Governance in the Value Chain for South African Wine

by

Stefano Ponte

Danish Institute for International Studies

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Abstract

Global value chain (GVC) analysis has emerged in the last decade and a half as a novel tool for understanding the dynamics of economic globalization and international trade. It postulates that the global economy can be usefully understood as a combination of discrete, product-specific 'value chains' rather than of generic 'markets'. In these value chains, firms are linked in internationally dispersed but integrated systems of input supply, trade, production, and final marketing. In addition to the descriptive projects of tracing input-output structures and geographical configurations, the central focus of the GVC literature has been analysing how, and by which types of firms, individual chains are 'governed', whether there are systematic patterns to governance and – if so – what accounts for them.

This paper aims at advancing the theoretical discussion of governance in GVCs through the analysis of the wine industry in South Africa. It follows an earlier paper dedicated to the geographic and input-output configurations, institutional framework and upgrading possibilities in the South African wine industry. With the aid of convention theory, this paper examines governance in the global part of the value chain for wine to understand how South Africa-based wine actors transmit demands placed on them by 'lead firms' and how this process leads to specific structures of reward and procurement operations within South Africa. This is done by differentiating among quality levels and, to some extent, end-markets.

What emerges from this analysis is a picture of a *global* value chain for wine that is, in its lower quality configuration, highly-driven by retailers on the basis of strict demands on 'basic quality', price and (at least for the UK) promotional support. Some variations of governance are found in different strands of the GVC, both by level of quality and by geography of end-market. The middle range quality strand is found to be less driven than the basic quality strand, to be without a clear group of lead firms, and to allow for better margins and more input by suppliers in the determination of 'quality'. The top quality strand is placed in between the other two quality strands in terms of levels of drivenness, with a group of external actors (wine critics) vying for prominence in driving the chain against élite producers.

Within South Africa, producer-wholesalers and marketers are found to be the main drivers of the value chain, although their power over other actors is limited by their need to deliver volume, consistency and quality to importers. Still, they are shaping the functional division of labour along the value chain for wine within South Africa by seeking to disengage from productive activities and by increasingly focusing on branding, service delivery and assembly of orders. In this re-configuration, inventory is pushed upstream all the way to cooperatives and other large cellars and to grape growers, who increasingly bear the consequences of higher risk.

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Introduction

Global value chain (GVC) analysis[1] has emerged since the early 1990s as a novel methodological tool for understanding the dynamics of economic globalization and international trade. It is based on the analysis of discrete 'value chains' where input supply, production, trade and consumption or disposal are explicitly and (at least to some extent) coherently linked. In addition to the descriptive aspects of territoriality and input-output structure, much GVC discussion has revolved around two analytical issues: how GVC are governed (in the context of a larger institutional framework); and how enterprise-level upgrading or downgrading takes place along GVCs. Much of these discussions has been carried out with an interest in how power and rewards are embodied and distributed along GVCs, what entry barriers characterise GVCs, and how unequal distributions of rewards can be challenged in favour of labour and/or developing countries. A previous Working Paper [WP1] was dedicated to the geographic configuration, the institutional framework and upgrading in the value chain for wine in South Africa (under the rubric of wine 'industry'). This paper examines its governance trajectories.

In GVC analysis, governance is the process of organizing activities with the purpose of achieving a certain functional division of labour along a value chain – resulting in specific allocations of resources and distributions of gains. It involves the definition of the terms of chain membership, incorporation/exclusion of other actors accordingly, and re-allocation of value-adding activities (Gereffi 1994; Kaplinsky 2000; Ponte and Gibbon 2005; Raikes et al. 2000). Although the links along GVCs between different sets of functional positions can be coordinated in different ways (Altenburg 2006; Gereffi et al. 2005), chains have been generally seen as explicitly 'driven' (in different ways, and to a different degrees; see Gibbon and Ponte 2007) by lead firms. In the GVC literature, these firms are seen as not only dictating the terms of participation to their first-tier suppliers, but also as managing to transmit these demands upstream towards further layers of suppliers, sometimes all the way to primary producers.

The debate in the GVC literature on governance has been a rich one in the last decade or so, with evolving and sometimes conflicting views on terms, interpretations, and applicability. This is not the place to rehearse these debates in detail (see Bair 2005;

[1] This term is used in this paper to also include work known as 'global commodity chain' (GCC) analysis from 1994 onwards.

Gibbon and Ponte 2005; Gereffi et al 2005). However, before continuing with the analysis of the value chain for wine, a clarification of some GVC governance-related terms and a simple qualitative framework for analyzing governance is presented in Box 1 and Table 1.

Box 1: GVCs – A clarification of governance-related terms

Governance

- Overall descriptor including several elements (see below); the original distinction of buyer-driven vs producer-driven (Gereffi 1994) is only one aspect of governance.
- Governance is the process of organizing activities with the purpose of achieving a certain functional division of labour along a value chain – resulting in specific allocations of resources, distributions of gains, and specific terms of participation and of exclusion.

Coordination and 'nodes'

- Coordination is a relation between actors at any node in the value chain – it can be of different types: hierarchy, captive, relational, modular and market (see Gereffi et al. 2005).
- A node is the point in a value chain where a product is exchanged or goes through a major transformation or processing

'Lead firms'

- A group of firms in one or more functional positions along a value chain which are able to 'drive' it.

Functional position of 'lead firms'

- Lead firms can be 'buyers' (of various kinds), traders, processors and/or 'producers'; most work in GVC analysis so far has examined the first and last of these (hence, the buyer-driven vs. producer-driven dichotomy).

Degree of drivenness

- Measure of power in a GVC – degree of capability in determining the functional division of labour along the value chain, in setting quality and other demands, and in dictating the terms of participation or exclusion, plus the rewards of participation.
- GVCs can be highly-driven, somewhat driven or not driven at all.

Type of drivenness

- Lead firms can drive GVCs in a *hands-on* way, a *hands-off* way and everything in between.
- Examples of hands-on drivenness: vertical integration, long-term contracts, explicit control of suppliers, regular engagement with suppliers or buyers.
- Examples of hands-off drivenness: use of specifications that can be transmitted in codified, objective and measurable or auditable ways; ability to set standards that are then followed along the GVCs;

ability to transmit information that is not easily codifiable in other ways ('learning a corporate culture', 'hanging out in stores', other osmotic processes; see Gibbon and Ponte 2005)

Polarity

- Describes whether there is one or more lead firm groups located in different functional position that are able to exercise drivenness.
- Much GVC work has been dedicated to 'unipolar' chains (or has characterized GVCs this way); some work has implicitly or explicitly examined 'bipolar' chains (Fold 2002; Sturgeon 2002); multi-polar GVCs generally exhibit lower levels of drivenness than unipolar chains.

Strands (also known as 'filaments' in some of the GVC literature)

- Strands are specific (and parallel) typologies of GVCs which governance may differ from the 'mainstream' GVC under consideration (or from other strands, if there is no clear 'mainstream'): e.g. retailer-led strand vs. auction-based strand of the cut flower GVC.
- Governance of specific strands still refers to 'whole-length' GVCs, unless combined with segments (see below).
- Strands may differ because of: different product characteristics (e.g. specialty coffee); a different institutional configuration (e.g. the presence of an auction that 'cuts' the GVC); or a different end-market/origin of production (e.g. clothes retailed in Europe or in the US; bananas grown in Latin America or in the Caribbean).

Segments

- Segments are large 'vertical chunks' of GVCs: e.g. the part of the value chain from the production point to export, or from import to retail.

Of immediate concern to the case study examined in this paper is that, while the discussion of governance in *global* value chains is important, equally important is to examine how driving mechanisms are transmitted and translated upstream (or downstream) in the value chain from where lead firms are functionally positioned. In this paper, a preliminary analysis of governance of the GVC for wine will be used to examine how South Africa-based wine actors transmit demands placed on them by lead firms and how this leads to specific functional divisions of labour and procurement operations in South Africa. Additionally, different *strands* of value chains can exhibit different forms of governance. As indicated above, this can happen due to different product characteristics, a different institutional configuration, or a different end-market/origin of production. In the case study of wine, distinctions will be made between three 'strands' of the value chain, based on product quality (top quality, middle-range, and basic-quality wine). Brief examinations of the impact of differences in end-markets on governance will also be carried out.

In this paper, some elements of the qualitative (and potentially comparative) analytical framework outlined in Table 1 will be used to examine governance in GVCs.

Table 1: Governance of GVCs -- A qualitative analytical framework

functional division of labour	
	functional position of 'lead firms'
	identity of main lead firms
	historical processes of outsourcing; changes in the functional division of labour
drivenness	
	degree of drivenness
	type of drivenness (hands-on; hands-off)
	dynamics of drivenness (description)
	types of information transmission
polarity	
	type of polarity (unipolar, bipolar, multipolar)
	determinants of polarity (relations of power between the most powerful functional positions)
coordination	
	types of coordination observed at various nodes along the chain
rules of participation	
	rules of exclusion and inclusion
	patterns of exclusion and inclusion
	demands on standards, quality, logistics, etc
structure of rewards	
	price, volume, learning, possibilities for upgrading
	punishments for non-compliance
conventions	
	quality conventions operating in specific segments and overall in the GVC
	broader conventions defining the normative space within which GVC agents and lead firms operate (e.g. financialisation, shareholder value, social responsibility, accountability, models of corporate organization)
	emerging challenges to these conventions, responses and adaptations, or new conventions
institutional framework and externalities	
	role of institutions and regulation (national and international) in shaping the context within which GVC governance operates
	civil society and NGO pressure; impact of natural disasters, etc.
variations in governance patterns	
	by different strand
	by different segment

In previous contributions to the debate on GVC governance, Ponte (2002), Daviron and Ponte (2005) and Ponte and Gibbon (2005) drew considerably on convention theory. The point of this work was to take further discussion of both the immediate normative environment within which value chain actors operate (that is, in relation to their buyers and suppliers) *and* the broader regulatory frameworks in which GVCs (and their lead firms) are found. Such contexts provide a vocabulary of prescriptions concerning, for example, which kinds of economic relation are best suited to manage specific product qualities or which corporate strategies should be employed 'in the interests of shareholders'.

Convention theory provides an entry point to these considerations through postulating that economic action is always framed by systems of justification (Boltanski and Thévenot 1991). These provide systematic languages for identifying the objects of economic action and criteria for attributing functions and values to them. In Gibbon and Ponte (2005), convention theory was used to analyse the repertoires of justification that were employed to legitimize specific functional divisions of labour along GVCs, in terms of conventions on product quality and on corporate organization, and of the specific types of justification that these were tied to. It was further used to examine challenges that were raised in relation to these justifications, accommodations and/or overlaps that resulted from these challenges and the new conventions that emerged in the wake of these events. This analysis allowed an appreciation of how and why different sets of agents act in relation to external environments. Furthermore, it provided a framework for understanding social inequalities relating to specific systems of justification. This theoretical effort is continued in this paper.

Section 2 of the paper describes the methodology used during fieldwork. This is followed by a discussion of GVCs and convention theory in Section 3. The case study of value chain governance in wine is examined in the following three sections. Section 4 presents a simplified characterization of the GVC for wine. Section 5 analyses in some detail the business practices and quality evaluation methods used in the main end-markets where South African wine is exported (but especially the UK); the focus here is on what quality conventions are used in importing countries and how the demands attached to these conventions are transmitted either directly upstream to South Africa-based actors, or through intermediaries of various kinds. Section 6 examines how these demands are translated into quality conventions and related procurement strategies in South Africa. Section 7 concludes.

Methodology

This paper is based on material gathered through fieldwork carried out in South Africa from June to November 2005. Part of the fieldwork consisted of 99 interviews with 74 entities that are directly or indirectly involved in the production of grapes and wine, their processing and marketing, and/or related inputs and services. Table 2 provides a picture of interviews carried out in the value chain for wine in South Africa by category of actor. In terms of direct players, the main focus of fieldwork was at the marketing/exporting level and, to some extent, at the cellar level. All 9 producers-wholesalers and marketers/exporters that sell more (or around) 1 million cases of wine per year[2] were interviewed, plus 5 smaller ones (selling between 120 000 and 800 000 cases each). The top 9 include the historical 'Big five' (Distell, KWV, the Company of Wine People, Winecorp, and DGB) and post-1994 entrants (such as Kumala/Constellation, First Cape, Baarsma and Coppoolse-Finalyson; the last mentioned went bankrupt in 2006). The 14 entities interviewed account for marketing almost 280 million litres of wine, or 44% of the 2005 production of wine (628 million litres; see Table 3 in WP1). Depending on the complexity of operations and availability, interviews were carried out with between two and eight representatives of these companies – normally including a marketing manager, a procurement officer, and a quality manager.

