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Consultation with the Australian wine sector on barriers to trade in wine markets

Prepared by the Australian Bureau of Agricultural and Resource Economics and Sciences

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Introduction

In 2009 ABARES initiated a two-part study designed to improve the understanding of factors affecting Australia's ability to trade in world wine markets, and to estimate the cost to the Australian wine industry of trade restrictions and import regulations. The objectives of the project were twofold:

Part 1 Scope the trade restrictions and import regulations of concern to the industry.

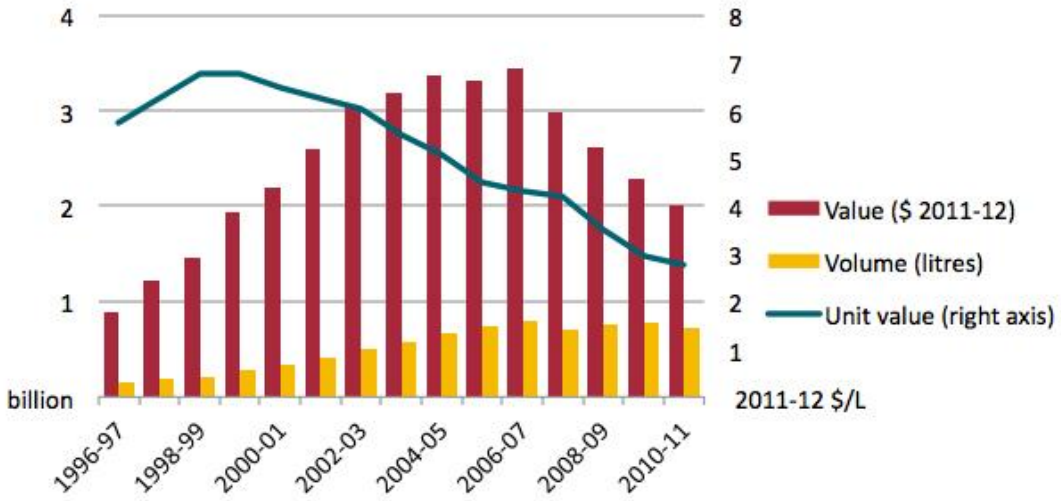
Part 2 Build an analytical model to evaluate the net cost to Australia of the tariff restrictions of priority to the industry.

This document forms Part 1 of this study. It identifies those factors perceived by stakeholders of the Australian wine industry as restrictive to Australian wine exports.

Background

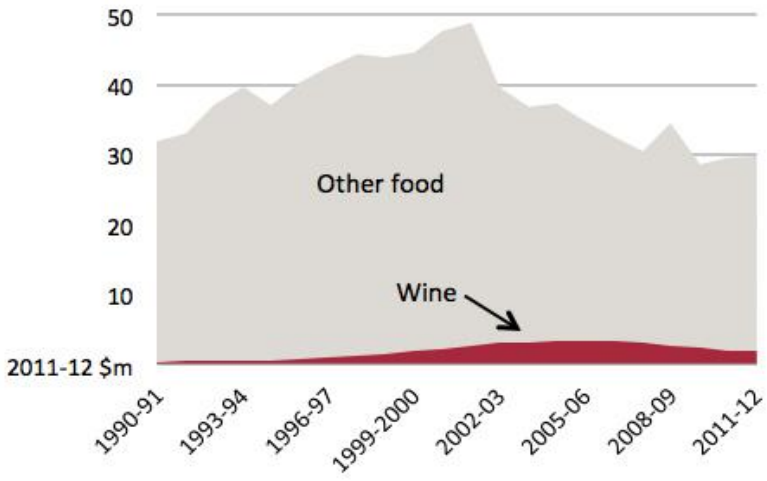
There were 2500 licensed exporters of Australian wine and over 50 000 shipments of nearly 15 000 different wines in 2010–11. In that year 727 million litres of wine were exported, worth $2.0 billion to the industry. Over the past 20 years trade has become more important to the wine industry and has contributed a larger share to Australia's total food exports (figures 1 and 2). Despite significant growth in Australian wine exports over this period, the industry now faces challenges both domestically and abroad. A global glut of wine has resulted in a decrease in the unit price and thus export returns to winemakers (Figure 1).

