running costs of the business. Secondly, farmworkers can also rely on the existing networks and experience of the farmer in both ensuring the quality of wine production and the development of marketing strategies for their wine brand. The success story of Thandi Wine in the export market hinged on its obtaining fair trade certification. The idea of getting fair trade certificate in fact was the brainchild of the owner of the De Rust Estate (Kruger 2008: 90-91).

The meaningful participation of farmworkers in the management of the project is a key issue in determining whether a joint venture is effective as a farmworker empowerment model. It is true that the number of joint ventures in the wine industry has increased since the 2000s. Still, taking the industry as a whole, white farmers who sold or gave part of their farm or wine business to their farmworkers are still in the minority.[31] In this context, farmers who started a joint venture with farmworkers can be called "progressive" ones. In the De Rust and the Solms-Delta Estates, farmers also have made conscious and active efforts to improve the general living conditions of workers, such as by providing decent housing to farmworkers and better educational opportunities to farmworkers' children. However, if the long-term objective of a joint venture lies in promoting and integrating black people into management positions, achievements so far in this regard are not very promising. It is rare for farmworkers to get involved in the management side of a project. In Thokozani and Thandi, black managers are hired from outside the local farmworkers' community. These black managers play dual roles as representatives of BEE wine brands, and as personnel managers who act as bridges between farmers and workers.

The trust relationship between the farmer and farmworkers is constantly tested in managing a

30 Interview with Mr. Vernon Henn, General Manager, Thandi Wine, 5 October 2011, Elgin.
31 Interviews with Mr. Johan Giliomee, Manager, BEE Advisory Service, VinPro, 26 September 2011, Paarl, and Mr. Henry Petersen, Manager of BEE Programmes and Master Mentorship, WIDA, 17 September 2010, Paarl.

joint venture. This can gravely affect the continuity of the project. There is at least one known case in Stellenbosch where the dispute over the distribution of proceeds from sales of wine caused the dissolution of a joint venture between the farmer and farmworkers. In this project, workers decided to manage the business of growing grapes and producing and selling wine on their own. This meant that they had to bear all the costs of business operations. However, they quickly encountered difficulty in repaying a loan from a bank that they had obtained when they had bought the farm in the first place. In the end, the workers were forced to sell their farm in order to repay debt.[32] As mentioned above, Thandi Wine can be considered one of the few cases of a successful BEE project in the wine industry in terms of international recognition and annual turnover. Recently, Thandi decided to reduce dependence on white business entities such as the De Rust Estate and The Company of Wine People and to increase its managerial independence. Although its state of business as a joint venture between white business entities and black farmworkers has not been altered, the future development of Thandi Wine should be closely watched in order to evaluate the success and sustainability of BEE wineries.

Most of the landed BEE wineries are joint ventures, but there is an exceptional case where a black family bought a farm and began to produce and sell their own wine brand. M'hudi (meaning "harvester" in seTswana) Wine in Stellenbosch is managed by an African family who bought this farm of 23 hectares in 2002.[33] The middle-aged couple who bought the farm used to work as professionals in city. For them, purchasing a farm was a realization of the "dream" that they had harboured for many years. Being amateurs in both viticulture and wine production, they have learned the theoretical aspects of managing a vineyard and wine business on the Internet. They have learned the practical knowledge and skills concerning viticulture from farmworkers. The neighbouring white family who managed the Villiera Estate taught them the essentials of the wine business including making, storing, selling and marketing wine. Thanks to the contact M'hudi obtained through an introduction by the Villiera Estate, it began to supply wine to Marks & Spencer, one of the leading supermarket chains in the UK, in 2007. The case of M'hudi shows the importance of the white farmers' network and their technical and managerial assistance for new black entrants in the wine industry, even though they do not become partners in a joint venture officially.

Non-landed Entry: Wine Brand Companies

The second type of BEE winery is a wine brand company. It buys wine from cellars (in most

32 After the farm was sold in 2010, each worker who owned a share in the farm received 5,000 rand in cash. (Interview with Ms. Veronica Campher, Boland trustee, 27 September 2011, Somerset West).

