Submission on Australia-European Union Free Trade Agreement

June 2016

Tony Battaglene
Acting Chief Executive
Winemakers Federation of Australia

Introduction

The Australian Prime Minister, together with the President of the European Council and the President of the European Commission agreed in a joint statement on 15 November 2015 to start the process towards a comprehensive and high-quality Free Trade Agreement (FTA).

This submission has been provided on behalf of the Winemakers Federation of Australia.

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 centered on providing leadership, strategy, advocacy and support that serves the Australian wine industry now and into the future.

Background

The European Union is the world's major wine producing region in volume terms. In 2014 France produced 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.

The UK is of great importance to global wine markets. Accounting for one third of all Australian wine exports, the United Kingdom is Australia's number one export destination by volume with 247 million litres of wine exported in 2015. The UK is the second largest import market by value globally and Australia is the second largest source of wine behind Italy by volume.

Bilateral 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 harmonised winemaking practices as well as established protection for 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.

The *Agreement Between Australia and the European Community on Trade in Wine* was renegotiated and 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.

Impact of EU import tariff

Wine imports into the European Union are subject to import duties – Common Customs Tariff (CCT) – and EU regulations. 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 Wine Australia analysis of customs data, it is estimated that the cost of the EU import duty on Australian wine exports to the UK alone totalled more than A$42 million in 2015.

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 wine grape purchases in the Riverland, Murray Valley and Riverina as reported in the 2014 Australian Wine Grape Purchases Price Dispersion Report.

Table 2: Impact of EU import duty on a bottle

Alcohol strength	EU import		
	€ 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 key benefit from a Free Trade Agreement with the European Union would be any removal or reduction of import tariffs for wine and grape concentrate to facilitate trade for Australian exporters.

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

Conclusions

The main benefits from a Free Trade Agreement with the European Union would be in the form of tariff reductions for wine. Most of the non-tariff measures have been overcome through the bilateral wine agreement. However, any negotiation must protect the position in the Wine Agreement and not allow the extension of geographic indications to grape varieties (eg, Prosecco) or provide additional protection for European traditional terms.

If the wine agreement was to be reopened in the context of broader FTA negotiations this would involve a number of very sensitive issues.

/ENDS