

# FOREST PRODUCTS FEATURE ARTICLES

## GROWING SOUTH AFRICAN WINE EXPORTS CREATE OPPORTUNITIES FOR AMERICAN WHITE OAK AND COOPERAGE PRODUCTS

*By William P. Bomersheim, Agricultural Marketing Specialist*

Since the end of the Apartheid era, the South African wine industry has been undergoing a renaissance. As a result, the industry is rapidly growing, creating new opportunities for American suppliers of white oak and cooperage products.

South Africa has a long tradition of wine making, beginning with the establishment of the Dutch East India Company's victualling station in 1652. Today, 5,000 farmers cultivate over 100,000 hectares of land under vines, producing approximately 950 million liters of wine annually, or roughly three percent of the world's total.

Before the end of Apartheid in 1991, much of South Africa's wine production faced sanctions overseas and was directed toward the domestic market. South Africa ranks 28<sup>th</sup> in the world in terms of per capita wine consumption, with domestic consumption between 350 million and 500 million liters per year.

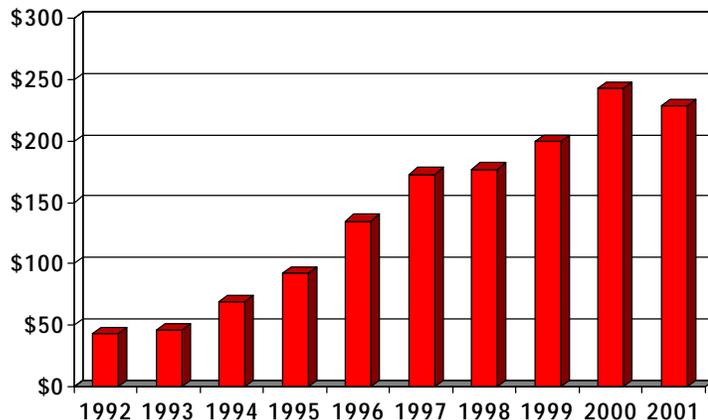
Since the lifting of sanctions, South African wine exports have exploded, and exports continue to grow each year. In 1996, South Africa exported \$135 million of wine. In 2001, South African wine exports reached more than \$230 million – most destined for Europe.

Export sales have been driven by: the lifting of sanctions against South Africa; weakness of the domestic currency<sup>1</sup>; aggressive and sustained marketing<sup>2</sup>, and the proliferation of industry accolades on the world stage. The industry is also backed by a State research body, the Nietvoorbij Institute of Viticulture and Oenology, and other organizations. They work to keep the industry on the cutting edge.

In addition, future export growth is likely as South Africa and the European Union (EU) signed an Agreement on Wine and Spirits in

### SOUTH AFRICAN WINE EXPORTS

In \$ Millions



Source of Data: South African Revenue Service and World Trade Atlas

<sup>1</sup> The South African Rand has lost approximately 45 percent of its value against the U.S. dollar over the last five years.

<sup>2</sup> South Africa is working to revitalize its image and has earmarked close to \$1 million for generic promotion of wine in export markets. The industry is also trying to manage a shift from the predominate white wine cultivars and establish an international reputation for Cabernets, Pinotages, and Pinot Noirs. According to Wines of South Africa (WOSA), the South African industry will more than double its 1999 exports by 2004 by defining the industry's orientation and matching international demand with innovation and high quality.

January, 2002, which opens up the EU market to increasing quantities of duty-free South African wine.<sup>3</sup> The European Union is already South Africa's largest market, accounting for 83 percent of South African wine exports.

Nevertheless, massive growth in export demand has left the industry scrambling to produce sufficient volumes to satisfy demand. The rapid growth in the industry has opened opportunities for investment in the industry, and created opportunities for suppliers of cooperage products.