33 The following discussion on M'hudi is based on SAWIT (2010b), the M'hudi website (http://www.mhudi.com/, accessed on 3 February 2012), and an interview with Ms. Malmesey Rangaka, CEO, M'hudi Wine, 26 September 2011, Stellenbosch.

cases from producer cellars) and sells it as its own brand wine. Most black wine brand companies are micro-enterprises with 1 or 2 persons working as a CEO or general manager. They contract out most of the actual wine production processes (including crushing the grapes, fermentation, blending, maturing and bottling) to cellars. Wine brand companies are probably classified as wine merchants in the industry statistics of the South African Wine Industry Information and System (SAWIS). However, as most black wine brand companies are operating on a very small scale, it is not certain whether they are all captured by the SAWIS statistics. In mid-2010, there were 50 BEE wineries on a list compiled by the Wine Industry Development Association (WIDA) that provides agricultural extension and management supports to BEE wineries. Amongst the 50 BEE wineries on the list, 16 owned both land and wine brands (i.e., the first type of BEE winery discussed above), while 34 only owned wine brands, i.e., wine brand companies. Thus it seems that the latter form of entry into the wine industry is more popular among black people.[34]

The financial barrier to starting a wine brand company is relatively low, given that one does not need to own assets such as land and a cellar. At the same time, as most wine brand companies do not get involved in the actual wine production process, they are often quick to exit from the business. In fact, several wine brand companies on the WIDA list are already out of business. One example is Lindiwe (meaning "the person we have been waiting for" in isiZulu) Wine established in 2003. It was the first black wine brand company and received a 3 million rand grant from the National Empowerment Fund (NEF) upon the launch of the company. The industry magazine (*WineLand*) ran a feature article about it as a "breakthrough empowerment wine" in 2005 (Du Plessis 2005).[35] Thus, the early days of the company seemed to be filled with good fortune and the blessing of the industry. However, neither the fortune nor the operation of Lindiwe Wine lasted long. After launching several wines under the Lindiwe brand, it encountered difficulty in securing money to finance its operational cost. By the fifth year, it was forced to stop producing new vintages. According to the Lindiwe Wine's former sales manager, the NEF grant had to be spent within a single fiscal year, and they had difficulty in securing cash for their second year of operation. This implies that receiving a large grant with strict conditions on how to use it might have distorted the possibility of sound business

[34] This list was compiled by Mr. Henry Peterson who is in charge of BEE projects at WIDA. I obtained it from him in September 2010. Mr. Peterson emphasized that this list is not exhaustive and should not be understood as containing all the BEE wineries in the wine industry.

[35] The founder of Lindiwe Wine was Mr. Nosey Pieterse who has been a representative of BAWSI which advocates for improvement in the rights of farmworkers in the Western Cape. He claims to be the inventor of the idea of a "virtual wine company" (wine brand company) which does not own cellar facilities. BAWSI is known as a radical group among civil society organisations working in the wine industry. Mr. Pieterse formerly served as a councillor in local government and is still actively involved in local politics.

development for Lindiwe Wine.[36]

There are of course black wine brand companies established in the mid-2000s that continue to operate today. These include Women in Wine, African Roots Wine, Ses'Fikile (meaning “we came in our own style” in isiXhosa) Wine, Re’Mogo (meaning “stand together” in seTswana) Wine and so on. One common feature of the founding members of these early black wine brand companies is that they had little knowledge or experience in wine production or corporate management. In most cases, their prior professional training and experience were not related to growing grapes or producing wine. Their previous job experiences included civil servant, teacher, employee of an alcoholic beverage company, NGO staff and so forth. Some of them did not even drink wine before they started their own wine brand company.

Certainly, the fact that the wine industry is a major industry in the Western Cape must have affected their decision to enter into this industry. In addition, it is arguable that their motivation to join the industry without prior knowledge or experience could be related to the gap between the glamorous image that the wine industry is trying to sell to general public and their own bitter memories of alcoholism in their families. One of the founding members of the Ses’Fikile Wine explains her motivation to start a wine brand company in the following way:

> (The reason I decided to start a wine brand company is that) I was interested in the contradictions of wine. In my house in the township where I grew up, when my brother drank wine and got drunk, he always caused havoc. Therefore I hated wine. However, in the media, wine has always been portrayed as an elegant and sophisticated drink. I always wondered, “Why such a difference?”[37]

Another feature is that a number of black wine brand companies have tried to sell their products by giving a story to their wine brand. For instance, Ses’Fikile Wine emphasizes that it was established by four black women who grew up in townships (Gugulethu and Khayelitsha) in Cape Town.[38] Seven Sisters wine brand sold by the African Roots Wine is named after the seven sisters who ran the company. The flavour and character of each wine under the Seven Sisters brand is associated with the character of one of the seven sisters. On the wine bottle’s back label, one can also read a short story about a small fishing village on the coast of the

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36 Interview with Ms. Elizabeth Petersen, former managing director of Lindiwe Wine (currently CEO of Libby’s Pride Wine), 3 October 2011, Stellenbosch.

