Pernod Ricard Winemakers

Our Ref: Byron Hodkinson
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19 August 2022

Committee Secretary
Joint Standing Committee on Treaties
PO Box 6021
Parliament House
Canberra ACT 2600

Via email: jsct@aph.gov.au

Dear Sir / Madam

Please find enclosed submission from Pernod Ricard Winemakers in respect of the Joint Standing Committee on Treaties inquiry into the *Australia-India Economic Cooperation and Trade Agreement*.

Should it be the Committee's desire, we would be pleased to appear before the Committee at any public hearing that may be scheduled as part of the inquiry.

Yours faithfully [redacted]

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Executive Summary

Pernod Ricard Winemakers welcomes the opportunity to provide a submission to the Joint Standing Committee on Treaties inquiry into the *Australia-India Economic Cooperation and Trade Agreement* (**AI-ECTA**).

As one of Australia's largest wine producers and exporters, Pernod Ricard Winemakers is surprised and disappointed by the lack of market access afforded to Australian wine under AI-ECTA. It is a missed opportunity to open the growing Indian market to Australian exporters following the effective closure of the Chinese market in late 2020.

Contrary to some commentary that followed the announcement, the benefits to the Australian wine industry of AI-ECTA are very modest. Just two per cent of Australian wine exports to India will be eligible for tariff relief, as the reductions apply only to wine imported above certain thresholds, which are set at a very high level.

Jacob's Creek, which makes up 79 per cent of the Australian category in India and is the leading imported wine brand, will face tariffs of 150 per cent indefinitely unless improvements can be negotiated as part of the forthcoming final agreement.

We encourage both the Indian and Australian governments to deliver a much improved outcome for Australian wine exports as part of the forthcoming final trade agreement.

About Pernod Ricard Winemakers

Pernod Ricard Winemakers is the premium wine division of Pernod Ricard. We produce iconic Australian wine brands Jacob's Creek, St Hugo, Orlando and George Wyndham, with our Australian operations located in South Australia's Barossa Valley.

In addition to our Australian presence, we own vineyards across the globe and produce international wine brands including Campo Viejo (Spain), Stoneleigh, Brancott Estate and Church Road (New Zealand); and Kenwood and Mumm Napa (United States).

Our Australian wine brands are exported to 79 markets around the world, with more than 1 million glasses of Jacob's Creek enjoyed around the world every day.

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Background and context

In late 2020, the Chinese Ministry of Commerce imposed prohibitive import duties of up to 212.1 per cent on Australian wine following an anti-dumping and countervailing duties investigation.

The impact of the tariffs, combined with a high vintage yield in 2021, has meant there is a significant oversupply of Australian wine, in turn reducing returns to both grape growers and winemakers.

In the two years to June 2022, the value of Australian wine exports has fallen 27 per cent, whilst export volume has declined by 14 per cent.[1] Red wine grape prices fell 15 per cent in 2022[2], driven largely by the fall in demand for Australian red wine from mainland China, which has dropped 95 per cent by volume since mid-2020.[3]

If the Australian wine industry is to successfully negotiate this structural oversupply of still wine, it needs to significantly increase demand for its product. Whilst winemakers must bear some responsibility to diversify exports by continuing to build their brands to lift demand in existing markets, there is a not unreasonable expectation that Governments will assist in breaking down barriers to trade that are beyond the control of private enterprise.

In the view of Pernod Ricard Winemakers, there cannot be a correction to the oversupply facing Australia's wine industry without significantly improved market access in India, as it is the only one with the long term growth potential to compensate, in part for the effective loss of the Chinese market.

Indian wine market

Whilst the market for wine in India is small, Pernod Ricard Winemakers considers its potential for Australian exporters to be considerable.

There are significant parallels between the contemporary Indian market and that of China two decades ago. Just as beer and baijou dominated the Chinese market twenty years ago, beer and whiskey currently comprise 78 per cent of the Indian domestic alcoholic beverages market.[4] Wine consumption represents just 0.5 per cent of total volumes.[5]

However, contemporary consumption levels mask the fact that the size of the total alcoholic beverage market is enormous, with India's legal drinking age population increasing by 19 million every year – broadly equivalent to Australia's entire drinking age population.