Table 2: Overview of fieldwork interviews

Category	
Marketers/exporters	8
Producer-wholesalers (over 1 m cases)	6
Private cellars (mid-range; 100,000 to 1m cases)	4
Private cellars (small under 100,000) & estates	10
of which -- organic and biodynamic	*2*
Coop cellars	8
Ex-coop cellars	4
Coop growers	5
Ex-coop shareholder growers	2
Independent/contract grape growers	3
Retailers	3
Wine writers/judges	6
Other --private	8
Other -- government	7
Total inteviewed entitites	*74*
Total interviewed people	*99*

Aggregated main categories	*total*	*total known population*
Wholesalers/marketers/exporters	14	less than 20
Private cellars and estates	14	ca 450
Coop and ex-coop cellars	12	ca 60
Grape growers	10	ca 4000
Other actors	21	na
Total entities	*74*	

[2] One case equals 12 bottles of 75 cl, thus 9 litres of wine. The equivalent of 1 million cases is 9 million litres.

In the category of private cellars, given the large number of cellars in operation, the aim was to cover a small number of medium-scale cellars (four, producing between 100 000 and 250 000 cases each) and of small-scale cellars or estates (ten, producing between 4 000 and 90 000 cases each). Geographically, focus was placed on Coastal Region (and especially Stellenbosch and Paarl Districts), Worcester District, and one large ex-cooperative in Olifants River region (which hosts the biggest cellar facility in the country). These three districts and Olifants River region account together for over 75% of all vines planted in South Africa (see Table 4 in WP1). Cellar-level interviews usually included the owner (or the general manager, or the head of marketing) and when possible the winemaker, viticulturist and/or quality manager.

In addition to this, 20% of existing cooperatives and ex-cooperatives were interviewed (12 of them). The cooperatives covered in the study account for a production of around 180 million litres of wine, almost one-third of total production of wine in South Africa in 2005 (see Table 3 in WP1). They also account for direct sales (sales not through marketers and producer-wholesalers) for about 15 million litres. Interviews at these cellars usually included the general manager and, when possible and applicable, the winemaker, viticulturist, and/or quality manager.

In relation to grape growers, given the limited resources available, only a small group (10) was interviewed to have a general idea of how contractual relations, quality assessment, and agronomic practices were changing. All three categories of growers were covered (in addition to private cellars who have their own vineyards): independent grape growers (without cellar facilities), growers that are part of a cooperative, and growers that are shareholders in an ex-cooperative. Finally, interviews were carried out with retail chains (three of the top four retailers in South Africa), wine writers and judges, providers of services to the industry, and government entities that regulate the production, trade and retailing of wine.

All information presented in this paper, unless otherwise stated, derives from primary material gathered through these interviews. The identity of companies and individuals has been withdrawn to comply with a statement of confidentiality that was offered to interviewees. Names of companies are only mentioned when previously published material is used.

GVCs and conventions

Conventions are generally defined as a broad group of mutual expectations that include – but are not limited to – institutions. While institutions are collective and intentional objects that are set up for the purpose of implementing an intention, conventions may also arise from a shared set of regularities that are unintentional (Salais 1989). For convention theory,[3] rules are not decided prior to action, but emerge *in the process* of actions aimed at solving problems of coordination. At the same time, action may be tested and thus needs to be justified by drawing on a variety of criteria of justice that are broadly accepted at a particular time. In other words, convention theory links situated action to widely-accepted normative models (Borghi and Vitale 2006). Conventions are not fixed in time and space, they include mechanisms of clarification that are themselves open to challenge. They are both guides for action and collective systems to legitimize those actions that can be submitted to testing and discussion, leading to compromises and possibly defeat (Boltanski and Thévenot 1991; Eymard-Duvernay 2006a and b; Favereau and Lazega 2002; Ponte and Gibbon 2005; Wilkinson 1997).

Boltanski and Thévenot (1991) develop six historically-based 'worlds of legitimate common welfare' that draw on particular paradigms of moral philosophy (inspirational, domestic, opinion, civic, market and industrial worlds). They elaborate an account of how these worlds are embedded in the behaviour of firms on the basis of organizing principles. To these 'worlds' correspond different norms of qualification, of people (e.g., employees) and objects. Depending on what justifications are employed, one can arrive at different conventions for organizing the activities of firms (see also Boltanski and Chiapello 1999). According to Boltanski and Thévenot:

- The '*inspirational world'* rests on the principle of common humanity and non-exclusion (based on Augustine) and agreement about evaluation and action refers to grace and divine inspiration (in firm parlance, creativity).
- The '*domestic world'* is founded on the principle of dignity (Bossuet) and agreement is founded on the basis of tradition (firms draw on the concept of loyalty).

[3] Convention theory is also known as the Economics of Conventions. The term 'convention theory' is used in this paper to avoid confusion with game-theoretical approaches (also referred to as 'Economics of Conventions' in France) that focus on conventions as outcomes of strategic interaction motivated by personal interest. What is meant for 'convention theory' here is thus the interpretive and normative approach to conventions (Batifoulier and de Larquier 2001).

- The '*opinion-based world*' is structured around the principle of difference (Hobbes) and objects and subjects are evaluated through the opinion of others (firms use the concept of reputation).
- The *'civic world'* is based on the notion of common welfare (Rousseau) and agreement is founded on the fact that individuals are sensitive to changes in common welfare (firms are organized around the concept of representation).
- The '*market world*' finds its justification in the notion that difference is justified by sacrifice, effort or investment (Smith), and agreement is found on the basis of market principles such as price (firms organize themselves around the concept of competitiveness).
- Finally, the *'industrial world'* is based on the existence of 'orders of greatness' (St Simon) and agreement is based on objective (technical and measurable) data (firms invoke the concept of productivity).

In more recent work, convention theorists and other scholars have developed further types, such as the 'green world' (Latour 1998; Thévenot, Moody and Lafaye 2000), the 'information world' (Thévenot 1997) and the 'network world' (also known as 'project-oriented' or 'connectionist') (Boltanski and Chiapello 1999; see also Thévenot 2002). The proliferation of categories in convention theory may be problematic. Yet, convention theory does not give a hierarchical value to these 'worlds', nor does it portray them as historical inevitabilities. Interests are neither permanent nor are they linked directly to specific social groups. Furthermore, at any particular time and locality, there may be multiple justifications of action operating at the same time. Finally, although there is an internal coherence in each world, there are also qualifications that 'bridge' different worlds. The consequences of such a heuristic framework for the concept of quality are far-reaching, suggesting that: (1) there is no 'universal' understanding of 'quality'; (2) quality is cognitively evaluated in different ways depending on what 'world' is used to justify evaluation and action; and (3) there is a direct link between understandings of quality and the social organization of production and exchange.

On the basis of the Boltanski and Thévenot framework, Eymard-Duvernay (1989; see also Sylvander 1995; Thévenot 1995) developed a typology of quality conventions and related forms of coordination. His main point of departure is that price is the main management form of a particular market only if there is no uncertainty about quality. If this is the case, differences in price are equated with quality. This characterizes a '*market*' quality convention.[4] When price alone cannot evaluate quality, economic actors adopt other conventions to solve uncertainty about quality. In a *domestic* convention, this is solved through trust (long-term relationships between actors or use of private brands which publicize the quality reputation of products). In this case, the definition of quality is resolved 'internally', and the identity of a product is guaranteed or institutionalized in the repetition of history by its region or country of origin or by a brand-name. In an *industrial* convention, uncertainty about quality is solved through the actions of an external party which determines common norms or standards and enforces them via instrument-based testing, inspection and certification. More recently, an additional category has been added, *civic* convention, where there is collective commitment to welfare, and the quality of a product is related to its impact upon society or the environment.

In this paper, to these quality conventions, two others are added to complete the original Boltanski and Thévenot framework: an *opinion* convention, where uncertainty about quality is resolved through the personal judgment (rather than objective measurement) of an actor that is external to the exchange and has a 'good reputation'; and an *inspirational* convention, where the personality of one of the actors in the exchange, his/her genius, intuition, creativity, vision or downright weirdness substitutes for other means of assessing quality. Table 3, in addition to listing the modalities for assessing quality that are linked to these conventions, also specifies, in relation to wine, the actual instruments that are used to operationalise such modalities.

Previous GVC work has employed some of the insights of convention theory to examine governance in selected GVCs (see Gibbon and Ponte 2005; Ponte and Gibbon 2005; Ponte 2002) to highlight the mechanisms underpinning a broad historical shift toward buyer-driven chains (along the lines of Gereffi's earlier work, Gereffi 1994, Gereffi et al. 1994) and the emergence of a more 'hands off' approach to overall governance in GVCs. Attention was also drawn to the growing importance in GVC governance of technical, quality, communications and even management standards, and of the related processes of measurement, certification and accreditation.

[4] The term 'convention' is used here to also cover the meaning of 'coordination' in convention theory in the rest of this discussion to avoid confusion with the GVC meaning of 'coordination'.

Table 3: An expanded framework of quality conventions

Quality convention	Instrument of verification of 'quality' (general)	Instrument of verification of 'quality' (in wine)
inspiration	personality	unique wine; cult winemaker or property
domestic	proximity, trust and repetition	brand/varietal, terroir, indication of geographic origin
opinion	external non-objective judgment	endorsement by wine writer, judge, publication
civic	impact on society and the environment	assessment of food safety, environmental and social impact, labels and certifications
market	price	price & promotion
industrial	external objective measurement	laboratory tests, codification of procedures

In other recent Anglophone literature, convention theory has been used chiefly as a source for typologies of various dimensions of product quality. This literature has been mainly concerned with classifying new dimensions of product quality, reflecting over struggles on the content of civic conventions; and judging these struggles as *for or against* a contemporary ‘capitalist’ project. This capitalist project is said to be striving not only to ‘commodify’ new product qualities, but also to commodify information about them – what Freidberg (2003; 2004) terms ‘double fetishism’. These dynamics are said to lead to a hollowing out of organic, fair trade, and other sustainability labels (Barham 2002; Raynolds 2000; 2002; 2004; Renard 2003). Alternatively, convention theory has been used to highlight the putative emergence of ‘alternative food networks’ based on locality and domestic conventions (Murdoch and Miele 1999; Murdoch et al. 2000).[5]

Until recently, convention theory itself did not specify the boundaries and overlaps of conventions across different levels of generality and spheres of action. This led to some degree of confusion on the applicability of conventions in terms of reach (and degrees of power) and of geographic or organizational extension. Distinctions between conventions of quality (Eymard-Duvernay 1989) and wider normative models of organizational ‘best practice’ (Boltanski and Chiapello 1999) were drawn only implicitly. This has now been partly clarified by some of the key convention theorists in a programmatic paper presented at the 2003 Paris conference on ‘Conventions et institutions’ (Eymard-Duvernay et al.

[5] Exception to this trend is work by Storper and Salais (1997) that builds upon the original Boltanski and Thévenot framework and focuses on forms of industrial organization.

2006).[6] In that paper, the authors extend the concept of a 'horizontal' plurality of forms of coordination to a 'vertical' plurality that allows the explanation of 'more localized' spheres of action (but did not mention 'more generalised' ones). This approach, according to its promoters, incorporates variation in levels of generality and justification within conventions. In other words, the plurality of possible 'worlds' of justification of action drawn upon within certain spheres coexists with more localized and 'familiar' understandings of what is 'just'.

Along similar lines (but leaning towards more generalized spheres of normative influence, rather than more local), Gibbon and Ponte (2005) argue that determination of the functional division of labour and entry barriers along a value chain, and of related organizational forms to put these in place, does not depend only on economic attributes (levels of concentration, market share), but also on the diffusion of *broader* normative paradigms and narratives circulating within society more generally. They argue that these provide legitimacy for the mechanisms used to exert 'leadership'. Specifically, they examine how the twin paradigms of financialisation and 'shareholder value' provided the reference point for justifying certain forms of oursourcing and for applying specific quality standards and quality management approaches in GVCs. In other words, Gibbon and Ponte (2005) examine how specific conventions respond not only to immediate concerns of how to transmit information on quality and to solve problems of immediate coordination between firms, but also relate to other, larger, necessities (such as maximizing shareholder value, or achieving a specific return-over-capital-employed ratio). So, while implicitly accepting 'vertical plurality' of conventions, instead of looking at more 'familiar', proximate understandings, they look at broader normative frameworks within which quality conventions operate. In this paper, a different effort will be attempted. Instead of explicitly discriminating between different (vertical) levels of normative influence, the analysis will be focused on how the quality conventions that apply to a particular segment of a value chain (and in specific geographic areas) are 'transmitted' and 'translated' upstream (in South Africa). Future work will be dedicated to examine how quality conventions are embedded in broader normative frameworks in both downstream and upstream locations of the wine value chains and to an analysis of if and how the two broader normative frameworks interact between them.