Figure 1 Australian wine exports, 1996-2011



Source: ABARES

Figure 2 Wine exports relative to total food exports, 1990-2012



Source: ABARES

A range of trade restrictions and import regulations also affects export returns to the wine industry. For example, tariffs and duties are used primarily to protect domestic industries in importing countries. Both forms of protection increase the price of imported wines relative to domestically produced wine. Where differential tariffs or duties are in place, Australian wines can have relatively higher tariffs or duties applied compared with wine imported from other countries. This is the case in China, where lower tariffs are applied to wine imported from Chile and New Zealand, two countries with which China has negotiated a free trade agreement. Some import regulations increase the cost for exporters, including a range of nationally imposed requirements, such as country-specific labelling and packaging.

This report summarises the results of the consultation proceedings and the tariffs and import regulations imposed by some importing countries. The discussion presented in this report forms a basis for ABARES to undertake research to evaluate the net cost to Australia of tariffs imposed on Australian wine.

Identified trade restrictions and import regulations

In November 2009 ABARE (now ABARES) officers consulted officers from the Grape and Wine Research and Development Corporation, the Australian Wine and Brandy Corporation and industry stakeholders. These stakeholders were asked about those aspects of the export side of their business that are compromised or constrained by trade barriers and import regulations imposed by trading partners. Stakeholders saw their ability to export competitively as being significantly constrained by explicit trade barriers, such as tariffs and duties.

Regarding tariffs, stakeholders were concerned primarily with:

- tariffs imposed on Australian wine imports by emerging markets, such as China, the Republic of Korea, Japan and India
- the advantage gained by the Chilean wine industry from the negotiated reduction of wine tariffs with China, the Republic of Korea and Japan.

It was agreed at the consultations that the industry would benefit from an examination of the effect of tariffs imposed by specific importing countries on Australian wine exports.

Tariffs

Emerging markets in Asia

Emerging markets, such as India and China, impose some of the more concerning barriers to Australian wine exporters; these barriers are viewed as an impediment to improved market access in these countries. The proportion of sales to these countries is low, but the potential growth in sales is high. These emerging Asian markets impose the highest tariffs on imports of wine. By contrast, there are virtually no tariffs on Australian wine in Australia's two largest established markets, the United States and the European Union.

In India, the greatest barrier to trade is the significant import tariff on wine of around 150 per cent on imports of alcohol from all countries. In 2007 China lowered import tariffs on wine imported to Hong Kong (from 80 per cent to 40 per cent) before removing them entirely in 2008. There has since been a significant increase of wine sales from Australia to Hong Kong. Any decrease in the wine import tariff applied by mainland China would further increase trade flows.

Competition with Chile

Chile is a principal competitor for Australia on the world wine market. Chile has negotiated several free trade agreements (FTAs) with emerging wine importing countries, such as the Republic of Korea, China and Japan. The FTAs allow Chilean wine exporters to sell into these markets with a lower tariff rate applied to their product than is applied to wine from other countries, including Australia. Over time, the applied tariffs on Chilean wine in each of these markets will be phased out altogether. Since these FTAs were signed, Chilean wine imports into these countries have increased significantly.

Preferential tariff rates on Chilean wine imports allow it to be sold at a lower price than wine from other countries, thereby increasing its market share. With domestic consumption of wine in these Asian countries relatively stable, other wine exporters would have lost market share.