37 Interview with Ms. Nondomiso Pikashe, Director, Ses’Fikile Wine, 29 September 2011, Gugulethu.

38 Interview with Ms. Nondomiso Pikashe, Director, Ses’Fikile Wine, 29 September 2011, Gugulethu.

Western Cape where the seven sisters grew up.[39] It is obvious from its name that Women in Wine tries to appeal to its customers as a company run by women.[40]

For black wine brand companies, it is of great importance to build a good relationship with cellars which supply wine for them, but this is not always easy. Ses'Fikile Wine was originally established as a joint venture between four black women and a cellar. When the cellar was acquired by an American company that was not interested in continuing such a venture, Ses'Fikile Wine literally lost its supplier of wine. As a result, Ses'Fikile Wine had to be closed down after a few years of seemingly successful operation. In 2009, one of the founding members of Ses'Fikile Wine decided to revive the company under the same name. However, according to her, it was not easy at all to find a cellar that was willing to sell wine to her new company.[41] A similar experience was narrated to the author by Re'Mogo Wine, which failed to secure wine supply agreements with at least two cellars before it finally signed a contract with its current supplier.[42]

Tensions between black wine brand companies and cellars ultimately arise over the simple question of to what extent the former wish to have a say in the wine production process and to maintain the independence of their businesses. SAWIT (2010a: 10-11) points out that the problem of black wine brand companies is their lack of influence and involvement in product decisions on the type and style of wine. SAWIT further states that some cellars take advantage of this weakness and try to sell poor quality wine to black wine brand companies. It is not easy for black wine brand companies to establish a strong bargaining positions vis-à-vis cellars. There are a number of reasons for this. Firstly, as they do not have their own cellar facility, they have to contract out wine production to a cellar. This means that they cannot be involved directly in the production process of the commodity that they are selling, even though it is their own wine brand. Secondly, existing cellars are largely still dominated by white interests. Therefore, the fact that they are new black entrants in itself may work to their disadvantage. Thirdly, since they are small and micro-enterprises, the total amount of wine they can purchase is also small, and thus they cannot become an important customer for cellar.

There are black wine brand companies that differ slightly from those that entered the wine

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39 The Seven Sisters website (http://www.sevensisters.co.za/wmenu.php, accessed on 10 February 2012).

40 Interview with Ms. Beverly Farmer, Managing Director, Women in Wine, 27 September 2011, Somerset West.

41 Interview with Ms. Nondomiso Pikashe, Director, Ses'Fikile Wine, 29 September 2011, Gugulethu.

42 Interview with Mr. Thamsanqa Hombana and Mr. Theo Sidzumo, Re'mogo Holdings, 3 October 2011, Kayamnandi.

industry in the mid-2000s. The first type of such a company has embarked upon selling a wine brand as a new development of an existing enterprise. One such example is Mzoli's Wine, owned by a prominent businessman who owns a butchery and restaurant business in the Gugulethu Township and a real estate business. He launched Mzoli's Wine in 2000 in order to combine wine business with his restaurant business. Another example is Le Ric Mal Wine run by the Green family who manages a bottle recycling business. According to Mr. Green, it was launched in 2008 in order to expand their family business into a new phase.[43] The second type is a company initiated by black people who have some experiences in the industry, such as Howard Booysen Wine and Libby's Pride Wine. The founder of Howard Booysen Wine studied oenology at the Elsenburg College of Agriculture (which was renamed on 1 April 2004 to the Cape Institute for Agricultural Training: Elsenburg) in the Western Cape. He was chosen as the first trainee of the Cape Winemakers Guild (an exclusive professional organisation of winemakers), which gave him an opportunity to study further the art of wine making in various cellars for three years. The job of winemaker is a professional occupation, and winemakers are usually employed by a cellar. Mr. Booysen chose to produce his own wine brand rather than work for a cellar.[44] Libby's Pride Wine was founded by a former sales manager of Lindiwe Wine in 2010.[45] Both are relatively new to the industry as they began selling their brand wine in 2009-2010. Thus, it is too early to determine whether they can develop their wine business differently from their earlier counterparts.