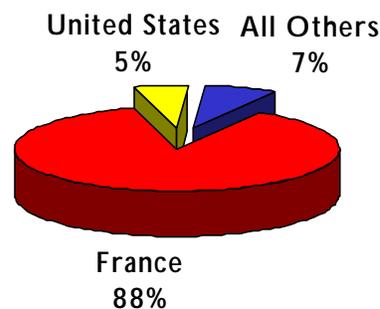
## COOPERAGE, OAK, AND WINE

Currently, most of South Africa's cooperage products are imported. Although there is a significant supply of oak in South Africa, local varieties are inappropriate for cask making. In 2001, South Africa imported \$13 million in casks and other cooperage products, and approximately \$8 million in oak lumber, some of which is reportedly manufactured into cooperage products. France dominates South Africa's cooperage imports, supplying nearly 90 percent of imports, with the United States the second largest supplier. The United States and Canada supply most of South Africa's oak lumber, accounting for 96 percent of imports.<sup>4</sup>

As the South African wine industry expands, there are opportunities for U.S. exporters to capture market share in the cooperage industry from France. American white oak has several advantages over French oak, not the least of which is price. American white oak staves and barrels are significantly less expensive than comparable French oak. This is due, in part, to the fact that American white oak has larger amounts of tyloses, a compound that prevents leaking. The higher

concentration of tyloses enables American oak logs to be quarter sawn, whereas French oak must be hand split following the grain to prevent leaking. As a result, labor costs associated with using American white

### SOUTH AFRICAN COOPERAGE PRODUCT IMPORTS IN 2001



Source of Data: South African Revenue Service and World Trade Atlas

<sup>3</sup> Under the agreement, South Africa enjoys duty-free access for 35.3 million liters of wine, with an increase of about 6.7 million liters each year until 2011. The agreement also ensures reciprocal protection of names and commits the EU to providing 15 million Euros towards restructuring of the wine industry in South Africa in order to create opportunities for previously disadvantaged groups.

<sup>4</sup> Approximately  $\frac{3}{4}$  of U.S. oak lumber exports to South Africa are white oak. Figures for the percentage of oak lumber utilized by the South African cooperage industry are not available.

oak are lower, and yields are higher since more of the American log can be used for barrel making.

Cost is not the only important factor, however. Since the flavor of wine is of paramount importance to winemakers, the choice of oak is critical. Each oak imparts unique and distinct flavors in wine. Many winemakers have chosen to use American white oak solely based on its superior flavors. Although there are a wide variety of oaks in the United States, American white oak has a reputation for being richer in tannins, with bold, spicy vanillin flavors well suited for big, full-bodied red wines<sup>5</sup>. As the South African industry looks for ways to improve quality and increase production of red wines, winemakers could be encouraged to experiment with American white oak because of its unique flavors.

In addition, since much of South Africa's wine is produced in stainless steel vats, there may be opportunities for alternative cooperage products. Since oak barrels are generally more expensive than stainless steel, considering initial purchase, repair, and maintenance costs, winemakers have learned to add oak flavors to wine aged in stainless steel by a variety of methods. Alternatives such as oak chips, tank stave systems, toasted oak squares, and toasted oak powder may present additional opportunities for U.S. suppliers willing to explore this market.

While growing oak and cooperage product exports to South Africa are not assured, changes in the South African wine industry will certainly create opportunities for those who pursue them. However, once a

winemaker has found the *right* oak for their varieties of wine, he/she may be unwilling to tamper with a winning formula. The best opportunities, therefore, are presented as the South African industry grows and transforms itself.

## **JAPAN-WINDOW OF OPPORTUNITIES**

*By Doreen Chen-Moulec, Agricultural Marketing Specialist and Kyle Cunningham, Intern Agricultural Economist*

The United States is the largest foreign supplier of wood windows to Japan. By 2001, the Japanese import market for wood windows fell to \$46.3 million. The period of market contraction during and after the downturn witnessed rapid expansion by the Philippines and Sweden. Imports from the Philippines rapidly grew from a little over \$50,000 in 1996 to \$6 million in 2001 to capture 13.4 percent of the market. Imports from Sweden have grown to 10 percent of the market share. The United States currently has the largest share of the import market at 42 percent. Between 1994 and 1996, growing U.S exports to Japan caused the market to more than double in size reaching a peak value of \$80.7 million.

## **WINDOWS MARKET**

The Japanese wood window market is still relatively small as aluminum windows dominate the window market, accounting for 95 percent of all window frames in Japan. However, recent advancements in wood window technology have helped make them more attractive alternatives to other types of windows. Wooden windows seal better now than aluminum and other materials in wooden rooms. Wood windows are also highly regarded for their aesthetic qualities, as they blend in

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<sup>5</sup> American white oak is widely used by wine makers in Spain and Australia, as well as in North and South America because of its preferred flavors.

