

**Submission to the Foreign Affairs, Defence and Trade References
Committee
Inquiry into Australia's relationship with Mexico**

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Introduction

On 20 August 2015 the Australian Senate tasked the Foreign Affairs, Defence and Trade (FADT) References Committee to undertake an inquiry into Australia's relationship with Mexico and report by 3 December 2015. The inquiry process will include receiving and considering submissions and holding public hearings. A report with recommendations will be prepared and tabled by the committee. The Government will subsequently provide responses to the recommendations. The deadline for submissions to the FADT committee is 9 October.

While Mexico is not a major market for the Australian wine sector at this time, we already enjoy a productive and collaborative relationship between our respective industries. This is exemplified through collaboration within APEC and the World Wine Trade Group. Our sector believes there are growth opportunities within Mexico and scope for enhanced relations, including the potential for increased bilateral engagement and also through jointly held memberships of groups such as WWTG, APEC, and the OECD.

Background

Mexican production is quite small, with around 4000 hectares of vines. Around 80 per cent of production is located in Baja California, with a total crush of around 50 000 tonnes. The 60 local wineries are also located largely in Baja California. Domestic consumption is around 7.5 million 9l cases (26.7% Mexican and 73.3% Imported). According to the Consejo Mexicano Vitivinicola (Figure 1) the domestic market is expected to more than double in size by 2025 to 18 million cases.

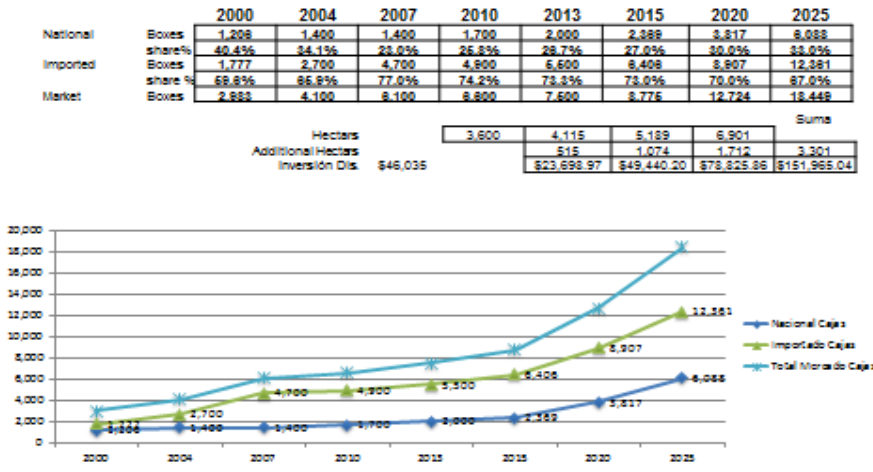
More than 52 million litres of wine were imported in 2014 with a value over \$244 million. Spain is the number one country of origin for wine imports by volume, followed by Chile, Italy, Argentina, USA and France. By contrast, Mexico is a very minor market for Australian wine exports. Last year Australia exported 0.2 million litres of wine valued at AUD 0.7 million (Table 1). It is a market we have yet to move into.

Mexico imposes a tariff of 20% on all wine tariff lines. This rate is zero for countries with an FTA with Mexico (including Canada, USA, Chile and the

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EU). Clearly this places Australia at a disadvantage in relation to Chile and EU who are major exporters we compete with.

Figure 1: The Outlook in Mexico



Who we are

The Winemakers' Federation of Australia (WFA) is the national peak body for Australia's winemakers.

Our objectives are:

- to represent the interests of Australian winemakers and grape growers of all sizes on national and international issues affecting the Australian Wine Sector, through a single organisation;
- to actively promote and protect the reputation and success of Australian Wine and the Australian Wine Sector;
- to encourage unanimity of opinion and action amongst Members in all national and international matters pertaining to the Australian Wine Sector;
- to initiate legislative or other regulatory activity, or Government response or action, or otherwise facilitate any outcomes, deemed desirable by the Association for the benefit of the Wine Sector in Australia;
- to provide a medium through which opinions of Members may be ascertained or expressed;
- to provide relevant information to Members;
- to foster co-operation and goodwill between viticultural and oenological research and education bodies and all other bodies relevant to the Australian Wine Sector
- to encourage good practice and standards of winemaking and Wine business management within the Australian Wine Sector;
- to administer funds collected from Members in support of the activities and objects of the Association;

- to protect and enhance community and Government support for the Australian Wine Sector;
- to promote economic, environmental and social responsibility in the production and consumption of wine in Australia; and
- to promote the interests of the Association and to do all such other lawful things as the Association may consider incidental or conducive to the attainment or advancement of the objects of the Association.