In addition, the wine category has shown significant growth in recent years. The still wine category grew at 25 per cent in 2021 Australian brands have a strong foothold compared to other countries of origin, comprising 47 per cent of all imported still wine volumes, with Chilean wine a distant second with approximately 12 per cent of all

[1] Wine Australia, *Export Report*, June 2020 and June 2022.
[2] Wine Australia, *National Vintage Report 2022,* July 2022.
[3] Wine Australia, *Export Report*, June 2020 and June 2022
[4] IWSR, calendar year 2021.
[5] IWSR, calendar year 2021.

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imported volumes.[6] Four of every five bottles of Australian wine sold in India is Jacob's Creek.[7]

Growth drivers

The growth in wine consumption is being driven by a growing middle and affluent class in cities including Mumbai, Delhi and Bengaluru, and to a lesser extent Goa and Pune. Our consumer research shows that wine is becoming particularly popular amongst a growing female consumer cohort who view wine as an acceptable alcoholic beverage of moderation. Additionally, it is increasingly consumed by men in social settings when in the presence of women.

Trade barriers in India

There are a number of significant barriers to trade in the Indian market, namely significant import tariffs of 150 per cent; state taxes that discriminate against foreign produced liquor; and a multitude of non-tariff barriers.

Import duties

A table comparing import duties of a selection of Australia's major wine export markets, as well as India and China, is below. As the table shows, at 150 per cent, India's import duties are uncompetitive when compared to many key export markets for Australian wine.

Country	UK	US	EU	Canada	Singapore	NZ	China	India
Tariff on AU still bottled wine	Nil[8]	Nil	Up to EUR 32 / hL	Nil	Nil	Nil	212.1%[9]	150%[10]

State taxes

India's federal structure results in a highly complex regulatory environment, particularly for alcoholic beverages. Some states prohibit alcohol entirely, whilst others impose significant taxes, often discriminating against foreign produced liquor.

[6] IWSR, calendar year 2021.
[7] 79 per cent according to IWSR.
[8] Subject to ratification of the UK-Australia Free Trade Agreement.
[9] Maximum applicable anti-dumping duty.
[10] Pending ratification of AI-ECTA – see 'Outcomes of AI-ECTA' below.

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A selection of state taxes applicable to wine is outlined in the table below.

Jurisdiction	VAT	State Sales Tax	Excise
Delhi	20%	Nil	80% of wholesale price, plus fees
Maharashtra	40%	Nil	150% of manufacturing cost, plus 'Special Fee' on imported wine (approx. INR 300 / btl), plus import fee (INR 7/ btl)
Karnataka	Nil	20%	INR 5 / btl

Other barriers to trade

Additional barriers to trade in India include:

- A ban on bottled in origin (BIO) wines in military canteen stores (CSDs), announced on 28 October 2020; and
- The Delhi Government announced a COVID tax on the sale of alcohol of 70 per cent from 4 May 2020.

Impact of trade barriers on price of Australian wine in India

The cumulative impact of import duties and state taxes on the price of Australian wine in India is significant. For example, a bottle of Jacob's Creek Classic Cabernet Shiraz, typically sold for approximately AUD 8 in major Australian liquor retailers, may cost up to the equivalent of AUD 30 in some Indian jurisdictions.

Outcomes of AI-ECTA

There are three key outcomes of AI-ECTA insofar as they relate to Australian wine exports:

1. A tariff reduction schedule;
2. A most favoured nation side letter; and
3. A side letter agreement to strengthen bilateral cooperation in respect of the trade and production of wine.

Tariff reduction schedule

India has agreed to reduce tariffs on Australian wine imports above certain price thresholds; namely, USD 5 and USD 15 per bottle on a CIF (cost, insurance and freight) basis.

To the lay observer, USD 5 per bottle may appear a small price. However, this is effectively the transfer price paid by an Indian importer to an Australian exporter, inclusive of the value of any freight and insurance. Accordingly, it does not take into account any importer margins, tariffs, state or central taxes or domestic transport and distribution costs.

