



Australian Government

**Australian Grape and
Wine Authority**

Implications of 'Brexit' on Australian wine trade with the UK.

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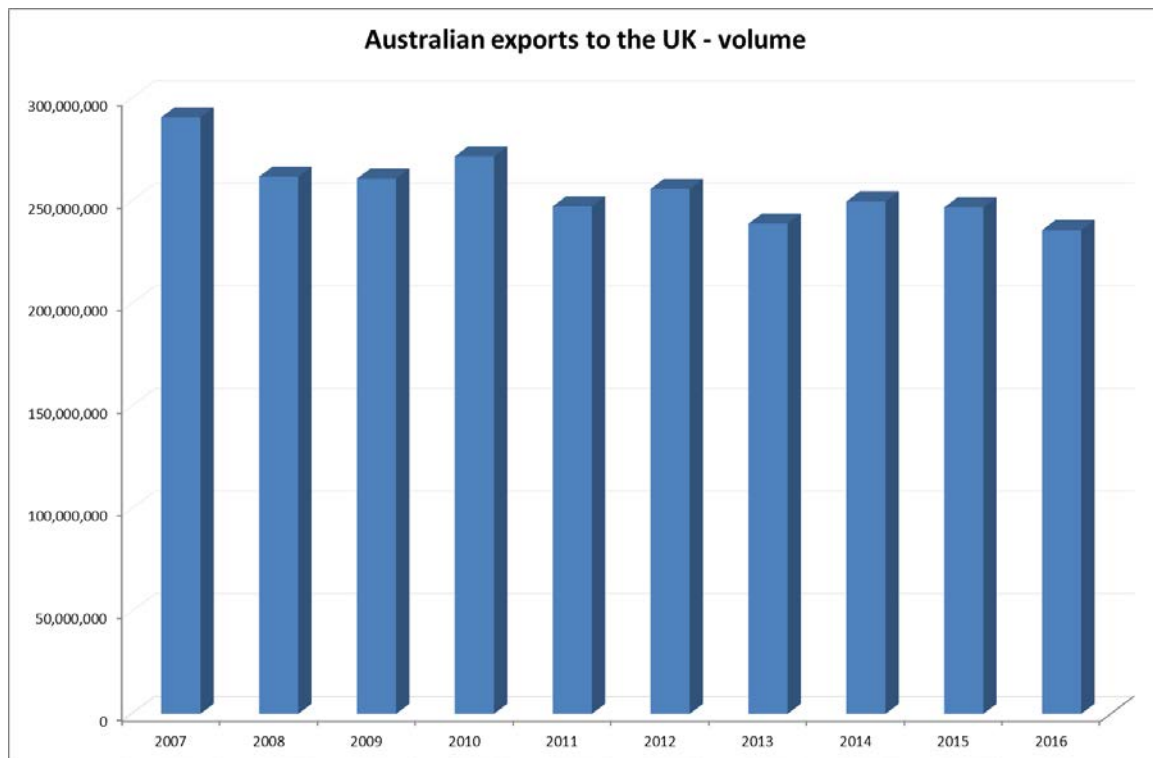
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Introduction – the UK wine market

A third of all Australian wine exports are sold to the United Kingdom (UK), making that market Australia's number one export destination by volume, with 236 million litres of wine exported in 2016. The value of this wine, ex-Australia, was \$355 million, split roughly equally between packaged and bulk wine shipments. Notably, bulk wine shipments account for 80 per cent of the volume of wine exported and wine shipped in bulk has a lower value per litre, making the UK wine market Australia's third-largest export market by value.

The UK is a significant contributor to global wine trade. It is the second largest import market by value globally and Australia is the UK's second largest source of wine, behind Italy, by volume. The UK is an important trading centre and acts as a hub for Australian wine exports to Europe.

In recognition of its important place in the international wine market, the Australian Grape and Wine Authority (AGWA) has its office for Europe (including the UK), the Middle East and Africa in London, which is AGWA's base for its extensive marketing activities. For example, the annual Australia Day Tasting in London is the largest tasting of Australian wine in the UK trade calendar with more than 1200 people immersing themselves in more than 1000 wines. The UK-based team also conducts wine seminars, education and targeted tastings and in-market promotions, and it builds relationships with the wine trade to create opportunities for Australian wine brands.



Tariff barriers

As a member of the European Union (EU), wine imports into the UK are currently subject to import duties – the Common Customs Tariff (CCT). The current rates are illustrated in the table below.

