Australian Government

Australian Grape and Wine Authority

Impact of tariffs on Australian wine in the European Union

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Introduction

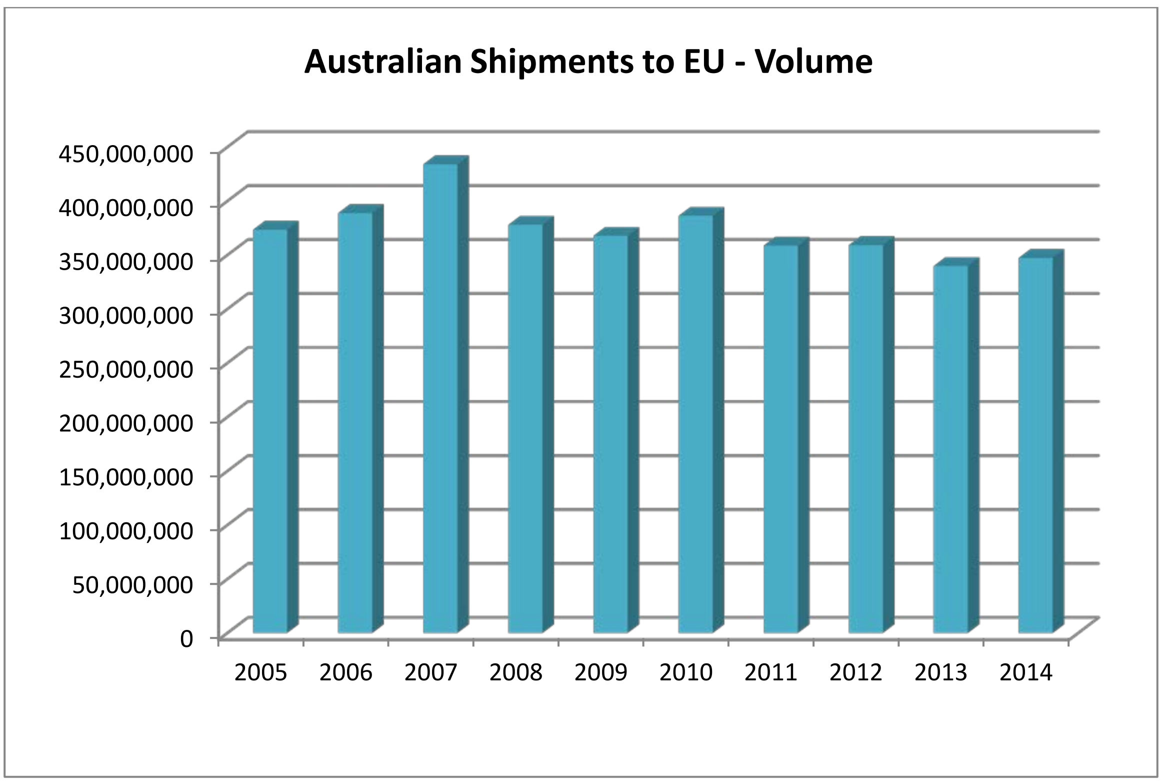
The following paper analyses the impact of tariffs on Australian wine exports to the European Union (EU) to highlight the benefits of a possible future Free Trade Agreement with this most important market for Australian wine.

EU Wine Market

The EU is the world's major wine producing region in volume terms. In 2014 France produced 4.6 billion litres, Italy 4.4 billion litres and Spain 3.7 billion litres, accounting for nearly 50 per cent of world wine production between them.[1]

The European Union is Australia's most important wine market, accounting for the highest volume and value of Australian wine exports. The EU represents just over 50 per cent of Australia's total wine exports by volume and just under 32 per cent by value.

In 2014, Australian wine exports to the EU increased by 2 per cent to 347 million litres valued at A$553 million. The increase was driven by bulk wine exports, up 9 per cent to 287 million litres, while bottled wine exports declined by 11 per cent to 62 million litres.



Source: AGWA Winefacts

[1] OIV

Bilateral Wine Agreement

1994 Wine Agreement

In 1994, Australia signed the *Agreement between Australia and the European Community on Trade in Wine.* The Agreement was the first wine agreement signed outside Europe and has treaty status. The Agreement provided mutual recognition of winemaking practices as well as recognition of geographical indications and traditional expressions. Another immediate benefit was the reduction in analytical requirements for the European Import Certificate of analysis. The Agreement also required Australia to phase-out the use of certain European regions.

2008 Wine Agreement

The renegotiated *Agreement Between Australia and the European Community on Trade in Wine* was signed in Brussels on 1 December 2008 and is a formal international agreement that regulates the trade in wine between Australia and the European Union. The Agreement came into force on 1 September 2010 and replaced the 1994 Wine Agreement.

The agreement guarantees and improves access for Australian wine producers to the European export market. It is legally enforceable and enacted through the *Australian Grape and Wine Authority Act 2013* (Cth) and *Trade Marks Act 1995* (Cth).

There are significant advantages to Australian producers and exporters in this agreement because all Australian winemaking techniques are now accepted. There are much simpler requirements covering everything from labelling and blending rules to alcohol levels. Australian wine producers benefit from fewer changes and concessions to sell their wine in the EU.

The major benefits for Australian producers include:

- European recognition of Australian winemaking techniques.
- Simplified arrangements for the approval of winemaking techniques that may be developed in the future.
- Simplified labelling requirements for Australian wine sold in European markets.
- Protection within Europe of Australia's registered geographical indications (GIs).
- Simplified certification requirements for Australian bottled wines entering European customs.

The agreement required Australia to phase-out an enhanced list of European regions above those already phased out in the 1994 agreement as well as extending protection to traditional expressions. The protected names include terms such as Bordeaux, Burgundy, Champagne, Chablis, Port, Sherry and Tokay. No more Australian wine can be produced with these names on the label although there are more flexible phase-out arrangements for particular terms (Port, Sherry and Tokay) in the agreement.

