

A photograph of a wine cellar filled with wooden barrels. The barrels are stacked on metal racks. Some barrels have white chalk markings, including "FILED LAST", "17MAKHYDE1", and "MT LB". The lighting is warm and focused on the barrels.

Submission to the Parliament of Australia's Joint Standing Committee on Treaties regarding the Australia-India Economic Cooperation and Trade Agreement

19 August 2022



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Who we are

Australian Grape and Wine Incorporated (Australian Grape & Wine) is Australia's national association of winegrape and wine producers. We represent the interests of the more than 2,000 winemakers and 6,000 winegrape growers working across Australia's 65 wine regions. These businesses employ more than 160,000 people, making a significant contribution rural and regional Australia, driving economic growth, local manufacturing, regional exports and food and wine tourism.

Our role is to help forge a political, social and regulatory environment - in Australia and overseas - that enables profitable and sustainable Australian grape and wine businesses. To do this, our activities focus upon the objective of providing leadership, strategy, advocacy, and practical support. We represent small, medium and large winemakers and winegrape growers, with policy decisions taken by the Australian Grape & Wine Board requiring 80% support, ensuring no single category can dominate the decision-making process and guaranteeing policy is only determined if it provides significant industry benefit. In practice, most decisions are determined by consensus.

Australian Grape & Wine is recognised as a representative organisation for winegrape and wine producers under the *Wine Australia Act 2013* and is incorporated under the *SA Associations Incorporation Act 1985*.



Executive Summary

Australian Grape & Wine welcomes the opportunity to provide comments to the Joint Standing Committee on Treaties inquiry into the Australia-India Economic Cooperation and Trade Agreement (AI-ECTA) on behalf of the Australian grape and wine sector.

Improving market access for Australian wine in India would be a major step towards mitigating the impact of China's trade-prohibitive import duties on Australian wine imports and successfully diversifying Australia's wine export footprint over the long-term. While our efforts to diversify will cut across a broad range of markets, the opportunities presented by India outshine those of any other market, if we can reduce the significant tariff and non-tariff barriers within the market. At present the Australian sector has a slight foothold as the largest importer of wine and the first to establish any form of Trade Agreement.

However, success in the Indian market is a long-term prospect as there is broad acknowledgement that more work needs to be done over the coming months and years if we are to realise its potential.

These main challenges to overcome for India to be considered a highly attractive and valuable export market for Australian wine are:

- Improving market access - High import tariffs of 150% on wine coupled with complex additional federal and compounded state-based taxes creating an uneconomical export market.
- Technical and Regulatory Challenges – A range of issues that impose barriers to trade, creating increased cost to exporters and creating barriers to entering the market.

The signing of the AI-ECTA is a positive initial step in creating the environment to pursue greater liberalisation and investment opportunities in both our markets. We acknowledge AI-ECTA is an interim agreement, limited both in terms of the tariff reductions afforded to wine and the number of Australian wine exporters with the high-value portfolio required to take advantage of tariff relief. However, it establishes a starting point for future negotiations as both countries work towards a fully Australia-India Comprehensive Economic Cooperation Agreement.

The tariff liberalisation provides opportunities in the longer term and flags the opportunities future liberalisation can bring. Importantly, the Chapter around technical cooperation provides the mechanism to reduce barriers between our two countries.



The opportunity of the Indian market

The market has potential for both exporters and investment. The country's population of 1.417 billion sees more than, an additional 19 million people reach legal drinking age each year, and India's rapidly growing middle class is seeking opportunities to enjoy wine.

While India's diverse religious and cultural demographics have led to different regulatory arrangements across India's 29 states (including prohibition of alcohol in six states), across much of the country alcohol is a well-understood and accepted part of society. The market for alcohol in India is currently dominated by beer and whiskey, although wine is becoming more popular, particularly with women and those seeking to transition away from spirits to beverages containing lower levels of alcohol. It is also emerging in popularity with a younger demographic seeking alternative products and to engage more in food and wine culture. Innovative wine products and low or no alcohol wines may present further growth opportunities for India beyond the traditional wine market.

