



**TREASURY
WINE ESTATES**

**SUBMISSION TO THE JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND TRADE
INQUIRY INTO AUSTRALIA'S TRADE AND INVESTMENT RELATIONSHIP WITH THE UNITED
KINGDOM**

About Treasury Wine Estates

Treasury Wine Estates (TWE) is one of the world's largest wine companies, listed on the Australian Securities Exchange (ASX) and headquartered in Melbourne.

The company has a rich heritage and a portfolio of some of the most recognised and awarded wine brands in the world, including Penfolds, Pepperjack, Wynns, Wolf Blass, 19 Crimes, Devil's Lair, Lindeman's, Rawson's Retreat and Blossom Hill. TWE is focused on portfolio premiumisation and brand-led marketing, with world-class production facilities in internationally recognised wine regions.

The company sources grapes from a mix of owned, leased and third-party vineyards. Employing approximately 3,500 winemakers, viticulturalists, sales, marketing, distribution and support staff across the globe, TWE's wine is sold in more than 100 countries around the world.

TWE is the second largest wine company in Europe, with wines imported from Australia making up a significant proportion of that number – and its brands some of the most popular across the continent. Wolf Blass from the Barossa Valley is the number 13 brand in the UK; Lindeman's – originating in the Hunter Valley – is the number one total wine brand in the Netherlands and number one Australian wine in Sweden.

TWE is a member of the Winemakers' Federation of Australia (WFA) and a levy payer to the Australian Grape and Wine Authority (AGWA, also known as Wine Australia) and as such, supports the WFA and AGWA submissions to this inquiry. The comments made below are complementary to those already provided.

Submission

TWE considers that a closer trade relationship with the United Kingdom (UK), on its exit from the European Union (EU), presents a rare and significant opportunity to increase the competitiveness and profitability of the Australian wine industry in that market. TWE considers that the Australian Government should prioritise the negotiation of a Free Trade Agreement (FTA) with the UK, when the UK is in a position to do so, with the ambition to secure zero tariff treatment for Australian wine.

The UK is a significant export market for the Australian wine industry. Not only is the market Australia's number one export destination by volume, accounting for one third of all Australian wine exports, but Australia is also the UK's second largest source of wine behind Italy. However, the market is a very tough one, with significant retail competition resulting in low margins and fierce



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competition between global wine producers. Therefore the high level of tariffs are making an already hard job for Australian wine producers even harder.

While this has resulted in the UK traditionally being an export market based on high volume, lower value wine, AGWA's most recent export market report highlights the current opportunity in this critical export market, particularly for more premium wines:

The UK market continues to be our largest in volume terms but, because 80 per cent of wine is shipped in bulk, it ranks third in value and exports were down 5 per cent to \$355 million. The market did see strong rates of growth in exports of our higher priced wines. Exports priced at \$5 or more per litre grew by a healthy 23 per cent to \$68 million. The growth was even stronger for exports at \$10 or more per litre, which grew by 25 per cent to \$28 million, double the 20-year low in 2013.

Managing Director of Negotiants UK, Simon Thorpe MW commented on the positive trends at the high end.

'...we've never witnessed such strong demand for super-premium/iconic wines across our Australian portfolio, this demand coming from fine wine exponents whose customers are obviously keen to explore the very top end of what Australia has to offer.'

AGWA, Media Release, *Australia's finest wines achieve record value in 2016*, 27 January 2017
(<https://www.wineaustralia.com/news/media-releases/december-2016-export-report>)

The growth of Australia's wine exports to the UK is hampered by the current tariff treatment. Since 1973, when the UK joined the EU, Australian wine has been subject to tariffs and quotas that have harmed the competitiveness of Australian wine with European wine and some other 'new world' suppliers.

Specifically, imports of Australian wine in to the UK are subject to EU Common Customs Tariff, being:

Alcohol strength	EU import duty (euro 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



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Based on AGWA's analysis of exports data, it is estimated that the total direct cost of the EU import duty on Australian wine exports to the UK totaled more than A\$42 million in 2015. This estimate does not take into account the cost to industry of the reduced competitiveness of Australian wine in the UK.

EU member-country wine producers, which are some of Australia's main competitors in the market – being Italy, France and Spain – are not subject to the CCT. These countries are currently saving approximately A\$110 million per annum as a result of their EU membership.

In addition, Chile has an FTA with the EU which allows Chilean wine tariff free entry into the UK. This treatment has seen Chile grow into an increasingly popular and commercially successful player in the UK market, with Concha Y Toro (a Chilean wine producer) now being the third largest wine company in the UK. Zero level tariffs has enabled the company to invest millions into brand marketing campaigns such as sponsorship agreements with Manchester United FC and Sky TV.

South Africa's trade agreement with the EU is more complex, but also provides preferential treatment for South African wine.

As a result, the Australian wine industry stands to gain significantly from a closer trade relationship with the UK, particularly if Australia can negotiate a FTA which secures zero tariff access for wine.

This would directly benefit the Australian wine industry by removing the burden of the CCT; making Australian wine more competitive with European produced wines and wines from Chile and South Africa; and removing the tariff incentive to ship Australian wine in bulk, which the current differentiated CCT ensures. There could be additional benefit to the industry if a zero tariff treatment FTA was negotiated with the UK before some of Australia's 'new world' competitors (eg New Zealand, Chile and Argentina) negotiated similar outcomes.

Given the significant potential upside, it is TWE's view that, once the UK is in a position to start negotiating, an FTA with the UK should be prioritised over Australia's negotiation of a FTA with the EU.

In that regard, TWE also supports WFA's and AGWA's submissions that the any tariff elimination should also recognise that the UK acts as a hub for Australian wine trade to continental Europe, and that in any negotiations, Australia should seek to eliminate tariffs of wine packaged in the UK or re-exported from the UK to continental Europe.

Finally, while a zero tariff treatment in an Australia-UK FTA would be a significant benefit to the Australian wine industry, TWE recognises the fundamental importance of ensuring key elements of the current *Agreement between Australia and the European Community on Trade in Wine* (the Wine Agreement) is maintained, or improved, for exports to the UK and the EU. The Wine Agreement harmonised winemaking practices; established protection for geographical indications and traditional expressions; and reduced analytical requirements for the European Import Certificate of



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analysis. In this regard, TWE supports AGWA's and WFA's submissions to the Committee on the future negotiation of the Agreement, ensuring the current approach at a minimum is maintained, securing technical market access.

TWE appreciates the Committee's interest in Australia's relationship with the UK, and looks forward to working with the Australian Government to secure greater opportunities and advantages for Australian wine through closer relations with this significant trading partner.

For further information on the content of this submission, please contact:

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