Competition among BEE Wineries and Challenges of Expanding Markets

The two types of BEE wineries discussed above (those with or without land) are competing with each other over market share, which can lead to conflicts between them and prevent them from forging a united front as BEE wineries in the industry. In the final part of this paper, I would like to touch upon the issue of competition among BEE wineries and the possibility of expanding markets for their wine.

Regardless of its status as a share equity scheme or as a wine brand company, most BEE wineries aim at the export market. There are at least three reasons for this. To begin with, it is difficult for any new company to enter the domestic wine market where large corporations have a monopolizing presence. The Distell and KWV are said to have a market share over 70% in the domestic wine market. There are also many established estate wine brands. Secondly, one cannot deny that many people in South Africa, regardless of race, maintain a deeply rooted

43 Interviews with Mr. Mzoli Ngcawuzele, CEO, Mzoli Properties, 6 October 2011, Gugulethu, and Mr. Malcolm Green, Le Ric Mal Wine, 29 September 2011, Brackenfell.
44 Interview with Mr. Howard Booysen, Howard Booysen Wine, 29 September 2011, Stellenbosch.
45 Interview with Ms. Elizabeth Petersen, CEO, Libby's Pride Wine, 3 October 2011, Stellenbosch.

prejudice against BEE wine as being inferior in quality. Some white wine drinkers are not keen to purchase wine whose brand name is in a local African language which they probably cannot pronounce accurately.[46] The expanding black middle and upper classes, often referred to as "Black Diamond", are not big supporters of BEE wine, either. According to an owner of the first boutique wine shop in the Soweto township who is also a co-founder of the annual Soweto Wine Festival,[47] his customers (mostly successful black businessmen) prefer the existing well-known brand wine and are not interested in BEE brands.[48] Thirdly, several types of financial assistance are available for BEE companies to develop export markets, such as travel subsidies for participation in the international trade fair.[49] Due to the heightened competition among wine producing countries and different wine brands in the international wine market (Anderson ed. 2004), mere participation in the trade fair does not guarantee them a buyer. Still, the existence of an ethical market such as a fair trade adds attraction to the export market for BEE wineries.

Apart from Thandi Wine which was able to increase its sales in the export market thanks to the fair trade certification, the profitability of BEE wineries has remained low or even in the red. SAWIT (2010a) attributes the BEE wineries' failure to make a profit to the fact that most of them do not have a clear marketing strategy nor do they understand the differences in the wine market of each country.[50] BEE wineries that can count on considerable support from white-owned estates, such as Thokozani and Solms-Delta, will probably be able to survive even if profit from the sales of wine remains low over the medium to long term. Black wine companies can also survive if they have already been successful in other areas of business, as is the case with Mzoli's Wine or Le Rick Mal Wine. However, most black brand companies operating as micro or small businesses cannot afford to wait for the medium- and long-term returns.

The competition over market share has also become a cause of tension and conflict among BEE wineries. In particular, black wine brand companies and share equity schemes began to quarrel over who the legitimate beneficiaries of BEE are. The former argue that, being rich in entrepreneurial spirit, they should serve as the model for BEE. The latter claim that they are the

46 Ms. Elizabeth Petersen of Libby's Pride Wine told me that she was advised by a domestic retailer not to use an African language for the name of her wine brand.

47 Soweto Wine Festival is an annual wine festival held in Soweto in September every year since 2005 in order to develop and cultivate the market for wine consumption among black people.

48 Interview with Mr. Mnikelo Mngciphu, Morara Wine Store, 22 September 2011, Soweto.

49 WOSA is allocated a special budget to support BEE enterprises and projects in the wine industry. In addition, WESGRO, a public-private partnership organisation in the Western Cape, also provides travel expenses to wineries that participate in international trade shows.