[6] A collection of the papers presented at the Paris conference, including the programmatic article, can be found in Eymard-Duvernay (2006a and 2006b).

Governance in the GVC for wine – a brief sketch

An overview

Figure 1: Simplified representation of the GVC for wine (product flow)

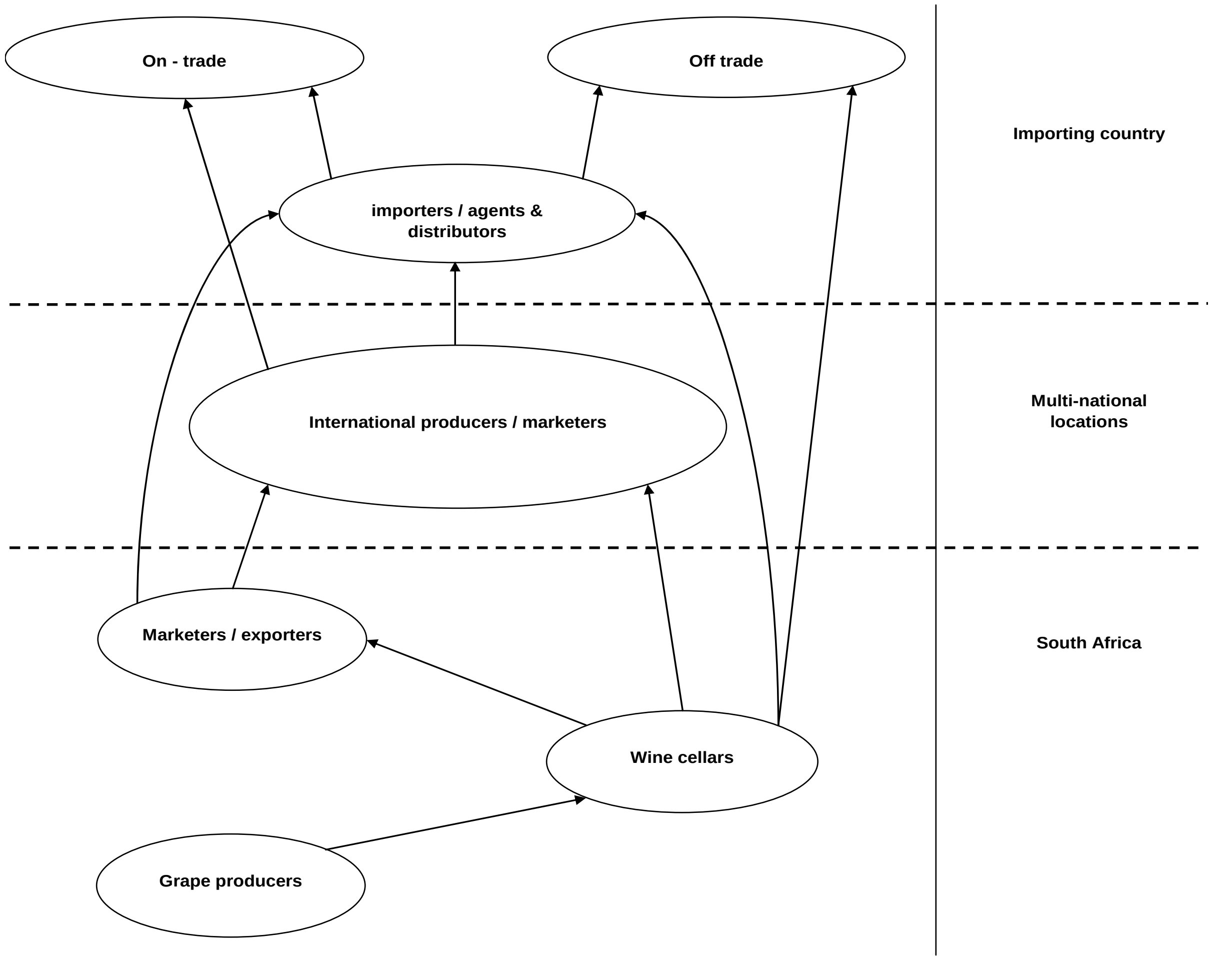


Figure 1 represents a simplified view of the GVC for wine, focusing on the main actor categories and product flows. The bottom part is a simplification of the configuration of the South African segment of the wine value chain (see Figure 3 below for a more detailed representation). The middle part of Figure 1 indicates the functional position of international producers/marketers in the GVC. These operate increasingly on a global scale in order to provide retailers in consuming markets with a complete portfolio of wines from all key producing regions. This segment of the value chain is still fairly fragmented if compared to other food and beverage industries, but is consolidating at a fast pace.

Table 4: World's Top 10 Wine Marketers (2006)

Rank	Company	Headquarters	Volume of sales (million 9-lt cases)	World share (%)
1	Constellation Brands	USA	104.0	3.9
2	E&J Gallo Winery	USA	72.0	2.7
3	The Wine Group	USA	41.9	1.6
4	Foster's Wine Estates	Australia	39.7	1.5
5	Pernod Ricard	France	37.5	1.4
Top 5			**295.0**	**11.2**
6	Castel Freres	France	36.0	1.4
7	Bacardi	Bermuda	25.7	1.0
8	Les Grands Chais de France	France	22.0	0.8
9	Vina Concha y Toro	Chile	21.4	0.8
10	Distell	South Africa	20.5	0.8
Top 10			**420.5**	**15.9**

Source: *Impact*, Vol 37, No. 11-12, June 1 and 15, 2007, p.6

Table 5: World's Top 10 Wine Brands (2005)

Rank	Company	Owner	Origin	Type of wine	Volume of sales (million 9-lt cases)
1	Franzia	The Wine Group	USA	Table	24.8
2	E&J Gallo Cellars	E&J Gallo Winery	USA	Table	23.7
3	Martini Vermouth	Martini & Rossi IVLAS (Bacardi)	Italy	Vermouth	14.0
4	Carlo Rossi	E&J Gallo Winery	USA	Table	12.5
5	Tavernello	Caviro Societa' Cooperativa	Italy	Table	12.1
Top 5					**87.0**
6	Yellow Tail	Casella Wines	Australia	Table	10.0
7	Beringer	Foster's Wine Estates	Australia	Table	8.6
8	Concha y Toro	Vina Concha y Toro	Chile	Table	7.7
9	Almaden	Constellation Brands	USA	Table	8.8
10	Sutter Home	Trinchero Family Estates	USA	Table	7.8
Top 10					**130.0**

Source: *Impact*, Vol 37, No. 11-12, June 1 and 15, 2007, p.7

In Table 4, we can see that the top five wine marketers had a global share of 11% in 2006, and the top ten almost 16%. In comparison, the top five breweries approached 50% of the beer market. Among the top five wine marketers, we find US-headquartered, but multinational in scope, companies such as Constellation and Gallo, followed by Foster's of Australia and Pernod Ricard of France. The last of a series of high-profile consolidation efforts was Constellation's acquisition of Vincor International in 2006 for over $1 billion. This came after Foster's acquisition of Southcorp Ltd and Pernod Ricard's acquisition of

Allied Domecq's wine portfolio.[7] Table 5 shows the world's best selling wine brands in 2006, which are all owned by either US or Italian groups. The top two brands (and number 4) are owned by the number 2 and 3 wine marketers. It is worth noticing that the top two brands together sold close to 50 million cases of wine, while total South African exports in 2005 amounted to slightly over 30 million cases.

The upper part of Figure 1 represents actors based in an importing country. Here, a distinction is made between the on-trade market (restaurants, bars) and the off-trade market (supermarket chains, other shops, internet/mail order) – but focus is placed in the paper on the latter. Supermarket chains, of course, are also becoming internationalized, so their actual operations (and interactions with other actors) apply to more than one importing market. Between retailers and the import point, wine can be handled by other actors, such as importers, agents and/or distributors – which may operate only in that consumption market, or may be part of international producer/marketer companies.

Only product flows, but not ownership boundaries, have been drawn in Figure 1 because all combinations can be observed in reality: some international producers/marketers own vineyards in several countries, may have a stake in a local marketer/exporter company, often have large cellar facilities, but in some cases only buy ready-made wine from other wine producers; they may also own dedicated agents in different consuming countries, or deal directly with retailers. More often than not, they (as well as all other actors upstream) rely on specialist agents and distributors for the on-trade market, which needs a much more hands-on distribution effort and local knowledge of the restaurant/bar industry. In general, the on-trade market is more focused on higher quality wine (but not always) and smaller volumes; the off-trade market is more focused on lower quality wine, but also sells significant volumes of higher quality wine.

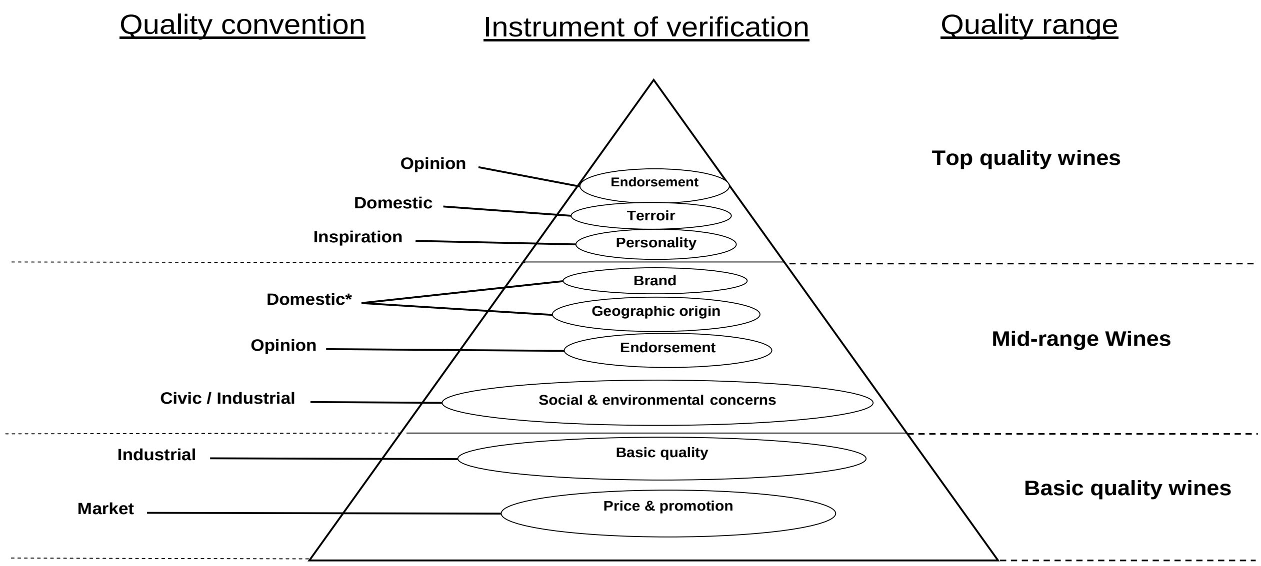
Evaluating quality in food and beverages and presenting quality profiles to consumers are very complex undertakings (see Daviron and Ponte 2005). Quality means different things to different people, both geographically and along a value chain. Objectively similar products are placed and presented in different packaging and under different brands, signaling a different level of 'quality'. The skills of quality 'evaluators' (including consumers) vary widely. Quality has material, symbolic and in-person service components. Given this complexity, any discussion on how quality is evaluated, and how different tools of

[7] *Impact*, Vol. 37, No. 11-12, June 1 and 15, 2007.

evaluation are wedded to different coordination mechanisms between sellers and buyers, is bound to be partial.

The rest of this section examines the 'quality pyramid' of wine as perceived in consuming countries – keeping in mind that in different countries there are different ways of approaching quality in wine, thus different configurations of quality conventions. Figure 2 represents the quality pyramid divided into three 'ranges': top quality, mid-range and basic quality wines. This is a simplification, as wine trade publications use a 5-tier, sometimes a 6-tier quality pyramid. Inside the pyramid, for each segment of quality, we have noted the main instruments of verification of quality that are used to 'solve the problem of coordination'. To each of these correspond one or a combination of quality conventions, indicated on the left side of the pyramid. Each convention is mentioned in order of descending importance (top-to-bottom) within each segment of quality.

Figure 2: End -market quality convention in relation to the quality pyramid of wine



Quality conventions and drivenness

Top quality wines

For top quality (or icon) wines, the main instrument of verification of quality is 'endorsement' by a respected (or renowned) wine writer, judge or publication (and/or sommelier in the on-trade market). This relates to an *opinion convention*, where the judgment, rather than being objectively verifiable, rests on the aestethic approach of the endorser towards wine, the perceived independence of the endorser from industry interests and his/her own preferences. Main factors for top wines are ratings by US wine writer Robert Parker, and by influential publications such as *Wine Spectator* (US) and *Decanter* (UK).

