



Australian Government

**Australian Grape and
Wine Authority**

Submission to the Foreign Affairs, Defence and Trade (FADT) References Committee

Australia – Mexico Wine Trade Relationship

Steve Guy
General Manager – Regulatory Services
Industry House – National Wine Centre
Cnr Hackney & Botanic Roads
Adelaide SA 5000
T: 08 8228 2000
E: steve.guy@wineaustralia.com

9 October 2015



Introduction

The Australian Grape and Wine Authority (trading as Wine Australia) welcomes the opportunity to submit comments on Australia's relationship with Mexico in the context of the wine trade. This paper focuses on the first three terms of reference to the inquiry.

a. Mexico's continued elevation in the global geo-political and economic order and its implications for Australia;

Mexico's Wine Market

Mexico has a long history of winemaking beginning in the 16th century with the arrival of the Spanish, making Mexico the oldest wine-growing region in the Americas. There are approximately 60 wineries in Mexico with the majority of them in Baja California which accounts for around 90 per cent of Mexican wine production.

There are approximately 2,510 hectares of vineyards in Mexico producing around 20 million litres of wine each year.¹ In comparison, Australia produces around 1.2 billion litres of wine each year with an estimated 148,509 hectares cultivated for wine grapes.

Mexico's active free trade agenda includes a network of 13 FTAs with 45 countries giving it access to over one billion consumers.² Mexico has implemented new programs designed to reduce its reliance on the USA as a trading partner due to the North American Free Trade Agreement.

Mexico is still a small player in the international wine trade, however, it now exports its wine to over 23 countries on the back of the success of its well renowned beer and tequila. A total of 1.28 million litres were exported in 2014/15, valued at USD\$5.7 million to markets including Japan, the US, Canada and the European Union.³ In comparison, Australian wine was exported to 122 countries representing 724 million litres and valued at A\$1.89 billion in 2014/15.

Mexican wines have made significant improvements in quality terms in recent years and are slowly increasing their home market share. Mexican wines are increasingly being included on restaurant wine lists around the country which was previously not the case. The growing middle class is spurring this growth.

Imported wines still dominate the Mexican market with just under 70 per cent market share. More than 58 million litres of wine were imported in 2014/15 with a value over USD\$234 million.⁴

Spain is the number one country of origin for wine imports by volume, followed by Chile, Italy, Argentina, USA and France. By value, Spain and France are the leading countries. Wine from each of these countries enters Mexico duty free. Australian wines attract the 20 per cent import tariff but still sit within the top ten exporting countries to Mexico at number nine.

¹ Euromonitor International

² DFAT Mexico Country Brief

³ Global Trade Atlas

⁴ Global Trade Atlas

Average consumption of wine is still low but is growing steadily, led in particular by the growing middle classes. Per capita consumption is estimated at between 1.5 and 2 litres per person per year.

Euromonitor International expects the market to continue its steady growth. Australian wine is well positioned to increase sales among Mexico's growing middle class and the number of Australian wine brands available in Mexico has grown from 3 to over 40 in the last few years alone.

Two-way wine trade

Australia's market share in Mexico is minor at below 1 per cent but is showing signs of growth. A total of 206,388 litres of Australian wine was shipped to Mexico in 2014/15, an increase of 14 per cent over the previous year, at a value of \$792,217, a 23 per cent increase in value. Export value peaked in 2006/07 at \$1.69 million while volume peaked in 2007/08 at 336,318 litres.

Red wine accounts for the majority of exports with 79 per cent of the total volume followed by white wine with 20 per cent.

The \$2.50-\$4.49 price point accounts for the highest volume of sales at just under 95 per cent, with minor volumes shipped in the higher price brackets. The average price per litre achieved for Australian exports increased to \$3.85 in 2014/15.

