

## **Submission to the Joint Standing Committee on Treaties into the Inquiry into the Japan-Australia Economic Partnership Agreement (JAEPA)**

### **Introduction**

The Australian wine sector has welcomed completion of negotiations on the Japan-Australia Economic Partnership Agreement (JAEPA). The Agreement will eliminate the 15% tariff on bottled, sparkling wine over seven years and bulk wine immediately helping our competitiveness in this key market. This also puts us back on a level playing field with a key competitor in Chile who entered into an economic partnership with Japan in 2007 which resulted in the gradual removal of tariffs on their wine.

Australia is currently the 6th largest exporter of wine to Japan by value and volume. Countries such as Chile have enjoyed significant increases in market share in Japan following finalisation of similar trading agreements and they currently sit second behind France. Traditional export markets such as the USA and the UK remain important for our exporters, opening up new opportunities and improving our competitive position in Asia such as in Japan, China, Korea and Thailand remain important for the industry.

### **Background**

Wine consumption in Japan has increased by approximately 12 per cent from 2011 to 2012, with 32 million cases sold (*Source: Jozosangyo Shinbun*). Wine consumption per head increased from 2.28 litres in 2011 to 2.69 litres in 2012. Sales of wines have expanded predominately from small retail and mass merchandise stores to specialty wine shops. Behind the 2012 increase in consumption is the expansion in floor space dedicated to wine sales in merchandise outlets and convenience stores. Despite wine sales being only 10 per cent of total alcohol purchases across wider Japan, convenience stores alone increased their sales of wine more than 99 per cent in 2012 (compared with 2011). New retail stores are increasingly stocking wine in order to compete. Supermarkets also increased their volume of wines sold by more than 18 per cent, from 2011 to 2012. The number of new concept wine bars or casual, standing wine bars has also increased. (*Source: Syuhan News VOL 1806, 21 April 2013*)

Australian wine imports in 2012 increased by 12.3 per cent from 2011, with about 896,000 cases sold.

Japanese importers, wholesalers, buyers, sommeliers, and consumers now understand that Australian wines do not compete with low-priced Chilean or Spanish wines which sell for under JPY500 (about A\$5) per 750ml. Australian wine sales are now pitched at price points in the JPY500-1000/750ml (A\$ 5-10) retail price category. Sales of Australian wine in the JPY500-1000 retail price category increased in 2012 by more than 37 per cent from 2011 (*WANDS Review June 2013*). In the JPY1000-1500 (A\$10-15) retail price range, Australian sales increased 17 per cent compared to 2011. This price range consists of almost 50 per cent of the Australian wine exported to Japan. Further success of Australian wine will rely on Australian exporters/Australian wine importers in Japan to aggressively maintain shelf space in supermarkets, convenience stores and other retail outlets at the JPY500-1000 and JPY 1000-1500 price points, as well as promoting middle to premium Australian wine brands.

### **Opportunities**

Among total wine consumption in Japan, the biggest volume category remains at the retail price of JPY500-JPY1000 for a 750ml bottle, which has increased dramatically to 10,697,000 cases (*Source: WANDS Review, May 2013*). Imported wines hold 48 per cent of this price range with fierce competition between France, Italy, Spain (with the influence of the strong yen against the Euro), Chile, and the US. These wines are mainly distributed through large-scale retail outlets such as supermarket chains and 'casual' food service outlets. The ongoing deflationary environment in Japan is influencing consumers to purchase lower priced products.

The export of Australian sparkling wine to Japan has shown consistent growth and reached 134,700 cases in 2012 - an 11.7 per cent per cent increase from 2011 (*Source: WANDS review, May 2013*).

Premium wines for special occasions, when supported by established reputation, ratings, and/or awards, retail at A\$18-\$37 and are distributed through specialised wine outlets, online shopping, mail-order/catalogue, upper-tier hotels and restaurants. The super-premium wine segment (more than JPY10,000/A\$100 retail price per bottle) has increased in volume to 61,000 cases annually, 29.8 per cent more than 2011. Successful premium wines must have an outstanding and unique reputation and boast highly regarded international awards.

### **Benefits from JAEPA**

Australia remained the sixth largest exporter to Japan in 2012 (increase of 12.3 per cent), and the fourth largest exporter in sparkling wines (increase of 11.7 per cent). The wine market in Japan is still dominated by Old World wines (both still and sparkling) with more than 60 per cent of total volume shared by France (30 per cent), Italy (18 per cent) and Spain (14 per cent). Chile has recorded a dramatic increase in exports by volume and is currently the third largest exporter to Japan in still wines.

The best opportunities for Australian exports lie in the premium end of the market and the tariff reductions for bottled still and sparkling wine has major implications for the sector. The reduction in bulk wine will also provide some relief for exporters.

Another critical element in JAEPA concerns the treatment of Rules of Origin provisions (ROOs). The Korean-Australia FTA provides a good example of best practice in the way it deals with splitting of consignments so that exporters can tranship wine to the final destination. Our main concern is the splitting of consignments, and the non-party invoice (which can accept the invoice from transshipping company in countries such as Singapore). It was an important outcome for the Australian industry that the splitting up of loads for transport reasons is permitted and invoices may be issued in the territory of a non-Party. Non-party invoice clauses are an important area for all our FTA negotiations.

### **Conclusion**

The Australian wine sector is strongly supportive of the outcome of the JAEPA negotiations and commends our negotiators and the government and bringing this to a successful conclusion. We believe that the outcome on wine will enable us to compete with major competitors, provide our sector with an export boost and will enable us to target our offering at the premium end of the market.