‘Terroir’, the specific combination of soils and micro-climate in a particular vineyard or property, is also a factor in the quality evaluation of top wines, but less so in Anglo-Saxon markets than in continental Europe (see discussion in WP1). This relates to a *domestic convention*, where intimate knowledge of the land, and long-term and repetitive fine-tuning to find the best practices and varieties that transfer the elements of terroir into the wine, are the main factors.

Finally, other wines are reputed to be of ‘top quality’ because of the unique ‘personality’ of either the wine, its presentation, the winemaker, or the property behind the wine – this includes weird, ‘visionary’ offerings, ‘mad-winemakers’, alternative labeling, or a specific ‘story’ behind any of these. In convention theory terms, this can be related to an *inspiration convention* based on creation, innovation, vision, elements of alchemy and uniqueness.

The kinds of conventions that operate in this quality range makes it difficult to ‘drive’ a value chain completely from one functional position: proximity, uniqueness, opinion are not elements that are easily translated and spread both functionally and territorially – although some elements can be codified. Thus, this strand of the GVC for wine exhibits a ‘middle range’ degree of drivenness. It is actually increasingly driven by wine critics, and specifically through Robert Parker’s scores. Because the 100-point Parker scale has been adopted by other influential publications, a creeping element of an industrial convention is helping to give the impression of ‘objectification’ of tasting, which also makes it easier to communicate information about quality, and thus increasing the level of drivenness. Interestingly, Parker does not buy or sell wine, and does not have direct shareholdings in wineries or the trade. His ‘empire’ is based on selling his opinion (McCoy 2005). The value chain is thus (partially) driven by an external actor. Although ‘quality’ in this segment is also to some extent ‘producer-determined’ (quality specifications do not follow a register provided by retailers, but rather are the result of tradition and/or innovation in wineries), it is an open secret that producers increasingly try to shadow the new aesthetics of wine that Parker and others have promoted.

Mid-range wines

For mid-range wines, the combination of quality conventions and of influential actors is more complex. Endorsement by wine critics (and an *opinion* convention) is still a factor, but a less determinant one than in top quality wines. Good scores from wine writers and publications do help to sell wine, as do stickers and medals awarded in international competitions (although the latter take the form of slightly more 'objective' instruments in that wines are often tasted blind by a panel of judges).

What is more determinant in this range of wines is a combination of (and sometimes a conflict between) geographic origin, brands and varieties. Indication of geographic origin are also the instruments of a domestic convention, but are less precise and 'immediate' than 'terroir' and can relate to fairly large and internally diverse regions; they seek to transmit a sense of (sometimes romanticized) connection with a place, where trust is embedded in the specific geography, in the processes that are typical of that area, and by the people who carry these processes out. At the same time, there are vast differences in the wine-producing world on what an indication of geographic origin actually means and how it is operationalised. In some countries, generic indications of geographic origin actually transmit information more akin to a brand than a territory.

The 'big competition' in the wine world in the last few decades has actually taken place between geographic origins and a combination of brand and variety as transmitters of quality information. Brands, in mid-range quality, are often accompanied by an indication of a single variety. The approach here is to help the consumer recognize and appreciate the differences between varieties and to 'hook' on a specific brand to sort through a myriad of offerings and variations. From a convention theory point of view, brands operate as a *domestic* quality convention as well, in the sense that repetition of experience builds trust, and brand name becomes a substitute for quality. However, as argued elsewhere (Gibbon and Ponte 2005), the mechanisms of transmission of information are very different for brands than for repetition of interpersonal relations and intimate knowledge of places.

So, even though domestic conventions are the principal instruments of quality evaluation in mid-range wines, a reliance on branding would in theory make it easier to communicate quality information along the value chain (and in end-markets through advertising). However, there is no clear driver in this strand of the GVC because branding has not yet achieved a dominant position – wine critics, wine marketers and retailers all have influence on its governance. There is no clear locus from where explicit functional divisions of labour are imposed either. Retailers and branded wine marketers (and producer/marketers) are mutually dependent – the first need ‘successful brands’ to sell; the latter need a retail outlet, a contact with the consumer; both need to pay attention to wine critics’ judgements (see Table 8 for a summary).

Another element at play in quality evaluation in this quality segment is the social, environmental and food safety aspects of quality. A lively debate has taken place in the literature on whether these quality aspects arise from ‘civic’ conventions in agro-food trade and or whether codification and certification procedures that are increasingly used to address these concerns bring these conventions closer to an ‘industrial’ type. HACCP procedures, BRC certification, and ISO 9000 certification have codified and formalized food safety and quality management in ways that resemble ‘industrial’ convention procedures. The same is happening for environmental (ISO 14000, organic, biodynamic, biodiversity) and social (fair trade, ETI, SA8000) concerns. For this reason, this convention is labeled a *civic/industrial* one in Figure 2. In all three ranges of wine quality, matching food safety procedures is considered as ‘a given’, so the quality description does not need specification in this regard. This characterises an industrial convention in that procedures are formalized and tests and auditing procedures are used to verify compliance. But, in mid-range quality wines, social and environmental certifications (such as organic, or WIETA) are still considered a ‘plus’, not a demand that is considered as ‘given’. Therefore, although they are operationalised through instruments that are ‘industrial’ in nature, they still maintain traits of a civic convention.

Basic quality wines

Basic wines (anything sold under £5 in the UK or €7 in the rest of Europe) are evaluated for quality in quite different ways. The first, and important step, is that a ‘basic material quality’ needs to be assured (this includes food safety as well). This is described in much detail by retailers to their suppliers, and includes chemical tests and tasting procedures that are fairly standardized and ‘objective’ in what they aim at. These are the features of an *industrial* convention.

Once this first step is cleared, then price and promotions are the shortcuts for signaling quality. Social and environmental certifications do not play a major role in this segment of the market, nor do personality, geographic origin or terroir. Wine here is offered under a brand, often with the indication of a combination of varieties, but price is more important than brand recognition. External endorsements may play a role, but promotion is much more important. So, domestic and opinion conventions do not play the main roles. The industrial/market nature of dominant quality conventions in this strand makes it much easier for 'lead firms' (retailers in this case) to specify quality information needs and to transmit these to their first-tier suppliers (and beyond). The GVC in this strand is highly-driven by retailers, which also set all elements of a quality profile.

Because a large proportion of South African wines are sold (both by volume and by value) in the basic quality range, and because the UK is the main destination of South African wine, the next section examines in detail the specific content and dynamics of the compromise between industrial and market conventions used the wine GVC ending in UK supermarkets.

Entry barriers and rules of participation in the UK retail market

Elements of an industrial convention: Delivering 'basic quality'

There are three elements in delivering 'basic quality' in wine that are taken for granted by UK retailers: (1) intrinsics and packaging; (2) codified solutions to food safety; and (3) logistics. We take these in turn.

UK retailers communicate very specific demands on intrinsics and packaging to their suppliers when buying basic quality wine: they tell them what to bottle, what kind of label and cork to use, the weight and shape of the bottle, the recycling possibilities. Specifications in 'intrinsics' at this level of quality can generally be measured or described easily. These include: levels of alcohol, total acidity, volatile acidity, sulphur dioxide content, residual sugar content, methods of protein and cold stabilization, a flavour profile, and general wooding regime (unwooded, lightly wooded, etc). According to Company 27, to get listing with a retailer, a supplier needs to deliver on intrinsics at the specific price point (a price point is, for example, £3.99 or 4.99), which means 'fruit forward, clean, easy drinking wine in the right packaging … and consistency year by year'.

At the beginning of a relation with a supplier, retailers may operate in a more hands-on manner with their suppliers – they may send samples of what they want, visit the cellars, etc; but after a few years, they tend to operate in a more hands-off manner. On the contrary, involvement with producers is much more hands-on for private brands (brands owned by supermarket chains).[8]

In recent years, the package of 'basic quality' that needs to be provided by South African suppliers has become more demanding. One of the main UK retailers wants to implement retail-ready packaging in wine, which entails unloading from the pallet to shelf in one move. Retailers are also moving towards screwcap and synthetic closures to minimize returns for 'corky' wine. At the time of fieldwork, all cooperatives and ex-cooperatives interviewed were either going through the process of certification for the British Retailer Consortium (BRC) Global Standard – Food and ISO 9000 or had already obtained such certifications.[9] Some of them were either starting or had enquired about WIETA certification and fair trade (see WP1 for more information on these certifications). Their buyers (marketers and producer-wholesalers, sometimes directly retailers in importing countries) had started requiring them to obtain BRC certification within a few years.

In 2005, BRC certification was essential for bottling plants in South Africa, but not yet for production facilities. At the same time, cooperatives and producer-wholesalers were under pressure to certify at least against HACCP and ISO 9000. One marketer argued that this trend is actually good for wineries, because up to the late 1990s, retailers used to do audits themselves, which was time and resource-consuming because of repetition and overlap or different rules. BRC provides a one-stop solution and a ready-made 'industrial convention' to solve food safety and quality management concerns. The general view in South Africa is that requirements for ISO 9000 and BRC (including HACCP) are tedious, paperwork-intensive but not unreasonable. They do not pose serious operational or cost barriers, and can actually help raise efficiency and quality management at the cellars.

[8] A South African marketer supplying private labels in the UK (Company 1), for example, is visited by an agent for the retailer 3-4 times per year; the agent brings in samples of bottles of wine to emulate for the winemaking team and provides broad specifications on style. The retailer's own winemaker also visits after harvest, and provides recommendations for blending; the winemaking team from the South African producer sends samples back to the retailer and gets feedback (usually through an agent). Finally, the agent provides a final indication of wine style, price point and provides more feedback (more wood, more fruity profile, etc).

[9] One particularly forward-looking cooperative cellar (Company 45), at the time of fieldwork in 2005, had already obtained ISO 9000, BRC (which includes HACCP) and was working on ISO 14000 (environmental impact) and ISO 18000 (occupational health and safety) standards. The cellar's representative argued that ISO 9000 and BRC had increased efficiency, so the resulting net cost of compliance and certification was actually much lower than the gross cost. It was not deemed to be an important factor in wine production costs overall. It was needed 'to be in the market'.

Some smaller private cellars, whose clients are not major UK retailers, however, have different views on certifications. A representative of one of them (Company 24) argued that he does ‘not want any certifications, no written down rules. All paperwork is useless. We treat our workers well and motivate them. I do not want to fill forms, I want to work with people’.

Recently, UK retailers have also started to develop specific policies and codes on social issues, and are increasingly looking at WIETA to answer these. But as one marketer explained, ‘on one hand, they insist on good labour conditions; on the other hand, they do not want to pay more; actually, they are squeezing producers … One retailer wanted to offer fair trade wine, but asked for a 45% margin. This is not feasible, the supplier needs to make money too’ (Company 27).

In terms of logistics, UK retailers are working towards lead times of eight weeks on promotion. As a result, UK-based agents and marketers are trying to get more control over logistics – previously, they sold wine FOB (free-on-board) ex-Cape Town harbour to retailers. Now, they have started selling ‘in-bond delivery’ in the UK. This way, retailers can place a call with a lead time of three days for delivery. Retailers are seeing themselves increasingly as shelf-space providers; ‘so if you run out of supplies, it is your own problem as a supplier, not theirs’ (Company 18). Suppliers can now log in the retailer system and see movements in space and stocks; they order replenishment themselves – basically just calling up the buyer and advise them to order.

Elements of a market convention: Delivering price and promotions

South Africa is the 5th largest exporter to the UK market, with approximately 9 million cases (see Table 6). The average sales price of a 75cl bottle is £3.77, lower than for the top four exporters to the UK with the exception of Italy. The highest average price recorded in the UK is for New Zealand wine with 5.92 £/75cl. The explicit focus of the South African industry is to ‘break the £5 barrier’, where it is having problems in performing, and where margins are healthier.

Table 6: UK off-trade sales by country (Aug2005-Aug2006)

	9-litre cases	million litres	average price (GBP/75cl)	% of total
Australia	19,747,000	178	4.28	29
France	15,086,000	136	4.14	22
US	14,414,000	130	4.00	21
Italy	10,776,000	97	3.46	16
South Africa	8,190,000	74	3.77	12
Spain	6,474,000	58	3.67	9
Chile	5,834,000	53	3.79	8
Germany	5,416,000	49	2.58	8
Argentina	1,516,000	14	3.53	2
New Zealand	1,426,000	13	5.92	2
Total	*69,132,000*	622	*3.88*	*100*

source: drinks business South Africa Report 2006

Due to the price wars that take place in the retail market in the UK, to be competitive a supplier needs to provide 'above the line' support, such as print and media, and 'below the line support', linked to point of sale and consumer promotion. A key feature of the UK off-trade market is that much of the volume of sales in supermarkets takes place during promotions – with some brands such as Constellation's Banrock Station and Hardy's selling upwards to 80% on heavily discounted terms. If a supplier wants to run a promotion with one of the major UK retailers, a minimum 100 000 cases of wine is needed. Other retailers can run promotions with smaller volumes, such as 20 000 cases.