This trend away from beer and spirits replicates what we have seen in a number of other maturing alcohol markets, as people seek beverages they perceive as both classier than traditional beer and spirit offerings, and drinks of moderation. For example, in China two decades ago, beer and baiju dominated the local alcohol market, but wine quickly gained traction as the middle class learned more about the product and how it could be a part of a sophisticated lifestyle. Many Indians are already displaying a strong preference for Australian wine, with Australian wines making up 40 per cent of all imported volumes.

However, like Australia, the Indian wine market is dominated by local production which accounts for between 65-75 per cent of the total market share. Australia is the leading importing nation, accounting for 42 per cent value share of the imported wine category in India in 2020. This is well ahead of the nearest competitors Italy (14 per cent), France (12 per cent) and Chile (11 per cent) according to Wine Australia and IWSR data¹.

The market for Australian wine exports to India is continuing to grow strongly, albeit from a small base, reaching a value of \$18.9 million to June 2022. With this existing foothold in the market, potential competitive advantage to other importer nations without trade agreements and a market that is poised for rapid growth, the opportunity has never been greater if we can lock in the AI-ECTA and immediate start working towards a more comprehensive and liberalising outcome for both countries in the final agreement.

¹ <https://www.wineaustralia.com/news/media-releases/welcoming-benefits-for-australian-wine-in-the-ai-ecta>



Challenges and AI-ECTA outcomes

Tariffs and Market Access

India's complex regulatory and taxation settings are the primary barriers to greater investment in exporting Australian wine to India.

While some Australian businesses are exporting wine to India, import duties of 150%, with an additional Social Welfare Surcharge, Central Sales Tax and different state-based taxes including VAT, excise tax, sales tax and entry of goods tax make the market unattractive and unprofitable for most.

In addition to these national taxes, each of the 28 States and 8 Union and National Territories have individual tax regimes. Often, these taxes and charges discriminate against foreign produced alcoholic beverages in an effort to support local producers. For most, this suite of taxes and charges make India a relatively unattractive export market.

AI-ECTA provides some gains for high-value producers in the Australian wine. Tariffs on Australian wine with a cost, insurance and freight (CIF) value of over US\$5 per 750ml bottle will decrease from 150 per cent to 100 per cent upon entry into force, with a further phased reduction of 5 per cent per year for 10 years down to 50 per cent. Tariffs on Australian wine with a CIF value of over US\$15 per 750ml bottle will decrease to 75 per cent upon entry into force, with a further phased reduction of 5 per cent per year for 10 years down to 25 per cent. The table below provides the full schedule for tariff reduction for Australian wine, as detailed in the agreements Appendix for Wine-HS 2204, over the next 10 years.

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%

This schedule provides the greatest benefit for high value Australian imports into India. However, import tariffs are only one of a number of additional taxes and charges imposed on imported wine product in India and costs will remain high on entry into force, even with these reductions. Despite this, AI-ECTA creates a starting point that will improve over time and provides us with potential first mover and competitive advantage in the market.

While the benefits to exporters in the short term are limited, we now have the opportunity to foster collaboration with the Indian grape and wine sector to grow the category as a whole and create a more positive investment environment.



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Further reduction in import tariffs during phase two of the negotiations would spur investment in the Indian wine markets, helping to grow the category for Indian and Australian wine producers alike. The agreement also provides opportunities for Australian and Indian grape and wine businesses and representative organisations to collaborate, share information and find solutions to common problems.

In order to maximise the benefits of the agreement for both countries, Australian Grape & Wine has commenced engagement with our Indian counterparts to identify mutually beneficial opportunities. Supported by an investment from the Agribusiness Expansion Initiative, the first activity under the project was to initiate direct industry engagement and highlight the Australian wine sector's strong regulatory and technical capabilities to the Indian Government via a delegation of Indian industry and government representatives to Australia. The visit was aligned with the Australian Wine Industry Technical Conference 26-29 June 2022. This presented an opportunity to introduce the delegation to a large number of Australian grape and wine sector participants in one place and highlight our technical proficiency at Australian wine's largest conference.