Stakeholders also expressed a desire to secure market share within South America, where preferential rates among the Mercosur countries (Southern Common Market, in which Chile has associate country status) have allowed Chilean wine to dominate domestic wine markets. High tariff rates in Brazil and Venezuela mean that the competitiveness of imports from Australia is significantly reduced. One of the largest wine producers in South America, Concha y Toro (Chile), which sells 1 million cases a year to Brazil and Venezuela, equivalent to 12 million bottles, also competes with Australian wine in the United States. Given the competitiveness of Australian wine against Concha y Toro in the US market, there may be significant scope for higher Australian wine exports to these South American markets, if the tariffs on Australian wine are reduced.

Import regulations

Import regulations can impose costs on winemakers in the form of compliance, which can impede the ability of wine exporters to sell into these markets. The main categories that affect the Australian wine sector are:

- labelling
- packaging and blending.

Two additional import regulations may become important to the wine industry. These are environmental certification and the requirement for a carbon footprint specification in some markets, such as Japan.

Labelling and blending

Variability in existing labelling requirements by wine importing nations imposes costs on exporters, particularly for smaller wineries. Changes to those labelling requirements from time to time also impose additional costs to exporters.

Before wine can be exported it must adhere to Australian labelling regulations. If the shipment does not meet Australian labelling requirements, the shipment can be halted. It is noteworthy that few Australian wine shipments are rejected because of breaches to Australian labelling regulations.

Stakeholders believed that foreign labelling requirement for varietal labelling, specifically single-country and multi-country blends, increase their costs. For single-country blends, where all the grapes are sourced from a single country, varietal labelling requirements on blending are stricter in the United States than in the United Kingdom and the Australian domestic market. The United States requires that 100 per cent of the blend be reflected on the label, with the proportion of each grape variety clearly stated. Winemakers must decide whether to blend their wines according to the labelling requirements of the strictest market or to vary their blends according to the requirements of their key markets.

For multi-country blends, when some proportion (no matter how small) of the wine originates from another country, Australia mandates that any proportion of wine from outside Australia be labelled. Thus, a winemaker cannot include 'Product of Australia' on the label if 1 per cent of the wine in the bottle comes from, for example, New Zealand grapes. It must be labelled as 'Product of Australia and New Zealand'.

In the European Union (including the United Kingdom) legislation prohibits two-country blends, so Australia and New Zealand blends are disallowed.

Stakeholders were also concerned about costs associated with implementing multilingual labelling, such as the Canadian province of Ontario's requirement that labels be in both French and English.

Packaging

In Canada, the Liquor Control Board of Ontario (LCBO) requires a higher board strength factor for the cartons in which wine is shipped. This is to reduce breakage. Wine exporters who want to sell to the LCBO are obliged to pay for special print runs on higher strength cartons. An alternative is to use the standard, lighter cartons accepted by other markets and pay an LCBO penalty. The lower cost of the penalty is often the preferred option.

Research support

Based on discussions undertaken with industry representatives following the initial consultations, two main research possibilities were proposed as the highest priority for Part 2 of this study. Both involved an analysis of the effect of tariffs on the Australian wine industry.

The effect of tariffs on the Australian wine industry

When a tariff is imposed on an imported good, the price of that good in the foreign country increases by the amount of that tariff, making the product more expensive to consumers. For a wine with equivalent or similar characteristics, consumers will prefer the lower priced wine. Thus, the preferential tariff rates that Chile receives from the Republic of Korea, China and Japan have led to consumers buying more Chilean wine and less wine from other wine exporting countries, including Australia. A reduction in a tariff applied to an imported product has the effect of lowering the price of that product in the foreign market, making it more competitive than other equivalent products and leading to an increase of sales in the foreign market.

Given the expressed interest by stakeholders in emerging wine importing markets, ABARES will estimate the potential benefits to the Australian wine industry of a hypothetical range of reductions to import tariffs imposed by some Asian countries. Estimating the effect of such reductions on Australian trade flows would demonstrate the benefits to Australian exporters of trade liberalisation.

The ABARES report on Part 2 of the project, *Economic analysis of import tariffs in the wine markets of China and the Republic of Korea,* is available at daff.gov.au/abares/publications.