The price points for wine in the UK are layered at the .99 level. This means that a wine selling for £3.99 will sell on promotion for £2.99. Some have labeled this system 'criminal' (Schmitt 2005: 85) – not that producers can do much about it, except for giving up a listing with a retailer. Even Constellation (the world's top wine marketer, now owning Kumala/Western Wines) with a market share in the UK of about 12-14% 'does not have power over the retailers' (Schmitt 2005: 85).

Whether the discounts are real or they are based on inflating the full price is open to discussion, with some observers arguing that many promotions are a 'rip-off' for consumers (Moore 2007). But it is not only consumers who may be getting ripped off. Smaller wine companies are increasingly unable to meet retailers' expectations and demands. It is difficult enough to score a listing with a major retailer. Once there, listing fees are usually charged, sometimes as a fixed amount and other times as a proportion of sales. Wine companies can be asked to make payments for shelf-space, and expensive ones for end-of-aisle promotions, or for mentioning a wine in the in-store magazine.[10] Some large retailers have even started approaching wine suppliers to urge them to 'share their success' and 'support' their future investment and business expansion (Moore 2007) – a euphemism for requiring marketing and advertising support (in other words, more payments). In addition, retailers have started to purchase wine through 'reverse internet auctions', which further squeeze margins upstream in the value chain. If a wine is not selling, they will ask the supplier 'to do something about it', otherwise the supplier will be delisted.

Table 7: Top 10 South African brands in the top-50 brands in the UK off-trade market (July 2005-July 2006)

Brand name	*Producer*	*Brand owner/distributor*	*volume (9-litre cases)*	*volume (litres)*	*change over previous year*	*UK ranking (dec 2003-dec*	*% of total SA sales*
Kumala	Western Wines	Vincor/Constellation	2,180,000	19,620,000	-0.2	4	27
Own-label	various	Retailers' own label	1,400,000	12,600,000	-8		17
Namaqua	Westcorp/Namaqua	Raisin Social	726,000	6,534,000	5.5	18	9
FirstCape	FirstCape and a coalition of cooperatives	BrandPhoenix	482,000	4,338,000	115		6
Arniston Bay	the company of wine people	Hermanns	425,000	3,825,000	-13	20	5
Stowells South African	various	Stowells	303,000	2,727,000	8.5		4
Evolution	Western Wines	Vincor/Constellation	265,000	2,385,000	-20.9		3
Dumisani	Winecorp		181,000	1,629,000	-11.7		2
Goiya	Westcorp/Namaqua	Raisin Social	167,000	1,503,000	-44.7		2
Pearly Bay	KWV	Edward Cavendish & Son (wholly owned by KWV); from 2007 Thierry's	164,000	1,476,000	37.4		2
Total bottled SA sales in UK			8,200,000	73,800,000	-9		

Source: ACNielsen and field interviews

South Africa is seen in the UK wine trade as lacking in the number of big brands that are needed to drive significant growth. It is seen as too dependent on Kumala, which is now seeing stagnant sales (see Table 7). Other brands of South African wine, however, are growing healthily, such as Namaqua (from giant ex-cooperative Westcorp, recently renamed Namaqua), FirstCape (from a joint venture of several cooperatives and BrandPhoenix of the UK) and Pearly Bay (KWV). At the same time, retailers' brand loyalty is low in this quality strand. In the past, a large South African producer-wholesaler (Company 10) sold wine to UK retailers on a 'take it leave it' basis, but

[10] Pendock (2005) reported that Southcorp (an Australian wine giant now part of the Foster's group) is thought to have paid Tesco £1 million to secure prime position for its products in the end of aisle gondolas at Christmas time in 2003. But sales were lower than expected and Southcorp was asked to take back some of the surplus wine.

this does not work anymore, as you need to shape wines according to buyers' demands. Wine has become a fast-moving consumer good, it is not a luxury item anymore … Wine should be ready to drink at release. It is not a problem to change a style following a buyer request: we can access a lot of winemakers and stocks of wine, they are flexible; this is key in the current market.

In the UK market, some South African marketers may use an agent who will operate during the back-and-forthing of tasting and negotiations on price. Others deal directly with the retailers. It is a tough bargaining market: margins are usually under 10% for the supplier, and suppliers actually need to tell the retailer what margin they will expect, which is then negotiated. Retailer margins vary between 30-35% off-promotion and 25-28% on promotion. The agent margin is usually 8-12% (over its own selling price). Retailers were even able to pass the duty increase applied by the UK government on wine sales (12p/bottle over four years) on to suppliers. Supermarkets refused to reflect the duty increase in their selling prices. So the wine marketers/suppliers had to take the cut themselves and are likely to have passed it upstream.

The frustration with lack of meaningful margins in exports to UK supermarkets, the need for massive promotion budgets, and the recent flattening if not decline of South African wines in the off-trade market in the UK prompted Wines of South Africa (WOSA) to organize a panel at the Cape Wine 2006, tellingly entitled 'Why bother with the UK?'. UK wine journalist Tim Atkin, on that occasion, launched a critical attack on supermarket chains for 'squeezing out the life in wine', while other observers had more positive outlooks, including indications that Tesco was expanding its fine wine portfolio. A suggestion also emerged for more focus on the on-trade market, where South Africa is less represented, and where margins are healthier (*Wineland*, June 2006, pp. 22-23).

Many of those who sell wine in the UK made the point that they remain there, despite all the problems, just to 'have a presence' or 'move stock'. However, there are also dissenting views. A major marketer to the UK, for example, pointed out that promotions can actually help in planning the supply work in advance. Promotions are scheduled and can be negotiated with retailers for a whole calendar year by mid-February. What is also less talked about is the rebate system, where if volumes of sales reach a commonly agreed target, the marketer 'gets money back from the retailer' (Company 13). If one of the products is not selling well, marketers and retailers can agree to swap it with another product. The other side of the ‘power coin’ is that retailers need constant supply: ‘if you are a good supplier you will be happy to work with the UK retailers, they are not bastards as South African producers think’ (Company 13). Notably, continues the same interviewee, ‘wine buyers spend 50% of time on administration, so they do not have time to try too many new products’. Also, sales are not done on consignment basis. If the retailer gets stuck with unsold stock, it will ask for a discount to ‘move it’. If a supplier gets delisted, the retailer provides time to move the stock, it is not ‘an immediate form of dumping’.

According to the same company, retailers are cutting down their supply base: they are cutting the number of product lines to diminish administrative costs, and they buy more volume on fewer lines. According to Company 27, up to the late 1990s, wine specialist stores in the UK kept a portfolio of 800-900 wines, and supermarkets kept around 750. Now, specialists have 600-700 and supermarkets 450-500. Retailers want to deal with fewer suppliers, so marketers are expanding their portfolio of offerings. Even the largest supermarket chains have only one wine selector and one commercial negotiator working on wine. Wine buyers that employed by retailers in the UK are few and they change jobs quite often. So, one can not establish a long-term relation based on trust (what would be the main element of a domestic convention). One has to start almost afresh with the next buyer in the job.

The picture emerging from what has been presented so far is one of a highly-driven GVC for basic quality wine, where retailers are the obvious ‘lead firms’, and where their drivenness is operated in fairly ‘hands-off’ manner, built upon industrial and market quality conventions (see Table 8).

Entry barriers and rules of participation in other end-markets

The Netherlands

Dutch off-trade consumers buy wine mostly on the basis of price, in combination with image/packaging style and the reputation of the country as a whole. Brand names are owned either by suppliers or by retailers, and they change all the time – there is very little brand loyalty (Company 1). In the Dutch market, suppliers have far more leeway on how to make a blend and deliver a product. It is a market less driven by promotions, but is very price-sensitive, and was characterized by one supplier as ‘cheap and dirty business, with no brand loyalty' (Company 34). Different brands are offered to different retailers (a marketer reported selling a wine under up to 20 different labels). These 'disposable brands' are owned by the supplier, but this means little as the retailer can switch brand names (and suppliers) at will. There are fewer and broader minimum quality demands. Recently, however, Dutch retailers have started to ask for ISO 9001 certification and IFS, but also accept BRC certification if in place already. In short, for basic quality wines, the value chain is highly-driven by retailers on the basis of a 'purer' market quality convention than in the UK.

Sweden

Sweden is a peculiar market because the monopoly agency (Systembolaget) buys on tender for the off-trade market. The tenders specify the variety, a broad profile of the intrinsics, country of origin, price point, and volume. Sweden has recently inquired within South Africa about the possibility of supplying Fair trade wines. WOSA on its part is lobbying for WIETA accreditation instead. Systembolaget operates about 420 stores and 590 agencies. South African suppliers use agents who are specialized in tendering with the monopoly agency. The same agents have a sales force to place wines in the more profitable on-trade market. South Africa has experienced dizzying growth in Sweden (34% increase in sales in 2005), and was expected to become the largest exporter to the country in 2007, up from number three in 2005 (*Wineland*, December 2005). According to Systembolaget's buyer of South African wines, they deliver good value for money, plus the Swedes are frequent travellers to the Cape (Ibid.). By far, the biggest volume of wine in Sweden is sold in bag-in-box. The monopoly agency is the lead firm in this value chain, and the composition of industrial and market conventions is similar to the one in the UK, with perhaps a more 'genuine' interest in 'civic' preoccupations.

Germany

The German market is basically split into two segments: the so-called 'Aldi market', from the name of the dominant discounter there, and the rest. The 'Aldi market' is extremely price-sensitive, wine is shipped in bulk and bottled locally because of lower duty on bulk wine. There is also pressure to keep alcohol levels below 13 degrees (as duty is higher over that level). Aldi alone controls 30% of the wine market by volume. When dealing with Aldi, the margin is so low that suppliers have to cut down on expenditure all along (cork, lighter bottle, cheaper label). It is important to be in such a market to 'move volume'. Aldi sells considerable volume of wine at €2 per bottle. This means being able to sell for €1 per bottle FOB ex-South Africa. The phenomenon known as the 'Aldi spiral' (as recounted by Company 39) involves, once you are listed with them, spiraling down in your retail price from €6 to €3 within 2 years.

USA

The US is a market where South African suppliers see potential for growth, especially at the upper price points, and healthy margins. As Company 7 puts it, 'they allow you to make a profit! They understand the need for everyone to make money in the trade; this does not happen in the UK'. The USA is a new market for South Africa. It is a challenging one because of its fragmentation due to state-based regulations and a three-tier supply chain. The three tiers are importers, distributors and retailers, and in most states the separation of roles is mandated by regulation. Furthermore, no actor can hold more than two of the three licenses, and most often only holds one. Because of this system, retail prices are 3 to 3.5 times the fob price ex-Cape Town. It is difficult to get a foothold in the US market because distributors may have 4 000 wines in their portfolios, and serve 20 retailers. The main challenge is to obtain visibility.

Unsurprisingly, the US market is much more fragmented than the UK, with only three distributors handling over one million cases. A representative of Company 17, a successful one in the US, said that 'the US market is about personal relations; you can not be seen as opportunistic there; it is a fragmented market, difficult to access, but this structure is an insurance against big buyers; in the UK, five buyers control 80% of wine sales'. Wine trade relations in the US are much more personal in nature, and the 'personality' of winemakers and eccentric wine property owners is also more of a factor than elsewhere. At the same time, brand recognition is also essential. Wine critics, even for wines that elsewhere fall in the category of 'basic quality', are more influential (when approaching an importer, the 'Parker score' will be the first question asked). Thus, the US strand of the value chain for wine is (rather surprisingly) characterized more by domestic, opinion and inspiration conventions than industrial and market conventions, and it is less driven than in Europe.

However, the US market is also changing, with Wal-Mart now selling substantial amounts of wine and carrying out big in-house promotions. South Africa is not yet a well established geographic category in the US, therefore big advertising and marketing investments are needed. At the same time, the recent agreement between Gallo (the largest producer/ marketer in the USA) and the ex-cooperative Swartland in South Africa may open the door to a more systematized presence of South African wine in the US. Charles Back's Fairview winery (also a producer of goat cheese) has had some success in the US by exploiting anti-French sentiment in the early 2000s. Using humour as an entry point, it has sold considerable amounts of 'Goats do Roam' and 'Goats Door' wines in the US. A French court challenge carried out in the US claiming that these names were too close to the French appellations 'Côtes du Rhône' and 'Côtes d'Or' was unsuccessful. Charles Back has now extended its range to 'Bored Doe' (a pun on 'Bordeaux'), 'Goats do Roam in Villages' (Côtes du Rhône Villages) and 'Goats Roti' (Côte Rôtie). A southern Italian-inspired blend is now sold as 'The Goatfather'.