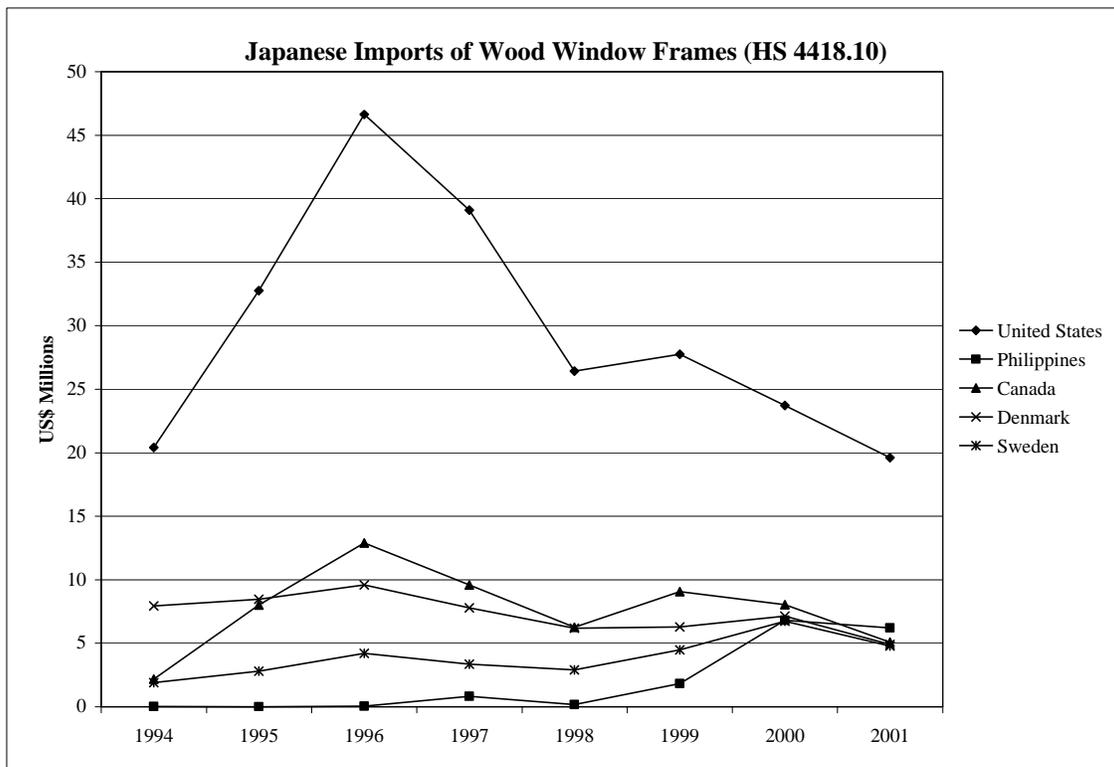


Figure 1 Japanese Imports of Wood Window Frames

well with the space and architecture of buildings as opposed to aluminum windows. In particular, U.S. manufacturers have technological advantages over Japanese and third-country counterparts, as U.S. products are of high quality and cover a wide variety in design and price.

Under the Building Standard Law, windows installed in houses located in fire and quasi-fire zones must be certified by an approved testing agency to withstand a 20-minute fire test. Until recently, wood windows were required to undergo individual first safety testing. Now the group approval system, which allowed aluminum windows to waive the requirement of individual fire safety testing also applies to wood window models.

### CONSUMER PREFERENCES

Japanese builders and homeowners look for energy-efficient, airtight and soundproof properties of wood windows. The most

popular windows in Japan are "double-hung" windows, followed by "casement windows." Total sales of double-hung and casement may account for 50 to 60 percent of the total imported wood and vinyl window sales. These types of windows are most suitable for imported houses and 2x4 houses. "Double sliding windows" are also used in most traditional Japanese homes. The extreme wet weather conditions in Japan necessitate highly weather-resistant windows. To ensure that products meet the water resistant capabilities demanded by customers, manufacturers might want to export only products rated against water infiltration by the American Society for Testing and Materials. Another factor to consider is that Japanese homebuilders customarily provide after-sales services by domestic window manufacturers and wholesalers. Price and delivery are also important to consumers. For Japanese homebuilders, prompt delivery is necessary as delays may cause the homebuilder to change the entire construction schedule. Also Japanese language instructions are also recommended.