The Australian Grape and Wine Authority publishes the Register of Protected Geographical Indications and Other Terms and includes the full list of Europe's Geographical Indications and Traditional Expressions.

The Agreement has provided improved access for Australian wine producers in the European market, however, it does not extend to tariff concessions.

Tariff Barriers

Impact of EU import tariff on farmgate grape prices

Australian wine is subject to an import tariff on wine entering the European Union, with the rates payable dependent on the alcohol content and container type (see table 1).

Assuming an extraction rate of 720 litres per tonne, an average grape price of $300 per tonne[2] and an AUD/EURO rate of 0.6863, table 1 illustrates the revenue foregone by the grower, holding all other factors equal, as a result of the imposition of the tariff. To calculate the equivalent $ per tonne, the landed cost of the wine was held constant and then two scenarios were compared – including *and* excluding the import tariff. The analysis indicates revenue forgone of between $100-$220 per tonne, dependent on the alcohol content and container type. This represents between 35 per cent and 73 per cent of the average price of $300 per tonne.

Table 1: Impact of EU import duty on grape prices

	EU import duty (€ per litre)		Equivalent $ per tonne	
Alcohol strength	Bottled wine	Bulk wine	Bottled wine	Bulk wine
<13%	0.131	0.099	137	104
13-15%	0.154	0.121	161	127
15-18%	0.186	0.154	195	161
18-22%	0.209	0.209	220	220

Source: AGWA Export Market Guides, AGWA analysis

Table 2 illustrates the rates payable in per bottle equivalent in €, £, and A$ terms. In the UK, the average price per bottle is £5.40 per bottle – the tariff, depending on alcohol content, represents between 1.3 and 2.2 per cent of this price.

[2] Based on the average price of winegrape purchases in the Riverland, Murray Valley and Riverina as reported in the 2014 Australian Winegrape Purchases Price Dispersion Report.

Table 2: Impact of EU import duty on a bottle

Alcohol strength	EU import duty € per bottle	 £ per bottle	 A$ per bottle
<13%	0.10	0.07	0.14
13-15~~%~~	0.12	0.09	0.17
15-18%	0.14	0.10	0.20
18-22%	0.16	0.12	0.23

Table 3 illustrates the total cost of the EU import duty on Australian wine exporters in 2014. The 2014 number reflects the general decline in volumes shipped to the EU over the past few years and compares with a total import duty of $71.5 million paid in 2010.

Table 3: Total cost of EU import duty on Australian wine exports (2014)

Alcohol strength	EU import duty Bottled	 Bulk
<13%	$5,654,400	$19,975,200
13-15~~%~~	$6,975,000	$25,399,500
15-18%	$33,480	$129,150
Fortified wine	$111,600	$516,600
		Total: $58,794,930

In addition, there is a growing market for the export of grape concentrate to the EU 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

The Australian Grape and Wine Authority would support any removal or reduction of import tariffs for grape concentrate to facilitate this type of trade for Australian exporters.

Competitors

A number of Australia's main competitors enter the European market at zero tariff rates, placing Australian exporters at a disadvantage. This is particularly significant for the more than 80 per cent of Australian wine that enters the market in bulk format where the addition of 17-22 cents per litre on wine exported at an average $1.05 per litre contributes a substantial additional cost on Australian wine. This is even more pronounced in Germany where the average price per litre for bulk wine of $0.88 means the tariff adds 25 per cent to the cost of wine.

The table below demonstrates the top ten exporting countries to the United Kingdom. Of the countries listed, Australia is one of only four source markets who pay a customs tariff, along with the United States, New Zealand and Argentina. The United States and the EU launched FTA negotiations in June 2013 while an EU-Mercosur FTA negotiation launched in May 2010. Once finalised, this would leave Australia and New Zealand as the sole source countries in the top ten for whom the tariff would apply.

Table 4: UK imported wine market by volume

Exporting Country	2012	2013	2014
Italy[1]	248,639,731	252,054,606	285,632,102
Australia	**247,419,369**	**247,596,635**	**245,460,824**
France[1]	199,653,779	192,633,642	203,298,629
Spain[1]	124,620,810	124,759,226	130,829,685
South Africa[1]	88,586,453	109,083,211	109,711,819
Chile[1]	100,638,814	111,625,366	104,739,260
United States[2]	115,767,418	114,162,600	103,633,697
Germany[1]	60,501,539	62,452,596	76,263,396
New Zealand	53,551,280	46,232,111	53,817,379
Argentina[2]	16,267,071	18,543,514	20,203,301

Source: Global Trade Atlas

[1] Wine from these countries enters the UK tariff free
[2] FTA negotiations launched

Table 5: Non-EU competitor tariff rates

Exporting Country	Tariff rate
Chile	0 since 2009
South Africa	0 since 2012
USA	Negotiations launched 17 June 2013
Argentina	Mercosur negotiations launched 17 May 2010

Conclusion

The growing shift towards in-market bottling of wine has made the pursuit of a Free Trade Agreement with the EU a priority for the Australian wine sector. Australian wine competes for significant market share with other exporting countries that benefit from a zero tariff rate. In comparison, Chilean wine exports grew 15 per cent in 2009 when tariffs on their products were eliminated while similarly South African exports increased 23 per cent in 2012. The elimination of tariffs for Australian wines would save an estimated **$58 million** per year for Australian wine exporters and ensure a level playing field in this highly important European wine market.

The Australian Grape and Wine Authority would welcome an exploration of the benefits of a Free Trade Agreement with the EU. We would be happy to provide further information on any matter raised in this paper.