Governance in the GVC for wine – A preliminary picture

In the following, parts of the qualitative framework provided in Table 1 are used to start examining governance in the GVC for wine. This is a provisional exercise, as more research is still needed on global wine players to refine the analysis. To be precise, this is a representation of governance that arises from South African perceptions of the GVC for wine. What emerges from Table 8 is a picture of a GVC for wine that is, in its basic quality configuration, retailer- and highly-driven, driven in a hands-off manner, on the basis of strict demands on 'basic quality', price and (at least for the UK) promotional support. This is reflected in retailers' processes of externalising stock-holding, replenishment and logistics; in the fact that retailers' demands have pushed wine marketers and producer-wholesalers towards more vertical integration, or at the very least more hands-on control of the value chain upstream; and in specific changes in the functional division of labour (and in the transmission of specific quality demands) in producing countries – as we will see in the next section.

Some variations are found in different strands, based on both quality and on geography of end-market. So, while the basic quality strand in the UK follows the profile given above, the middle range quality strand is less driven, enjoys better margins for suppliers, does not have a clear group of lead firms, and allows for more input by suppliers on the determination of 'quality'. The top quality strand is placed in between the other two quality strands in terms of levels of drivenness, with an external actors (wine critics and publications) vying for prominence in driving the chain against élite producers.

In terms of geographic variation, the German and Dutch strands of the GVC are also retailer- and highly-driven, but on the basis of a 'purer' market convention than in the UK – price is the main quality qualifier. Sweden's monopoly agency acts as the 'lead firm' there, with specifications that resemble those applied by UK retailers, but with a more developed interest in social and environmental issues. The US, differently from the other strands, is characterized by lower levels of drivenness, a fragmented structure and the potential for higher rewards.

Table 8: Governance of the GVCs for wine

end-market		**UK**			**US**	**Sweden**	**Germany, Netherlands**
quality strand		high quality	middle range	basic quality	overall	overall	overall
functional division of labour							
	functional position of 'lead firms' (or would-be lead firms)	wine critics (and publications); producers	retailers, critics and wine marketers	retailers	retailers, distributors, importers	monopoly importer	retaliers
	recent changes in functional division of labour	none	none	externalising stock-holding, replenishment and logistics; retailers' demands push wine marketers and producer-wholesalers towards more vertical integration, or, at the very least, more hands-on control of the value chain upstream; impact on functional div	none	na	externalising stock-holding, replenishment and logistics; retailers' demands push wine marketers and producer-wholesalers towards more vertical integration, or, at the very least, more hands-on control of the value chain upstream; impact on functional div
drivenness							
	degree of drivenness	medium	low	high	low	high	high
	type of drivenness (hands-on; hands-off)	mix of 'external' hands-off (wine critic score) and hands-on (terroir, style or personality of producer)	na	hands-off	na	hands-off	hands-off
	instruments of drivenness	high wine ratings for specific styles shape production decisions; history, peculiarity, terroir of property provided to buyers 'as is'; low volume, perception of shortage	na	strict demands on 'basic quality', plus price and promotion	na	tender descriptions	imposed through strict demands on 'basic quality', plus price pressures
polarity							
	type of polarity (unipolar, bipolar, multi-polar)	bipolar	multi-polar	unipolar	multi-polar	unipolar	unipolar
rules of participation							
	rules of exclusion and inclusion	conform to the specific aesthetic model preferred by a critic; owning the right property in the right area; developing a unique 'personality'	played around demands and counter-offers on scores by critics, branding, varietals, and geographic origin, plus environmental and social labels	need to deliver on price, promotion and basic quality (including packaging and logistics) and offer something 'new' or a broad range of wines	good relation with importer and/or distributor	match tender description at the best price	need to deliver basic quality (including packaging and logistics) at extremely competitive prices
structure of rewards							
	price, volume, learning	extremely high impact on price if a high score (over 90) is achieved -- learning to produce to the critic's preference; low volume, high price model;	healthy margins at good volumes	very small margins, high volume, strict logistics induce cost-cutting and 'efficiency gains'	high margins	good margins, good volumes, receptive of environmental and social concerns	extremely small margins, large volume, no brand loyalty
	punishments for non-compliance	very difficult to sell in larger volumes if score is lower than 85 out of 100; if property is in the wrong area, little chance of succeeding through terroir, but still possibilities through 'personality' offerings	delisting, lower price if critic score is low	delisting	marginal position in a portfolio, exclusion	no tender	delisting, brand disappearance
conventions							
	quality conventions	opinion, domestic and inspiration	domestic (brand, geographic origin), opinion and civic/industrial	industrial/market	domestic (relation with importer/distributor; brand)	industrial/market and civic	market/industrial
	emerging challenges to these conventions, responses and adaptations, or new conventions	opinion convention took upper hand over domestic (terroir-based) conventions in last few decades; because of general acceptance of 100-point Parker scale, it can be seen as moving towards an industrial convention; inspiration convention still fairly margi	domestic convention (brand) increasingly important over domestic (geographic origin)	more elements are included in the industrial convention of basic quality, undermining domestic and civic 'threats'	industrial-domestic conventions becoming important with increasing importance of large retailers in wine	civic conventions becoming more important	none

Quality, procurement relations and governance in the South Africa segment of the value chain for wine

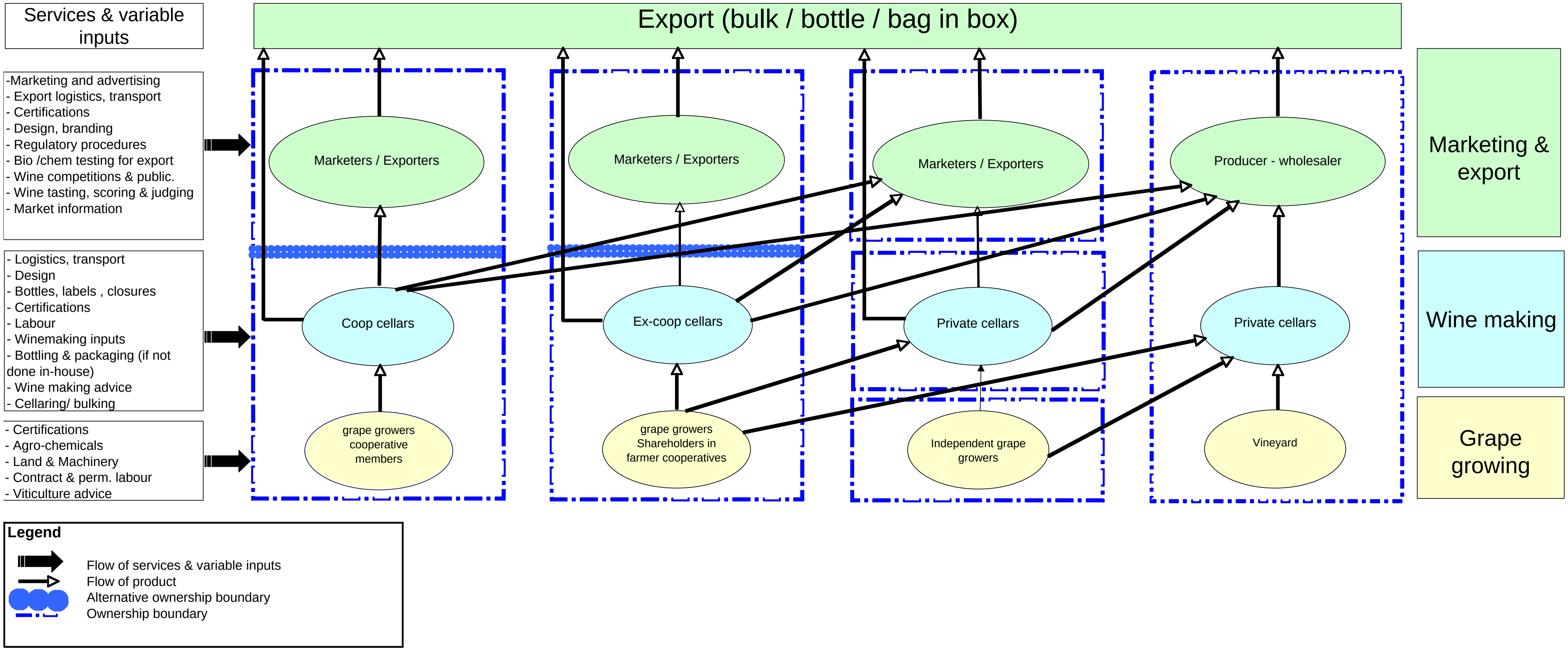
An overview

In this section, we examine how business practices and quality conventions that characterize the GVC for wine (and its strand-variations) filter through the South Africa segment of the value chain and are translated into wine and grape procurement models based on specific and 'more local' quality conventions. Figure 3 (reproduced from WP1) provides a schematic representation of the export-oriented strand of the South African segment of the value chain for wine. The right column defines the boundaries of various functions (grape growing, wine-making and marketing/export). The left column shows the variable inputs and services that are provided to 'direct actors' (those who handle grapes and/or wine directly) to make these functions operative. The central part of the figure shows product flows (solid arrows) and ownership patterns (patterns of prevalent ownership boundaries, and alternative configurations; this is done to reduce the graphic complexity that would entail representing each variation).

The bottom part of the figure represents a typology of grape growers: (1) growers that are part of a cooperative or a shareholding company (usually an ex-cooperative); (2) independent grape growers that do not have wine-making facilities or are not members or shareholders of a cellar; and (3) vineyards that are owned by private cellars (which may also be part of a vertically-integrated producer-wholesaler configuration). The differentiation between cooperative and ex-cooperative cellars is in that members of cooperative cellars are supposed to deliver all their crop to their cellar; shareholder growers can (and do) also sell in the open market to private cellars. Independent grape growers sell to private cellars but also to ex-cooperative cellars.

At the level of wine-making, we also have three configurations: cooperative cellars, ex-cooperative cellars and private cellars. The latter can be fully independent, vertically-integrated from vineyard to export, or partly-integrated from wine-making to export. At the level of marketing/export, cooperatives and ex-cooperatives until recently sold most of their wine to producer-wholesalers or marketers/exporters; but the trend in the last 5-6 years has been for these cellars to join forces between them and with marketers/exporters (sometimes directly with importers) to create dedicated marketing/exporting outfits.

Figure 3: Configuration of value chain for wine in South Africa -- export segment



Quality and procurement relations

Wine and grape procurement in South Africa is structured along a four-layer model: (1) own-wine production and grape procurement (both hands-on and -off); (2) procurement of ready-made wine with a hands-on management model; (3) procurement of ready-made wine with a hands-off management model; and (4) the spot wine market. Broadly speaking, wine operators move from layer 1 to layer 4 as the quality of wine sold decreases.

Figure 4. South Africa's current wine and grape procurement system and quality conventions in relation to quality of output