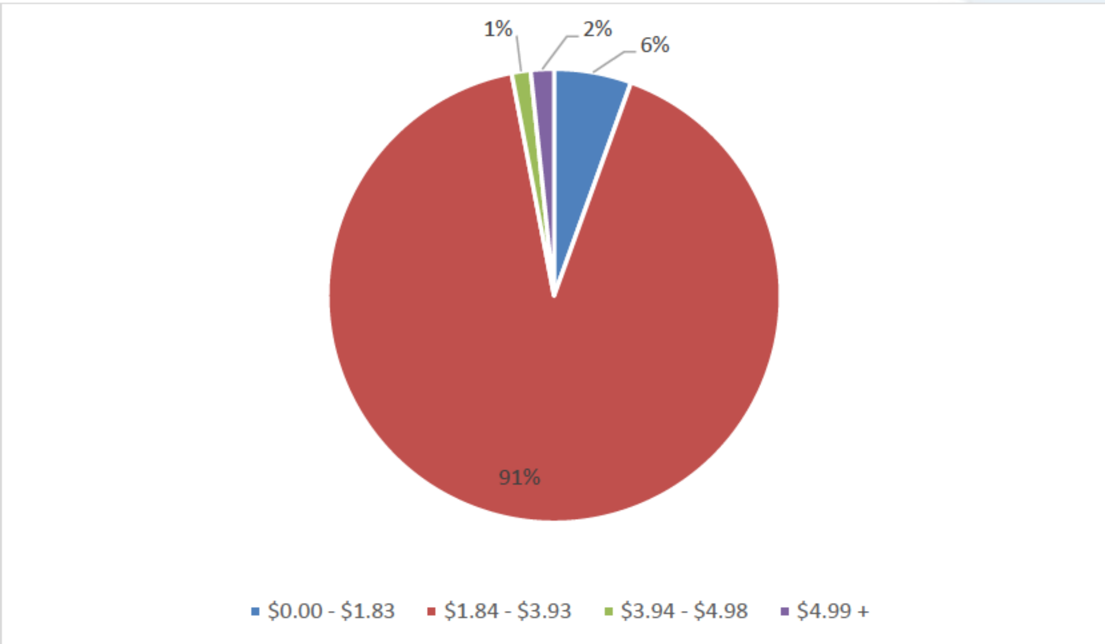
India's tariff reduction schedule insofar as it applies to Australian wine imports is reproduced below.

CIF* Value of Wine for a 750 ml bottle (USD)	Existing Customs Duty	EIF	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
CIF<5	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%	150%
5<=CIF<15	150%	100%	95%	90%	85%	80%	75%	70%	65%	60%	55%	50%
CIF>= 15	150%	75%	70%	65%	60%	55%	50%	45%	40%	35%	30%	25%

Source: Australia-India Economic Cooperation Agreement, Tariff Schedule of India, Appendix for Wine-HS 2204.

Based on our analysis of Wine Australia export data, only two per cent of Australian wine exports to India exceeded the minimum import price of USD 5 per bottle in the twelve months to December 2021. The average price of Australian wine exported to India during the same period was USD 2.53 per bottle.[11]

The table below shows the volumes of Australian wine exported to India by price segment per bottle.



Source: Wine Australia Export Dashboard, year ending December 2021. Price segments have been converted from AUD to USD assuming an exchange rate of USD70c per AUD. Wine Australia data is reported as Free on Board (FOB) rather than CIF. CIF prices are slightly higher than FOB as they include the value of freight and insurance.

Whilst the tariff framework may encourage producers of very expensive Australian wine to export to India, the reality is that the complexities of the Indian market will continue to discourage small and medium sized businesses from doing so. Alternatively, those that successfully navigate such challenges are unlikely to be

[11] Assuming AUD 1.00 equivalent to USD 0.70. Value is on a Free on Board (FOB), which will be slightly less than a CIF value as it does not include the value of freight and insurance.

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exporting significant volumes at such high price points that would assist in addressing the structural oversupply in the industry.

For producers currently exporting to India below the USD5 / btl threshold, they will be unable to artificially inflate prices above the threshold in an attempt to take advantage of the deal, as this would rightly attract the attention of Indian authorities. Businesses such as ours, who have invested considerable capital in building brands in the Indian market over decades, will be at a competitive disadvantage relative to new entrants who may be able to price their products above the minimum import price.