Table 1: EU import duties

Alcohol strength	EU import duty (€ per litre)	
	Bottled wine	Bulk wine
<13%	0.131	0.099
13-15%	0.154	0.121
15-18%	0.186	0.154
18-22%	0.209	0.209

Based on the Australian Grape and Wine Authority's (AGWA's) analysis of customs data, it is estimated that the cost of the EU import duty on Australian wine exports *to the UK* totalled more than \$42 million last year.

Once the UK leaves the European Customs Union, the above tariff rate would no longer apply and there is considerable uncertainty about what, if any, tariff regime would be imposed in its stead.

The UK is a nascent wine producer but is also a major beer and spirits producer, hence it is possible that high tariffs could be imposed on imported wines in order to protect those interests.

If, for example, the WTO bound rate of 32% of value was applied the (hypothetical) impost on annual Australian sales to the UK would be \$114 million (based on last year's export value).

In addition, there is a growing market for the export of grape concentrate for the production of grape juice and non-alcohol beverage sector products. There are two tariff rates for concentrate in the EU dependent on the Brix (sugar content as percentage by mass):

- Brix value exceeding 30 but not exceeding 67: 22.4%
- Brix value exceeding 67: 40% + 20.60 EUR / 100kg.

In the event that Australia negotiates preferential tariff arrangements with the UK (once the UK is in a position to do so), AGWA recommends that tariffs on wine sector products (including 2204, 2205 and relevant 2009 line items) be reduced to zero on entry into force of any agreement.

Non-tariff barriers

The Australian Government has a treaty with Europe to ensure our wines are not confronted with major technical barriers to trade. This agreement covers a range of technical matters and provides, for example:

- Acceptance of each party's authorised winemaking techniques. Practices permitted under Australia's Food Standards Code are, therefore, acceptable in wine exported to the EU.
- Simplified wine certification arrangements. Australian wine need only be analysed for three items, rather than the usual eight, on the 'VI1 document' essential for entry into European markets.
- Labelling concessions. The alcohol content on an Australian wine label can be expressed to a decimal place, rather than merely a whole or half unit, and is subject to a wider tolerance than wine from other countries. Furthermore, Australian products can be labelled as blends of wine from up to three regions, an option not permitted to others under EU law.
- Recognition of the influence of Australian agricultural soils on wine composition thus avoiding the invalid rejection of Australian wine based on its mineral content. Such rejections had been encountered prior to negotiation of the treaty.

The treaty also includes a 'standstill' clause that prevents Europe introducing more restrictive conditions on Australian wine producers through any future review of its domestic wine regulation.

Despite this treaty there remain aspects of European law that pose problems for Australian wine exporters to the UK:

- A high proportion of Australian wine is shipped to Europe, and particularly to the UK, in bulk containers, rather than in bottle. Sometimes the customer prefers the wine to display residual sweetness and this request can, legitimately, be satisfied through the addition of concentrated Australian grape juice. In order to prevent possible spoilage during the long voyage to Europe it is preferable to transport the concentrated juice separately from the wine, for subsequent blending prior to bottling at the destination. This practice, however, is prohibited under European law. Imported wine cannot be sweetened with concentrate *within* Europe. Similarly wines rendered sparkling through the addition of carbon dioxide can only be carbonated *prior* to export, which presents obvious technical difficulties in the case of wines transported in bulk.

More generally, the European concept of 'coupage' prevents the blending, within Europe, of batches of Australian wine of different regional origin. There are no sound technical reasons

for any of these restrictions on the handling of bulk wine and it would be very useful if they did not apply to wine shipments to the UK once they are no longer subject to EU regulation.

- Some European regulators have interpreted the law in a way that prevents sparkling wine being sealed with innovative closures such as crown seals. This interpretation is probably wrong but following 'Brexit' UK authorities would be free to adopt a more liberal interpretation.
- Australia does not require imported wine to be accompanied by an official certificate containing the details of (expensive) chemical analysis. Wine shipments to the European Union *are* subject to this requirement. Ideally, we could negotiate reciprocal arrangements with the UK whereby certificates are not required for wine traded between the two countries.

It would be important to ensure that the benefits accruing to Australia from the treaty in force with the EU would be retained in relation to shipments of wine to the UK when that treaty no longer applies to such consignments. Furthermore, the technical problems currently facing wine shipments to the UK due to issues unresolved by that treaty should be addressed through bilateral discussions with UK authorities once they have a mandate to conduct such negotiations

Finally, the treaty on trade in wine between Australia and the EU provides for reciprocal protection of each Party's geographical indications (and other terms) in relation to wine. It would be necessary to ensure such protection remains in place in the UK following that country's withdrawal from the EU.

Conclusion

The Australian Grape and Wine Authority would welcome an exploration of the benefits of a free trade agreement with the UK. We would be happy to provide further information on any matter raised in this submission.