In contrast, Mexico was the 43rd largest exporter of wine to Australia in 2014/15, shipping 2,385 litres of wine valued at \$13,485.⁵

b. Opportunities for enhanced relations, including the potential for increased bilateral engagement and also through jointly held memberships such as the G20, APEC, OECD and MIKTA;

World Wine Trade Group

The World Wine Trade Group (WWTG) is an informal association of national representatives of wine producing countries interested in participating in networking and information sharing to provide better access to international wine markets. The major achievements of the World Wine Trade Group include:

Agreements:

- Mutual Acceptance Agreement on Oenological Practices
- 2007 Agreement on Requirements for Wine Labeling
- Memorandum of Understanding on Certification
- Protocol to the 2007 Agreement on Requirements for Wine Labeling

Other:

- Improved Understanding of Global Wine Issues
- Joint Action at WTO, OIV, Codex
- Outreach to developing Wine Economies
- Strategic Initiatives and Action Plans

⁵ Global Trade Atlas

The members of the WWTG who are also parties to the WWTG agreements, are:

- Argentina
- Australia
- Canada
- Chile
- Georgia
- New Zealand
- South Africa
- United States of America

Mexico has joined a number of other countries to participate in the meetings on a less regular basis but has not acceded to any of the agreements. Wine Australia would support Mexico's accession to the WWTG.

APEC Wine Regulatory Forum

WWTG welcomes participation from countries that share its trade facilitating objectives and is active in seeking opportunities to extend its trade philosophies. A major initiative has been the development of the APEC Wine Regulatory Forum (WRF) under the APEC Sub-Committee on Standards and Conformance. The WRF's goals include:

- Examining options to simplify and harmonise wine regulation across the APEC region, reduce technical barriers to trade and protect consumers; and
- Sharing information and building capacity in wine regulation across the APEC region.

The next meeting of the WRF is scheduled for 11-13 November in Adelaide where representatives from Mexico are likely to be present.

c. Potential opportunities for enhanced trade and investment ties, in particular those emanating from the proposed Trans Pacific Partnership (TPP);

Tariffs and Taxes

The following duties and taxes are levied in Mexico:

- Import tariff
- Special Tax on Products and Services
- VAT

Import duties are ad valorem, assessed on the FOB or CIF value or at specific rates, whichever is the greater.

Product	FTA Tariff*	Import Tariff	Special Tax	VAT
Beverage with alcohol content up to 14%	0%	20%	26.5%	16%
Beverage with alcohol content above 14% and up to 20%	0%	20%	30%	16%

Beverage with alcohol content above 20%	0%	20%	53%	16%
Denatured alcohol	0%	20%	50%	16%

* NAFTA (USA and Canada), Columbia, Venezuela, Costa Rica, Bolivia, Nicaragua, Chile, EU 28 members, Israel, Guatemala, Honduras, El Salvador, EFTA (Switzerland, Norway, Liechtenstein, Iceland), Uruguay & Japan.

Trans-Pacific Partnership Agreement

Australian wine is subject to the 20 per cent tariff while EU, US and Chilean wines have duty free entry. According to the Australian wine industry, the tariff lifts the retail price of Australian wine beyond what many Mexican middle class consumers are prepared to pay especially given the majority of wine is sold between Mx100 – 200 at retail level. Australia is the ninth largest exporter to Mexico by value but is the only country in the top ten that does not currently benefit from preferential tariff treatment.

Australia and Mexico are parties to the Trans-Pacific-Partnership Agreement (TPP) negotiations which have now been concluded. The results are very positive for Mexico in that tariff elimination occurs rapidly. Once ratified, the TPP will phase out Mexico's 20% tariff over three years for wines over \$5 per bottle and over 10 years for other wines. This will place Australia on an equal footing with other countries and provide an incentive for Australian exporters to consider expanding into the Mexican market.

Regarding non-tariff benefits an annex to the agreement provides for the possibility of designing a single label that can be applied to a package of wine, and that package then being sold in all TPP markets. Market-specific requirements would need to be displayed on additional labels, but the annex provides that the supplementary label could be applied in the destination market.

Wine Australia Marketing Activities

In January 2015 Wine Australia, in association with the Australian Embassy in Mexico, Australian Trade Commission and Wine Spoor, hosted its first event in Mexico with the single biggest tasting of Australian wine at the Embassy in Mexico City for close to 200 media, trade and VIP guests. Guests tasted more than 60 Australian wines from 13 wine regions including the Barossa Valley, McLaren Vale, Heathcote, Frankland River and the Hunter Valley. The tasting event was multi-format with blind tastings, mini-masterclasses and door prizes all designed to give guests an educational entrée to the quality and diversity of Australian wine. The tasting generated a number of prospective sales leads as exhibitors had the opportunity to showcase both existing wines in the Mexican market as well as introduce wines newly available for import to buyers and key decision makers from wine retailers, wine importing and wine distribution companies.

Conclusion

Wine Australia would be happy to provide further information on any matter raised in this paper.