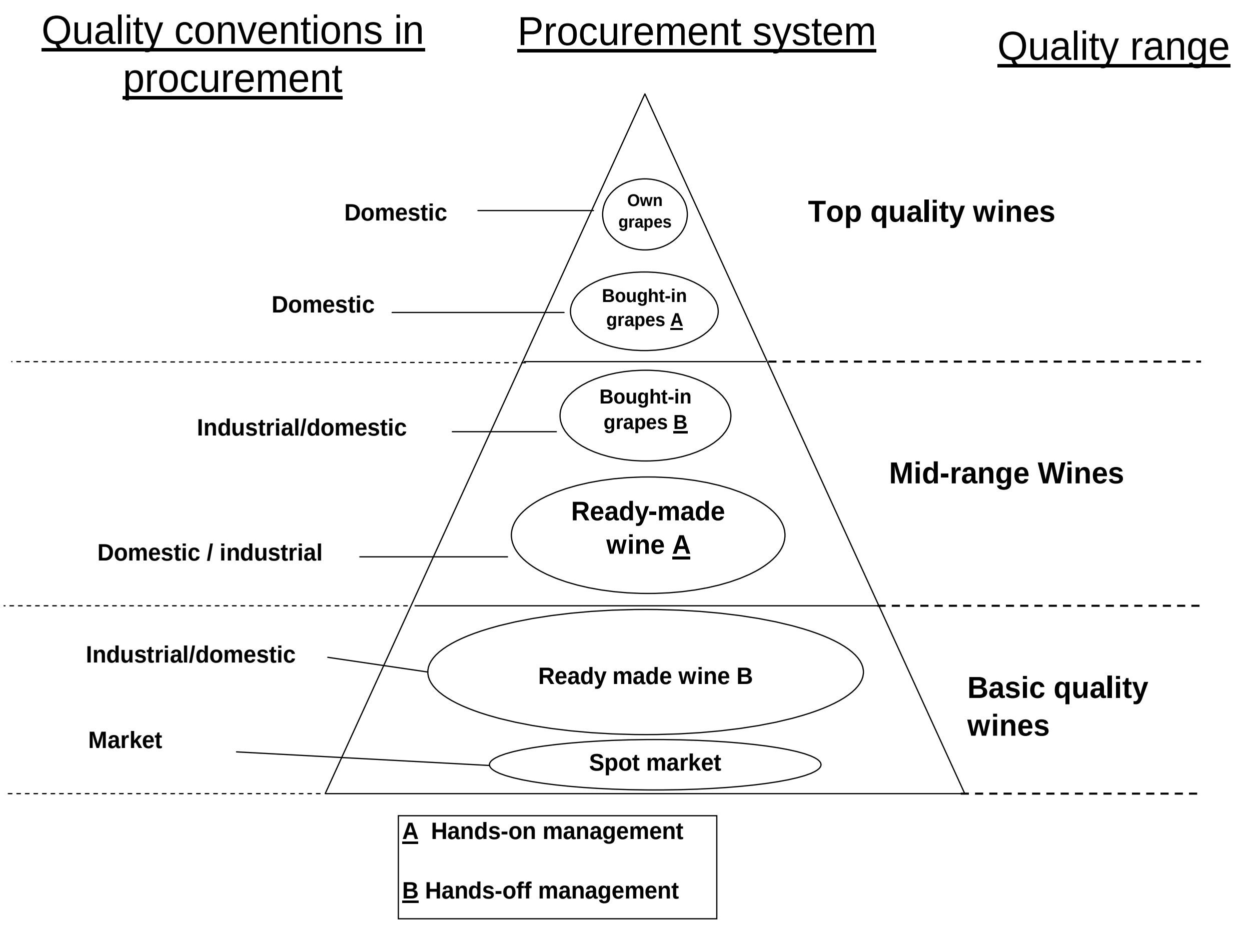


Figure 4 is a simplified representation of the mix of procurement systems that wine marketers, producer-wholesalers and private cellars operate as they move down the quality pyramid. The divisions in the pyramid are not as clear-cut as the graphic representation suggests – overlaps and a combination of other systems also apply. But, in general, for top-quality wines, own grapes or bought-in grapes with a high degree of supervision are used; for mid-range wines, procurement usually takes place through bought-in grapes with a less intensive supervision system (and own grapes that did not make the top-cut) plus ready-made wine that was produced with the buyer's winemaker input; for basic wines, ready-made wine with less input in production is bought, together with spot-market wine buying. Each of these modalities operates through specific (and changing) quality conventions and is the result (at least in the basic quality segment, but also partly in mid-range wines) of demands that were placed on GVC operators downstream from them.

Wine production from own grapes and bought-in grapes

In the following discussion, the contractual arrangements and quality conventions that shape the node of 'grape buying' are discussed – by discriminating between different kinds of growers and different kinds of buyers. Production from own grapes is the vertical-integration extreme of such relations; the opposite is spot grape buying (a rare occurrence); in between, we have grape buying with hands-on and hands-off relations.

Growers who are part of a cooperative or shareholders of an ex-cooperative currently receive regular visits from the cellar's viticulturist, who advises on what 'quality class' should be achieved block by block depending on a combination of market situation (price of wine vis à vis rebate wine for distillation), agro-ecological conditions, and alternative costs for different canopy management regimes. At pruning time, a decision is made by the farmer and the viticulturist on what canopy management regime to follow, which has implications on yields and therefore quality.[11] A quality class for a block, however, is not only dependent on a pruning regime – it is a combination of up to 20 indicators to be fulfilled by the grower. At harvest time, the cooperative viticulturist and cellar-master will advise the farmer on when to harvest (depending on the physiological ripeness of the grape, but also on availability of the cellar to receive grapes); grapes are assessed at this time for readiness to harvest, but the overall quality will be assessed ex-post once the grapes have been pressed and fermented. Given that a certain class of quality had

[11] The general rule is that the more active the pruning (and thus the more expensive), the lower the yield, the better the quality of the wine coming from these grapes. However, at the lower and upper margins of variation there are limitations on the impact of a pruning regime on quality. In other words, a very low yield (say, lower than 10 tons/ha) does not necessarily generate grapes that are superior to a regime which output is 15 tons/ha; it all depends on balancing vine growth, pruning and the fertility of the soil. Conversely, at higher yield regimes (over 30 tons/ha), the decrease in quality may not be proportional to the in increase in yield.

already been decided at pruning time, the evaluation exercise assesses whether the expected quality profile has been met.

The quality evaluation system of cooperatives has changed dramatically since the mid-1990s. Previously, 'members downloaded the grapes and left'. Cooperatives used to have only three quality classes (good wine, rebate wine, and distilling wine for spirits production); over the years, they increased the number of classes; and in the last decade or so, they have started block-grading. Most cooperatives now employ a viticulturist consultant. Cooperatives have developed checklists and evaluation instruments, and in some cooperatives farmers have to score 80 out of 100 points in the vineyard to qualify for a certain class: the score is based on the right terroir, on viticultural practices and on chemical analysis of grapes delivered. The price difference between quality classes has also increased in recent times, and if a farmer scores over 95% of the total score, a premium is paid. Block grading also means that members have the chance of tasting the wine made from their blocks individually.

In other words, cooperatives are moving away from the pool system and towards a form of contract farming where each block is treated separately. This move is more marked in ex-cooperatives, but it is taking place in cooperatives as well. In the former case, they are also free to buy grapes from non-members to get specific wines that members can not supply the grapes for, increasing their flexibility and potential to supply a more complete portfolio of varieties and styles.

Independent growers sell grapes to producer-wholesalers, private cellars, and sometimes to other growers. They use a variety of different contracts and quality regimes. Whether there is a contract or not with their buyers, blocks are specifically allocated to a particular buyer. Blocks are given a quality class on the basis of historical record, and prices vary accordingly, but buyers do not necessarily purchase the volume they had required from a block.[12] Grapes are tested on arrival at the cellar, but quality is assessed fully only after

[12] The determination of the reference price takes place in several steps: at the beginning of the season, most companies will look at the quality of the previous year from that block (e.g. B-class grape) and give the farmer an indication of what the reference price for that variety is expected for the season. If the quality exceeds the expected level, some buyers may also pay a premium at the end of that season. If there is a downgrading in quality, deductions will be made on the next year's harvest. Some buyers have started applying a new system, where penalties for non-conformity with the expected class are deducted on the first payment for the current year's harvest.

they have been pressed, on the basis of the must (not on the basis of the wine, as in cooperatives).

Increasingly, buyers seeking top quality grapes are becoming more engaged on grape farms (they call it co-management) through regular visits by a viticulturist. This actually gives more security to farmers in case of problems that may arise later – by monitoring the situation on the farm, the buyer shares responsibility with the farmer. Some buyers will let the grower taste the wine made from their grapes. For buyers, co-management is also positive because they can monitor volume and quality – as they also need some level of consistency and security of quality delivery.

Producer-wholesalers' procurement strategies vary according to the quality level of wines they need to produce. For lower quality wines, they tend to buy ready-made wine (usually from cooperatives); for middle-range wines, they use a combination of bought-in grapes and some of their own grapes that did not make the top quality cut (these are vinified at their own facilities) plus other ready-made wines bought externally and blended in with their own wines; for top quality wines, they tend to rely more on own grapes and bought-in grapes. The tendency across the board, however, is to rely less and less on grapes grown on own land and to implement long-term hands-on agreements with growers for high quality grapes. Some companies are actually trying to be disengaged completely from grape growing, and to implement sophisticated contract farming systems at the high-end of quality. As the quality range decreases, contract farming is replaced by more generic agreements with grape suppliers, spot market grape buying, 'wine-on-contract' making, wine tank 'booking' and finally, spot wine market (there is more discussion of these wine buying categories below).[13]

The procurement strategies of *private cellars* differ enormously, depending on the size of their operations. Some, smaller and higher-quality oriented cellars, operate almost self-sufficiently. They neither buy nor sell substantial amount of grapes. Others buy-in grapes regularly (usually, for second-label bottlings) or occasionally (to fill in a gap for a variety or level of quality). Larger cellars operate in ways that are similar to the system applied by

[13] Company 2, for example, uses own grapes, bought-in grapes and grapes from joint ventures to vinify only 6-7% of all wine sold, and only for its upper range wines. For these, management of quality in the vineyard is carried out as if the farm was the company's property. This company presently sources from 15-20 grape suppliers, and in the future does not want to own any land.

larger producer-wholesalers. Even among private cellars, the tendency is to move away from tending their own vineyards for strategic reasons.[14]

Going back to Figure 4, relations between grape growers and buyers/users of grapes can be interpreted as being underpinned by a domestic quality convention in the top quality range. Quality is ‘discovered’ though complete engagement and proximity (vertical integration in the case of private cellars) or with repeated personal interaction between the farmer and the cellar’s viticulturist. Even when engagement by the buyer becomes less hands-on (with lower quality profiles), a domestic element of trust and engagement remains. But this is accompanied by a more formulaic management system, including indicators of maximum yield, and more dependency on ex-post objective measurement of grape quality, rather then ex-ante co-management (thus, an industrial/domestic convention, see Figure 4).

Wine procurement: hands-on involvement

In this procurement model, the buyer (usually a producer-wholesaler, a marketer, or a larger private cellar) ‘books a tank’ from a wine producer (usually a cooperative or an ex-cooperative) and is heavily involved in winemaking operations. This means that a buyer provides detailed specifications on variety, style, wooding regime, and bio-chemical profile, and that the buyer’s winemaker is involved in the vinification process and/or blending. Some level of engagement is also carried out on the farms where the grapes will be sourced from (block identification, viticultural management, etc). But the level of hands-on engagement is not as close as it is in the case of grape-buying in general. Thus, although elements of a domestic convention remain, other quality parameters are set through industrial-type measurement devices and procedural systems (a domestic/industrial convention, see Figure 4). The wine produced this way is ‘booked’ by the buyer, who will taste all selected tanks (and others as well) after vinification to make a final decision on what to buy.[15] At the end of the day, the supplier owns the wine until the very last minute.[16]

[14] One of these cellars (Company 35) does not in fact own any vineyards. It has initiated a procurement system with some of its growers, where vineyards are managed as of they were the cellar’s own. This allows the cellar to procure grapes externally for up to 80% of its needs, with the rest bought-in on the spot grape market. This cellar is able to make such a system work by paying growers a percentage of the gross price received by the case of wine sold. Other cellars are actually moving in the opposite direction – they are trying to grow all their grape needs in their own farm. This, however, is often the case of properties that are ‘pet projects’ of business magnates, and thus where profitability is not necessarily the first priority.
[15] Price negotiations between buyer and seller usually start in November, when they interpret indications of how the market is likely to be in the following months. The buyer provides some price indication to cellars,

The shedding upstream of functions (and divesting from stock-holding) that retailers apply in importing countries rolls over (in different shape) all the way to the wine production level.

Refusing a delivery is less common when the level of engagement by the buyer has been high to begin with, thus there is more security on the side of the seller as well. The most important factor for the cooperatives is that the wine is out of the tanks in November to prepare for the next harvest. Marketers have year-to-year informal agreements with their suppliers and have no obligations to purchase in the following season. In practice, marketers tend to work with the same cellars (and to buy one particular blend only from one cellar) because they need a minimum level of consistency. For this reason, some marketers are trying to develop longer-term agreements with 3-4 of their largest suppliers. At the same time, marketers are trying to rationalize their supply base, and tend to rely on fewer, larger suppliers.

The main South African marketers have so far avoided selling shares to cooperatives and ex-cooperatives, and have instead tried to keep suppliers in their network through 'grower club' activities – which entail participation in special events, sharing of market information, comparative tastings, visits to international fairs and retail markets in Europe. At the same time, cooperatives and ex-cooperatives are themselves increasingly involved in setting up joint marketing ventures among themselves and in collaboration with import-country-based marketers and branders, which are resulting in innovative procurement systems.[17] This may actually undermine the approach taken by other marketers (and producer-

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but these are not binding. Marketers usually wait for the largest producer-wholesaler to announce its price for distilling wine (which can take place any time between November and January), which is an important factor in overall wine price determination. The buying price will then be set at end of January or February, just before harvest. It is not attractive for buyers to set the price too late because of possible turn for the worse on weather conditions at harvest which may lead to higher grape and wine prices.

[16] Normally, these productions are single varietal wines that can be blended on demand as orders are filled. Vinification is usually done together with the marketer's winemaker; the winemakers taste many samples of different batches and put together a basic blend (one varietal from different tanks); the final blend (maybe from more varietals) is done at the last minute because the marketer tries to avoid being stuck with a varietal blend in case the retailer changes its mind. Usually one big final blend is done, but the marketer draws from it (and pays for it) in installments.