The Australian and Indian wine sectors now have common understanding that better access for Australian wine will help us collaboratively build the Indian wine market as a whole, rather than creating competition for local wines. It will begin to build the wine category as a whole and capture market share from other alcoholic beverages.

Most Favored Nation

One of the most valuable aspects of AI-ECTA for Australian wine exporters is the provision of a "most favoured nation" (MFN) clause for Australian wine. This outcome was achieved via a side letter which forms part of the AI-ECTA.

This MFN treatment specifically provided for Australian wine in the agreement means that any preferential tariff treatment afforded to other countries via future trade agreements with India will also be applied to Australian wine. For example, if a larger trading partner like the European Union manages to negotiate a better deal on wine import tariffs, this will be provided equally to Australian wine also. This means that Australian wine will always have tariff arrangements equal to, or better than, other importing nations in the Indian market. This is particularly important given that the UK, Canada and the European Union are all progressing negotiating with India.

This outcome is a major reason the sector is supportive of swift ratification for the AI-ECTA as the benefit of this MFN treatment can only occur once the agreement is in force.



Technical and regulatory barriers

Australian Grape & Wine's members have noted some secondary obstacles to exporting to India, including:

- logistic issues in-market
- Extremely complex regulatory divergence between states and union territories
- Difficult import registration and audit requirements
- Maximum Residue Limits
- Lack of harmonisation in labelling requirements
- Intellectual Property - including brand piracy, illicit alcohol production, copycat and clarification on GI protection provisions and enforcement.
- General harmonisation of national standards related to allowable wine production and processes.
- Testing methods and laboratory proficiency.
- Simplifying trade and scientific sample provisions.
- Technical support and international forum collaboration.

AI-ECTA and does not address all technical or regularity barriers to trade, but it does establish the beginning of technical cooperation with the objective of removing technical barriers to trade and the harmonisation of regulations. The inclusion of another wine specific [side letter on Trade and the Production of Wine](#) is another major step that will create opportunity to remove some of the non-tariff barriers for Australian wine and make it more cost effective and timely to export Australian wine to India.

Australian Grape & Wine has received federal funding through the Agribusiness Expansion Initiative to initiate its long-term strategy for technical exchange and regulatory cooperation with India. This funding and the basis of the FTA side letter on trade and production of wine creates significant opportunities to work with India to further harmonise wine trade and remove a number of technical barriers to trade. This in turn will further reduce cost and time of export to provide significant long-term benefit. The industry is highly invested in its efforts to build collaboration on technical and regulatory cooperation with India. These efforts are being progressed rapidly in collaboration with the Australian Government outside of the negotiation processes to build on the outcomes of AI-ECTA.

Australian Grape & Wine believes there is significant opportunity to foster deeper cooperation between the grape and wine sectors of Australia and India in broad range areas including research, technical exchange, regulatory cooperation and ultimately, investment.

If Australia and India can come to an agreement to further reduce import tariffs on Australian wines, we believe there is a high likelihood that this would drive interest in investment by businesses from Australia and elsewhere around the world in the growing Indian grape and wine sector.



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Conclusion

As noted above, Australian Grape & Wine sees significant opportunity in the initial AI-ECTA for both Australia and India. However, neither government, nor industry, can achieve this positive objective alone. A collaborative effort between government and industry is required.

In order to fully realise the enormous potential of this market further work is required to build on the initial outcomes of AI-ECTA. As such the Australian grape and wine sector support a swift ratification process with bipartisan support to enable rapid and significant progression on the next stages of these trade negotiations that will allow us to realise this significant potential future market.

Australian Grape & Wine hopes this submission plays a part in driving a positive outcome beyond AI-ECTA and welcomes the opportunity to continue this positive work in collaboration with the Australian Government. We would be incredibly happy to provide further detail at any stage.

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