Government recognition of WFA as a representative organisation is on the basis WFA represents the entire Australian winemaking sector, including members and non-members. WFA is recognised as a representative organisation under the *Australian Grape and Wine Authority (AGWA) Corporation Act*. WFA is incorporated under the *SA Associations Incorporation Act 1985*.

WFA membership represents around 80% of the national wine grape crush and has over 370 wineries as members.

WFA represents small, medium and large winemakers from across the country's wine-making regions, with each having a voice at the Board level. WFA Board decisions require 80% support so no one sector can dominate the decision-making process. In practice, most decisions are determined by consensus.

WFA works in partnership with the Australian Government and our sister organisation, Wine Grape Growers Australia (WGGA), to develop and implement policy that is in the wine sector's best interests.

WFA's activities are centred on providing leadership, strategy, advocacy and support that serves the Australian wine industry now and into the future.

Issues

Responses to deal with non-tariff measures

Essentially food and agriculture non-tariff barriers fall in four categories:

- Labelling
- Compositional issues – including Maximum residue limits
- Certification
- Analytical and testing requirements

Differing requirements for these cause cost and trade disruptions for exporters. These issues are normally dealt with bilaterally on a case-by-case basis. However, a number of international institutions establish specific guidelines to try and reduce trade barriers in these areas. These include the WTO Agreements (principles based) Codex Alimentarius Commission (Advisory Standards based), APEC (Regulatory coherence) and for wine the World Wine Trade Group (Mutual Acceptance/harmonisation approach).

Failure to deal with these at the systems level leads to expensive and resource intensive approaches with limited success.

Systems based approach to better regulatory coherence.

Normally Free Trade Agreement negotiations don't deal with technical issues, preferring to leave these to committees that can address SPS and TBT issues on a case-by-case basis. This approach fails to recognise that by improving regulatory systems and linkages will minimise these issues arising.

The TransPacific Partnership (TPP) negotiations have recognised this approach with the preparation of annexes dealing on commodity specific issues. In addition, some good examples of this are to be found within APEC (which contains Mexico and Australia)) and these concepts could be included in bilateral negotiations with Mexico.

This could overcome non-tariff measures to do with Maximum Residue Limit (MRL) setting, compliance and recognition; requirements for certification and conformity assessment on the import of wine; Winemaking practices; labelling requirements and the creation of forums for technical cooperation.

International collaboration

The Australian wine sector already enjoys a strong and active cooperative relationship with Mexico in a number of international forums. We believe there is potential to expand on this relationship and build international cooperation to pursue matters of mutual interest.

WFA supports international collaboration with our competitor countries to reduce market access barriers so we can compete for market share in each other's markets on a level playing field. To do this we have developed a long-term market access strategy. This strategy uses a number of international institutions to progress our market access strategy and we work closely with the Australian government.

World Wine Trade Group (WWTG)

WWTG is a group of industry and government representatives with a mutual interest in facilitating the international trade in wine and avoiding the application of obstacles to international trade in wine. Members are Argentina, Australia, Canada, Chile, Georgia, New Zealand, South Africa, and USA. Although not a member, Mexico is an observer at many meetings and is looking closely at joining officially.

WWTG has treaty level agreements that deal with oenological practices and wine labelling. There are also MOUs surrounding regulatory cooperation and principles of 'better' regulation. These agreements have been instrumental in reducing trade barriers between the partners.

Codex Alimentarius Commission

The Codex Alimentarius Commission was founded in 1962 to protect health, improve consumer protection and facilitate fair trade. With 186 members including 185 countries and the European Union and referenced by the World Trade Organisation it has a truly global impact. It establishes international food standards, guidelines and recommendations and is required to base its standards on sound scientific analysis and evidence. Codex standards are developed through a number of committees: Food Additives (CCFA), Food Labelling, Methods of Analysis and Sampling, General Principles, Pesticide Residues, Food Import and Export Certification and Inspection Systems.

Australia is implementing a strategy to take to Codex to ensure that commonly used yet unapproved additives are included on the Codex General Standard for Food Additives (GSFA) - a key reference document for standard-setting, particularly in Asia and among the African nations. Changing Codex standards provides a key opportunity to harmonise standards across all its members.

Cooperation with Mexico on Codex issues would enhance the relationship and help reduce trade barriers.

International Organisation of Wine and the Vine (OIV)

The OIV is an international intergovernmental organisation with 46 member countries. The OIV maintains its importance as a key influencer on European Union and international regulation, although the lack of membership by the United States, United Kingdom, Canada and China limits its global reach.

In the OIV, Australia and WFA have committed to providing an increased presence in the technical forum. This requires considerable coordination within Australia to ensure a coordinated industry and government position. Participation in the OIV has allowed the direct influence on wine regulation in the European Union who in general adopts OIV resolutions directly into regulation.