[17] Company 39, for example, has a 50-year purchasing agreement with the cooperatives that are part-shareholders, although price and other details are re-negotiated every year. The marketing company is obliged to make a 'first call' to the cooperatives when a wine procurement need is identified. The marketer is not obliged to take the wine if it does not meet quality and price requirements. On their side, the member cellars have binding agreements to supply the marketer with wines of specified styles, quality and volumes. The marketer's winemaker has access to all facilities, tanks and vineyards and can buy anything he/she wants on a 'first call' basis. A minimum proportion of the volume required has to be bought at the beginning of the season. This system, a fairly new one in the wine value chain in South Africa, is the closest it comes to a transparent and 'empowered' marketing channel for cooperatives – it remains to be seen whether it will survive.

wholesalers) that is based on a 'stakeholder' approach to value addition, rather than a 'shareholder' approach.

Wine procurement: hands-off management

For anything sold under £5 in the UK or €7 in the rest of Europe, marketers tend to buy wine on the basis of a sample of ready-made wine without too much input, especially once a commercial relation has been established for a few years. In other words, the cellars know already what marketers want. At least at the lower and middle levels of quality, the old days of producer-driven quality in South Africa is gone. For these wines, the marketer or producer-wholesaler provides the cellar with a 'recipe', and only limited input in winemaking process. Quality management in procurement in this case is based especially on elements of an industrial convention, but trust and personal relations are still important between seller and buyer (thus, an industrial/domestic convention; see Figure 4).

Once the wine is made, the buyer will visit the cellar to decide what to take. When all of this is agreed, a big blend is done, wood is applied if needed, and cold stabilization takes place. Buyers avoid bottling until the very last minute because they seek to keep low levels of stocks and because once the wine is bottled shelf life needs to be indicated (and for cheaper wines, older is not better). Once a decision is made on bottling, lead times for producers are tough – 15 working days to deliver ex-bottling plant. Volumes will be 'drawn' by the buyer as needed within a 6-7 month period, after which the tanks have to be freed for preparations for the next harvest; there is less certainty that the buyer will withdraw all the volume booked than in the 'hands-on' model. In the past, buyers procured wines as soon as possible to 'get control of the wine'. They made one blend for the whole year just after harvest. Currently, they 'need to keep the wine at the cooperative cellar as long as possible'. Smaller batches are blended and with more precise specifications.

Spot market

In this case, the buyer visits the cellar, tastes wines from selected tanks and decides whether to buy or not; quality management in procurement is carried out through a mechanism that is closer to a market convention than in the other cases. It is not a pure market convention, though, as price alone does not signal quality.

Governance of the value chain for wine in South Africa

Table 9 uses the same instrument that was applied to the GVC for wine to understand governance of the South African segment of the value chain in its basic quality strand. It should be made clear, however, that this applies only to the export-oriented strand of the value chain, and thus presents an arbitrary picture – half of the production of wine in South Africa is consumed locally. What emerges here is a value chain where the main 'drivers' are producer-wholesalers and marketers, although their power over other actors in the value chain is limited by their own need to deliver volume and quality to importers or retailers. They are shaping the functional division of labour within South Africa by: moving away from grape growing towards buying-in grapes with hands-on management; by trying to divest from winemaking as well, or to move from hands-on to hands-off management; and by partially integrating some downstream functions in logistics, inventory management and replenishment through joint ventures with importing country agents. In this re-configuration of the functional division of labour, inventory is pushed upstream (in terms of volume and time) all the way to cooperatives and other large cellars, and to grape growers.

Table 9: Governance of the value chain for wine in South Africa

functional division of labour		
	functional position of 'lead firms' (or would-be lead firms)	marketers and producer-wholesalers
	recent changes in functional division of labour	moving away from grape growing towards buying-in grapes with hands-on management; trying to divest from winemaking as well, or to move from hands-on to hands-off management; some movement downstream in logistics, inventory management and replenishment
drivenness		
	degree of drivenness	medium
	type of drivenness (hands-on; hands-off)	trying to develop systems to move from hands-on to hands-off management in both wine and grape procurement;
	instruments of drivenness	'booking system' for wine buying is a transmission of downstream demands for both volume and flexibility – guarantees a minimum volume but also allows jump-wagon and dumping
polarity		
	type of polarity (unipolar, bipolar, multi-polar)	unipolar, but large coops also have some influence as marketers and producer-wholesalers need to deliver volume and ensure consistency to their own buyers
rules of participation		
	rules of exclusion and inclusion	need to deliver on quality definitions (vis a vis reference price), logistics and volume
structure of rewards		
	price, volume, learning	small margins, high volume, strict logistics induce cost-cutting and 'efficiency gains'
	punishments for non-compliance	price discounts; dumping; not buying booked tanks
conventions		
	quality conventions	industrial, domestic and market
	emerging challenges to these conventions, responses and adaptations, or new conventions	difficult to obtain volume; domestic elements remain even though the overall aspiration is to move towards market conventions

Figure 5: South Africa's aspirational model for wine and grape procurement

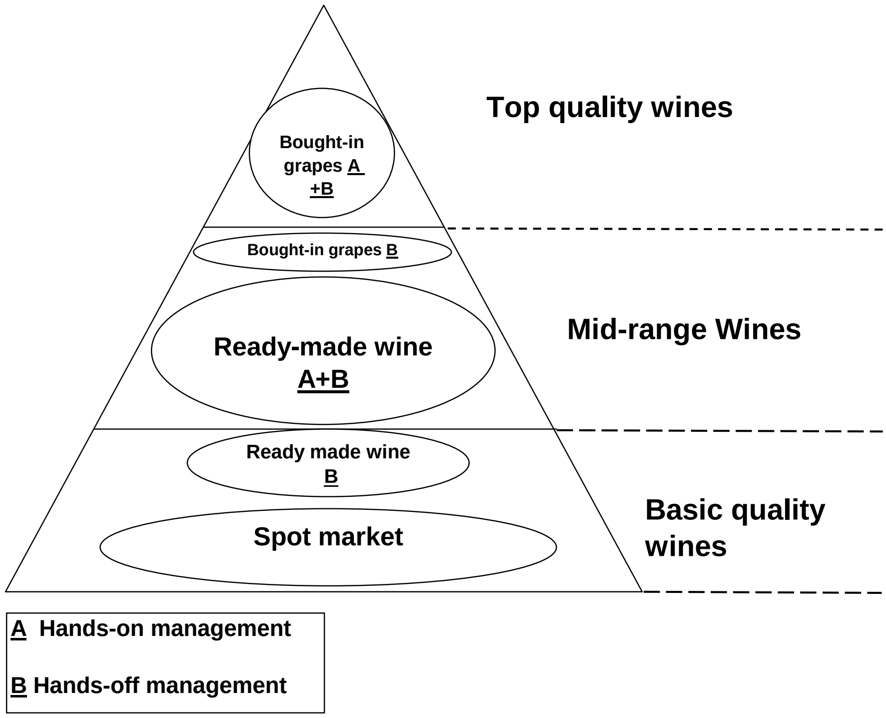

Table 9 should also be read in connection with Figure 5, which is the aspirational model that marketers and producer-wholesalers have in mind for their future operations (some have already moved in this direction). This involves: (1) divesting as much as possible from own-grape production to only buy-in grapes for top quality wines; (2) buying-in less grapes (and only through hands-off relations) and more ready-made wine for middle-range wines; and (3) rely more on spot markets for basic quality wines. The latter aspiration, however, needs to be balanced by the fact that there are not that many facilities that can produce large volumes of wine, so good relations and 'booking' systems will in practice still be necessary.

Conclusion

This paper aimed at advancing the theoretical discussion of governance in Global Value Chains (GVC) through the case study of South African wine. With the aid of convention theory, an analysis of governance in the global part of the value chain for wine was used to examine how South Africa-based wine actors transmit demands placed on them by 'lead firms' and how this process leads to specific structures of reward and procurement operations within South Africa. This was done by differentiating among quality levels and, to some extent, end-markets.

In importing countries, for top quality wines, the main instrument of verification of quality is ‘endorsement’ by a respected wine writer, judge or publication. This relates to an opinion convention, where the judgment, rather than being objectively verifiable, rests on the aestethic approach of the endorser towards wine. At this level of quality, domestic conventions also operate – through the utilisation of the concept of terroir by elite producers. Finally, other wines are reputed to be of ‘top quality’ because of the unique ‘personality’ of either the wine, its presentation, the winemaker, or the property behind the wine – this relates to an inspiration convention. The kinds of conventions that operate in this quality range makes it difficult to ‘drive’ a value chain completely from one functional position: proximity, uniqueness, opinion are not elements that are easily translated and spread both functionally and territorially – although some elements can be codified.

For mid-range wines, the combination of quality conventions and of influential actors is more complex. Endorsement by wine critics (and an opinion convention) is still a factor, but a less determinant one than in top quality wines. What is more relevant in this range of wines is a combination of (and sometimes a conflict between) geographic origin, brands and varieties (all based on some version of a domestic convention). There is no clear driver here because branding has not yet achieved a dominant position. There is no clear locus from where explicit functional divisions of labour are imposed either. Retailers and branded wine marketers (and producer/marketers) are mutually dependent – the first need ‘successful brands’ to sell; the latter need a retail outlet, a contact with the consumer; both need to pay attention to wine critics’ judgements.

Basic quality wines instead are evaluated on the basis of price and promotional support, once a package of ‘basic material quality’ is ensured. This package is described in much detail by retailers to their suppliers, and includes chemical tests and tasting procedures that are fairly standardized and ‘objective’ in what they aim at. These are the features of an industrial convention. Once this first step is cleared, then price and promotions are the shortcuts for signalling quality. Wine is offered under a brand, but price is more important than brand recognition. So, domestic conventions do not play a major role. The industrial/market nature of quality conventions here makes it much easier for ‘lead firms’ (retailers in this case) to specify quality information needs and to transmit these to their first-tier suppliers (and beyond). The GVC here is highly-driven by retailers, which also set all elements of a quality profile.

Rules of participation in this GVC for suppliers are the provision of ‘above the line’ support, such as print and media, and ‘below the line support’, linked to point of sale and consumer promotion. Smaller wine companies (and some very large ones too) are increasingly unable to meet retailers’ increasing expectations and demands. Retailers in the UK have also managed to transfer control over logistics to agents and marketers by starting to buy ex-‘in-bond delivery’. This way, retailers can place a call with a lead-time of three days for delivery. Suppliers now own the wine until the very last minute, and are in charge of replenishing orders themselves. All this is tightening logistics and lead times all along the value chain.

These dynamics of governance have specific implications for the way that wine and grape procurement systems in South Africa are operationalised. For top-quality wines, marketers and producer-wholesalers are currently using own grapes or bought-in grapes with a high degree of supervision. For mid-range wines, procurement usually takes place through bought-in grapes bought with a less intensive supervision system plus ready-made wine that was produced with the buyer’s winemaker input. For basic wines, ready-made wine with less input in production is bought, together with wine bought in the spot-market.

The South African segment of the value chain is characterized by producer-wholesalers and marketers as the main ‘drivers’, although their power over other actors is limited by their own need to deliver volume and quality to importers. At the same time, they are rationalizing their supply base, shadowing what retailers are themselves doing in importing markets. They are also re-shaping the functional division of labour in the wine value chain within South Africa by: moving away from grape growing towards buying-in grapes with hands-on management; by trying to divest from winemaking as well, or to move from hands-on to hands-off management; and by partially integrating some downstream functions in logistics, inventory management and replenishment through joint ventures with importing country agents. In this re-configuration of the functional division of labour, inventory and risk are pushed upstream (in terms of volume and time) all the way to producer cooperatives and other large cellars and to grape growers.

The case study of wine suggests that both the concept of governance in GVCs and its analytical operationalization are in need of further refinements. While the functional position of 'lead firms' is an important aspect in understanding the kinds of entry barriers that suppliers face and the type of demands placed on them (Gereffi 1994), it is increasingly difficult to trace a 'necessary' link between buyer-driven and producer-driven chains on one side and distinct rules of participation and exclusion on the other. This is the case also because some 'traditional' producer-driven chains are now operating in similar ways to buyer-driven chains (e.g., bananas, consumer electronics), and because in some industries lead firms are both buyers and producers, depending on what quality strand one examines (e.g., pharmaceuticals). What these observations entail is a need to break down governance in its constituent elements and to examine them through a variety of situations even within the same value chain (e.g., by quality strand and by end-market). Finally, this paper suggests that, while the discussion of governance in *global* value chains is important, equally important is to examine how driving mechanisms are transmitted and translated upstream (or downstream) in the value chain from where lead firms are functionally situated. By delineating what kind of quality conventions are used at what point in a value chain (and in which strand), conclusions can also be drawn on how lead firms are able to 'drive' a value chain with limited active engagement (seldom going beyond their immediate suppliers) or without a hands-on involvement at all.

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