50 This point has also been noted by Mr. Henry Petersen of WIDA.

genuine model of BEE, as their purpose is to empower farmworkers who historically have been the most marginalised in the industry, and the number of people who benefit from the schemes is higher.[51] They fight over the allocation of the BEE promotion budget assigned to WOSA. However, given that level of black entry into the industry as a whole, while increasing, remains low, I would argue that the dichotomous thinking of farmworkers and black entrepreneurs is not constructive. Farmworkers require further assistance in order to realize meaningful participation in management of share equity schemes. The profitability and sustainability of black wine brand companies are precarious. In a previous section, I mentioned that the implementation of the Wine Charter was stalled due to the mounting conflict between farmworkers and their employers (white farmers). The problem of competition among BEE wineries shows that it is difficult to agree on the form and the means of empowerment even among those who are supposedly targets of BEE policy.

Some of the earlier black wine brand companies that entered the wine industry in the mid-2000s began to look for new opportunities. Having witnessed the demise of several similar companies which have gone out of business, they are alarmed about the sustainability of their own enterprises. In circumstances where the prospect of acquiring land was limited, starting a wine brand company was a shortcut to enter the industry for black people. However, it gradually became clear that lack of essential assets such as a vineyard and/or a cellar was a great disadvantage to them when selling wine. Consequently, many of them are now wishing to acquire a vineyard. Their aspirations are reasonable, if not easily realizable. They have learned that it is very important to show a farm as the source of the grapes for their wine to foreign importers.[52] The success of Thandi Wine has made them also think of obtaining fair trade certification. They need to be able to identify the source of the grapes for their wine in order to obtain such certification. By owning a vineyard and sourcing grapes from it, they can satisfy this condition.[53]

Last but not least, it is arguable that an alternative way for BEE wineries to avoid fierce competition with large corporations and well-known brands may be to target the domestic niche

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51 Based on interviews with several managers of share equity schemes and entrepreneurs of wine brand companies in September and October 2011 in the Western Cape.

52 The following statement by Ms. Petersen of Libby's Pride Wine to the author captures the difficulty faced by wine brand companies: "I am tired of having business meetings with potential buyers from overseas in coffee shops."

53 Among the wine brand companies mentioned in this paper, African Roots Wine recently acquired a vineyard in Stellenbosch. I was not able to visit the farm during my fieldwork during September and October 2011 as the building on the farm was still under construction. Therefore, detailed information on how it acquired the farm is not known to the author.

market.[54] Some black wine brand companies have already taken this route. Mzoli's Wine has so far concentrated on shebeens (bars) and taverns in townships which constitute an important domestic niche market.[55] Ses'Fikile Wine and Re'Mogo Wine, whose founders live in townships, are also eyeing these popular local bars and taverns. M'hudi Wine, Le Rick Mal Wine, Libby's Pride Wine and Howard Booysen Wine already have some business relationships with domestic retailers (i.e., supermarkets and restaurants). Their marketing strategies are not exclusively targeting the export market, but instead they are trying to find a way to penetrate the domestic market. At the moment, the presence of BEE wineries in the South African wine industry is still negligible. However, in the near future, it might be possible to find a BEE winery that has established a presence in the domestic market and become a representative BEE wine brand in the international market.

Conclusion

This paper discussed different forms of black entry into the agricultural sector through a case study of the wine industry in the Western Cape. Particular attention was paid to the relationship between specific forms of black entry and the goals of BEE policy in South Africa. This paper further examined the transformation of the wine industry after democratization and the attendant changes in the external environment surrounding black entry. Since democratization and market liberalization, the South African wine industry has transformed itself into a fast-growing export industry. At the same time, it is clear that the concentration of grape production at fewer relatively large-scale producers has progressed. In conclusion, I would like to point out three direct and indirect influences imposed by the changes in the wine industry and the development of the BEE policy on the forms of black entry and empowerment.

Firstly, it seems that the growth of the wine industry into a leading export industry after liberalization has prompted new entry into the industry regardless of race. If the wine industry had remained as it was, mainly targeting the small domestic market of white population, those without prior knowledge or experience would never have been motivated to join it. The emergence of a new international market thanks to democratization and liberalization, together

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54 Mather (2005) argues that the expansion of the market into the niche area, such as independent shops and restaurants, has vital importance for small- and medium-scale companies in the agricultural processing industry in South Africa, where major supermarket chains have well-developed supplier networks.