The work on these groups and bodies is technical but its importance lies in reducing compliance and export costs and in maintaining a level playing field. Mexico is also a member of the OIV and coordination meetings with Mexico would have mutually beneficial outcomes.

APEC

The APEC Food Safety Cooperation Forum (FSCF) is a group of food safety regulators from APEC member economies as well as key international stakeholders and met for the fifth time since the inaugural meeting in 2007, on 26 August 2015, in Cebu, Philippines in the margins of the Senior Officials Meeting. The FSCF reviewed progress made towards meeting its food safety goals and restated its commitment to work collaboratively to strengthen food safety systems and enhance the harmonisation of food standards with international standards across the APEC region, consistent with their commitment under the World Trade Organization's SPS/TBT Agreements. This commitment is made with a view to both improve public health and to facilitate trade in the APEC region. Mexico is an active APEC member.

Australia is also actively involved in the APEC Wine Regulatory Forum. The APEC WRF has become a very important part of the FSCF through its work on Export Certificates and pesticide Maximum Residue Limits (MRLs). The work in the areas of export certification and pesticide MRLs is supported as providing the mechanism to implement the theoretical work in this area. The WRF's APEC Model Wine Certificate is being developed as a model for the broader efforts of the FSCF. The APEC WRF will test the guidelines developed through the export workshops through the wine/wine grapes pesticide MRL pilot program.

The FSCF has identified a number of key future activities:

- Development of principles of good regulatory practice within APEC, including transparency, internal coordination and impact assessment (China);
- Implementation phase of MRL guidelines to mangos through an APEC funded project (Philippines);

- Allergen labelling (World Bank);
- Pre-testing of food in exporting country (China); and
- Involvement of trade associations in food safety activities.

APEC Wine Regulatory Forum

The WRF works to assist developing economies in implementing specific, measurable good regulatory practices and to facilitate wine trade in the APEC Region. For more information see <http://wineregulatoryforum.blogspot.com>.

The 2015 Technical Meeting will be held in Adelaide, Australia from November 11-13, 2015.

With respect to the MRL project, at this meeting full report of the work progress to date will be delivered, including:

- The results of the project on processing factors
- Priority pesticides
- Progress on the MRL data base

The APEC WRF will propose each member economy; with the assistance of the guidelines seek to establish MRLs for several priority substances. The outcomes of this process will then:

- Test the validity of the guidelines;
- Test the legislative processes; and
- Text the data/information requirements.

This will also point to further work that will provide the information member economies require to implement the guidelines. Successful completion of this work will establish the ability to Australia to develop import MRLs in our major consumer markets in the APEC region.

The APEC WRF is also undertaking work on analytical and testing regimes, certification systems and risk based management. This continues to provide a major strategic opportunity to liberalise trade within the APEC region and more broadly through regional trade negotiations.

Conclusion

The Winemakers Federation of Australia looks forward to working closely with the government and supports greater engagement with Mexico. Benefits will accrue not just from increased trade through reduced market access barriers, but from stronger cooperation in international forums. We would be happy to provide further information on any matter raised in this submission.

Table 1: Australian Wine exports to Mexico (Year ended December 2014)

Key Statistics	Unit	Mexico	World
Size			
Volume	ML	0.2	700
Value	A\$M (fob)	0.7	1820
Unit value	A\$/litre (fob)	3.64	2.60
Share of Australian export volume	%	0.0	100
Share of Australian export value	%	0.0	100
Growth			
1 year volume growth rate	%	0	2
1 year value growth rate	%	-7	2
1 year unit value growth rate	%	-8	0
5 year volume CAGR	% pa	-7	-2
5 year value CAGR	% pa	-10	-4
5 year unit value CAGR	% pa	-4	-3
Container type (by volume)			
Glass bottle	% share	100	41
Bulk	% share	0	58
Soft-pack	% share	0	1
Alternative packaging	% share	0	0
Colour (by volume)			
Red	% share	81	57
White	% share	19	43
Price points (by volume)			
\$A2.49/L and under	% share	0	60
\$A2.50/L to A\$4.99/L	% share	95	31
A\$5.00/L to A\$7.49/L	% share	5	5
A\$7.50/L to A\$9.99/L	% share	0.1	2
A\$10.00/L and over	% share	0.6	2
Top 5 varietal label claims on bottles (by volume)			
Shiraz and Shiraz blends	% share	69	32
Chardonnay and Chardonnay blends	% share	14	18
Cabernet Sauvignon and blend	s% share	6	18
Merlot and Merlot blends	% share	4	8
Riesling and Riesling blends	% share	2	2
No varietal label claims	% share	2	10