We understand the rationale of a minimum import price is to provide some protection to the domestic Indian wine market from sudden competition from Australian exporters. However, the reality is that Australian wines are never going to compete in the same segments as domestic products, which are overwhelmingly priced below INR 1200 (approx. AUD20). Australian wines in the Indian market are typically priced between INR 1200-1800, (AUD 20-30), depending on the jurisdiction. Even if Australian exporters had a desire to compete the same price segments as domestic producers, the costs of production in Australia would make doing so uneconomic.

To put the size of the Indian wine market into context, the Australian wine market is 29 times larger. Sales of all Australian produced wine in Australia is 33 times the volume of Indian wine sold in India in any one year. Put another way, the size of the domestic industry being protected by the structure of the minimum import price is miniscule.

The speed and depth of the tariff reductions are also suboptimal. Five years after ratification, tariffs on wine between USD 5 and 15 per bottle will be subject to significant tariffs of 75 per cent, with wine above 15 per bottle will be subject to tariffs of 50 per cent. Historically, some of Australia's key free trade agreements (e.g. UK, US) have resulted in tariffs being reduced to nil upon entry into force (e.g. UK, US), whilst others have seen tariffs reduced over a shorter period of time than under AI-ECTA (e.g. approximately six years, as with Japan).

Most favoured nation clause

The Indian Government undertook, by way of side letter, to provide Australia with improved market access for Australian wine should India agree more favourable terms with any other nation or trading bloc. The letter states:

> *The Government of India affirms that from the entry into force of the Agreement, imports from Australia of goods classified under HS Heading 2204 in India's tariff schedule shall be subject to treatment as favourable as that provided to imports of like goods from any non-party with respect to customs duties and charges of any kind imposed on or in connection with importation, with respect to the method of levying such duties and charges and, with respect to minimum CIF value of import.*

In other words, if India was to provide another nation or trading bloc with a lower rate of tariff on wine than agreed under AI-ECTA, or a lower minimum import price, it would be obligated to afford Australian exports the same treatment.

Notwithstanding our disappointment at the tariff outcome agreed, this is a welcome aspect of AI-ECTA, particularly given India is currently negotiating trade deals with

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other nations. It provides a degree of insurance against wines of Australian origin losing its market share. However, it would have been far more preferable had the agreement negotiated deeper tariff cuts across a much larger range of price segments to begin with.

Bilateral cooperation on trade and production of wine

An additional side letter was signed by Ministers Goyal and Tehan, agreeing to strengthen bilateral cooperation on the trade and production of wine in a range of areas, including the establishment of a Joint Dialogue on wine comprised of government and industry representatives of both countries.

This is an important and welcome aspect of AI-ECTA, as it will provide a useful framework to further remove trade barriers in the Indian market, such as harmonised standards of production; import registration and audit requirements; labelling requirements and more.

Conclusion and way forward

AI-ECTA is a missed opportunity to enable Australia's winemakers to grow their brands at scale in the Indian wine market.

Pernod Ricard Winemakers notes and welcomes the media statement issued by Minister Farrell on 16 June 2022, outlining the agreement reached by Ministers Farrell and Goyal to move rapidly to commence negotiations of the full Comprehensive Economic Cooperation Agreement (**CECA**).

For AI-ECTA to be considered a success for Australia's wine industry, at a minimum, the CECA must significantly reduce the minimum import price to which tariff reductions will be applicable upon importation into India. In agreeing to a much lower minimum import price, consideration must be given to the price segments at which Australian wine is currently exported to India. As outlined earlier in this submission, more than 90 per cent is priced between USD 1.84 and 3.93 per bottle, with the large majority of that volume sitting towards the lower end of that range.

The elimination of tariffs above a significantly reduced minimum import price within seven years would be considered a success. The resting tariff rates of 50 per cent and 25 per cent, which take effect in ten years time, are still extremely high by world standards.

Additionally, as outlined earlier in this submission, state taxation imposts in India are significant, particularly in states where there are winegrowing interests, such as Maharashtra and Karnataka. There is a risk that any benefits from reductions in import duties at the federal level are ameliorated by increases in state taxes on foreign produced liquor. To the extent it is possible to include a mechanism in the CECA to address such risks, which would be enforceable under WTO rules, it would be welcomed.

Pernod Ricard Winemakers trusts this information is of assistance to the Committee. Should it be of assistance, we are willing to appear before any public hearing held by the Committee in respect of this inquiry.