55 The owner of Mzoli's Wine organised the Gugulethu Wine Festival in 2011 in order to develop the wine consumption market among black residents in Cape Town. Forty wineries participated in the festival, and 10,000 people are said to have visited the event over two days. The owner of Mzoli's Wine is planning to make this an annual event.

with the rebirth of the wine industry in the Western Cape as a glamorous and attractive leading industry, motivated black entrepreneurs to start a new type of business, i.e., the black wine brand company. For producer cellars that have been the main producers of wine in South Africa, the increase in the number of smaller private cellars meant increased competition over market share. For them, black merchants (wine brand companies) became new potential clients or business partners.

Secondly, market liberalization also created a new tendency towards focusing on quality rather than quantity in the South African wine industry. This in turn led to the development of a new business model where one not only engages in grape production, but also creates and sells one's own wine brand. Since consumers tend to associate the quality of wine with a grape varietal and/or brand name, the creation of one's own wine brand became an important marketing strategy in the South African wine industry. Therefore, most of the share equity schemes initiated as a land reform project in the wine industry were going to have both grape production and the creation of a wine brand as important components. Amid the progress in the concentration of grape production together with the concomitant decrease of relatively small-scale producers in the liberalized market, it is becoming more and more necessary to combine grape production and wine production in order to maintain the sustainability of the enterprise.

Thirdly, in spite of the fact that policy intervention to realize BEE by the government is relatively weak in the agricultural sector compared to the mining or fishing industries, the degree of black ownership and business participation in the hitherto white-dominated wine industry has been increasing, albeit at a snail's pace. In particular, after the enactment of the BBBEE Act in 2003, large corporations such as Distell and KWV sold part of their shares to a black investors' consortium. This means that the form of BEE promoted by the government, i.e., BEE deals by large companies, is also taking place in the wine industry. In addition, the number of share equity schemes by "progressive" white farmers has increased, and diversification has been seen in the backgrounds of black entrepreneurs who run wine brand companies. As discussed in the second section, when the AgriBEE Charter becomes a sector code under Section 9 of the BBBEE Act, pressure on farmers to start a share equity scheme will increase.

Some researchers have criticized the BEE policy for having become a tool for ANC politicians and their relatives to enrich themselves, even though the policy presents itself as catering to a "broad-based" population (Southall 2007, Marais 2011: 140-144). This paper does not deny that BEE has such an aspect, but it also has demonstrated existence of various forms of black entry into the wine industry which are not limited to BEE deals by large corporations. At the moment, most black entry into the wine industry happens through people who are actually involved in projects such as a share equity scheme or a wine brand company rather than through BEE deals. This paper has paid particular attention to wine brand companies and has pointed out the problem of their sustainability. While wine brand companies served as a shortcut for black people to enter the wine industry in a situation where the possibility of acquiring land was limited, it turned out to be difficult to stay in business. Although wine brand companies receive financial assistance for their marketing activities to promote exports, they are not direct beneficiaries of the BEE policy, whose emphasis is on the scorecard. The experiences of wine brand companies seem to support the critiques of the BEE policy which argue that the policy hampers the development of small enterprises as it encourages the black elites' tendency to become managers or employees at large companies rather than entrepreneurs (Gelb 2010 : 51-57). If the government wants to realise meaningful black entry into the economic sphere and black empowerment in the wider sense rather than in the narrowly defined sense of black ownership of shares in large corporations, this paper argues that there needs to be a directional change in the BEE policy towards more focused support for the development of small enterprises.

Another implication from this case study of the wine industry for the realization of BEE in South Africa concerns the extent to which the implementation of the BEE policy should be entrusted to the initiative of industry players. This paper discussed the difficulty of the Wine Charter drafting and implementation process. While the wine industry succeeded in bringing together the four principal actors in the industry (grape producers, cellars, farmworkers and marketing agents) and in drafting the Wine Charter prior to the AgriBEE Charter, its implementation was stalled due to the mounting conflict between white farmers and black farmworkers. Unless the power relations within the industry change, intervention from an outside organization such as the Department of Agriculture will be necessary in order to realize BEE. However, it is equally important to keep in mind that an increase in political intervention also carries the risk of BEE being used as a means of political patronage, as in the case of the mining sector.

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