

## WSTA Response to International Trade Committee Inquiry – Australia FTA Negotiations

Date of submission: 14 January 2022

### Who we are:

*The Wine and Spirit Trade Association (WSTA) represents over 300 companies producing, importing, exporting, transporting and selling wine and spirits in the United Kingdom. Members range from major retailers, brand owners, importers and wholesalers to fine wine and spirit specialists, logistics and bottling companies. We campaign for a vibrant and sustainable wine and spirit industry, helping to build a future in which alcohol is produced, sold and enjoyed responsibly.*

### Summary of Response

- i. This is a very important agreement to the UK wine and spirit industry.
- ii. WSTA contributed a response to the initial DIT consultation, in addition to regularly engaging with Government through the various channels for stakeholder engagement.
- iii. Australian wine is the number one 'country of origin wine' on the UK market (by volume), supporting thousands of wide-ranging jobs throughout Britain
- iv. Australia is also a fast-growing market for UK gin exports, with gin exports to Australia doubling in the space of just three years and accounting for £27.5m in 2020.
- v. It is important that Parliament views value of imports as of equal significance to exports in analysis.
- vi. The FTA provides strong and reciprocal benefits but does not go as far for wines and spirits as the ambition set out in the Agreement in Principle.
- vii. In the longer term, joint committees, dialogues and other mechanisms should be used to achieve greater access for wines and spirits in both directions.
- viii. For UK wine importers, the benefits of this agreement are not yet secured and will depend largely on the outcomes of HM Treasury's Alcohol Duty Review.
- ix. The Government's communication on the progress of negotiations has been a process of improvement and learnings.
- x. WSTA would be happy to provide oral evidence if called on.

### Introduction:

1. The Wine and Spirit Trade Association (WSTA) has from the outset promoted the importance of this agreement to our sector. WSTA contributed a response to the initial DIT consultation, in addition to regularly engaging with government through the various channels for stakeholder engagement, including the Agri-Food Trade Advisory Group and other DIT mechanisms, as well as through our membership of the Australia-UK Chamber of Commerce. We have provided advice to Defra and DIT on industry interests at various stages of the negotiations. Our interests

are diverse, and we have member companies who will apply the agreement from both export and import perspectives.

2. Australian wine is the number one 'country of origin wine' on the UK market (by volume), supporting an extensive range of jobs throughout Britain, from bottling and logistics to marketing and retail. It is a vital import to the UK economy and is worth £1.5bn in UK sales<sup>1</sup>. The UK is the number one market for many of Australia's wine producers and a key market in pursuit of export market diversification which has become a mutual objective of both Great Britain and Australia in recent years.

3. Australia is also a fast-growing market for UK gin exports, with gin exports to Australia doubling in the space of just three years and accounting for £27.5m in 2020<sup>2</sup>. Australia is the second largest British gin export market outside the EU and is often seen as a key market for SMEs looking to expand beyond Europe, due to the ease of doing business in terms of language and law.

4. An agreement that removes tariffs and eases non-tariff barriers has great potential to support these two categories to continue to grow trade in respective directions.

## **Questions and responses**

### **How good a deal is the UK-Australia FTA for the UK?**

5. Overall, we believe the UK-Australia FTA is a good deal for the UK. As with all FTAs, there will be certain sectors which win out on one side, whilst others may feel like they're losing ground – that is the nature of freer trade and why FTAs require negotiation. That said, this is a genuinely reciprocal FTA with key beneficiaries in equal measure in both nations.

6. It is important that as Parliament looks to scrutinise the outcome of this FTA negotiation, that this is undertaken through a politically neutral lens and resisting the temptation to only see increased access for UK exports as "good" whilst seeing increased access for Australia's exports to the UK as "bad".

7. As set out in DIT's Trade Strategy White Paper (2017)<sup>3</sup>, imports to the UK account for a similar proportion of our overall GDP as exports do (roughly 27.5% in 2021<sup>4</sup>), and imports provide economic value, support jobs, increase UK tax revenue and provide consumers with tangible benefit to their standards of living. Imports are of paramount importance to a healthy and open UK economy.

8. One of the greatest challenges to tariff-free trade between the two nations, notably in the wine trade, is the UK Government's current proposal to reform alcohol excise duty. The proposals, as they currently appear, would entirely negate the tariff benefit afforded to

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<sup>1</sup> WSTA Market Report, 2021

<sup>2</sup> UK Trade Info, HMRC

<sup>3</sup> "Our total trade with the world is equivalent to over half of our GDP – exports and imports were each equivalent to about 30% of GDP in 2016." P. 6, 'Preparing for our Future Trade Policy' [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/880607/Preparing\\_for\\_our\\_future\\_UK\\_trade\\_policy\\_Report\\_Web\\_Accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880607/Preparing_for_our_future_UK_trade_policy_Report_Web_Accessible.pdf)

<sup>4</sup> World Bank data.

Australian wine producers and encourage many of them to either depart from the UK market or divest their interests.

9. It is vital that we resist the political urge to simply view imports as a threat. A more nuanced approach is required in our nascent debate around national trade policy and it should begin with how we approach this agreement. We need to fully recognise the benefits that this agreement can bring to the wider UK economy, through increasing trade in both directions.

### **To what extent has the Government achieved its stated negotiating objectives?**

10. This is not applicable to our response. We will focus on wines and spirits and the outcomes that the sector can achieve or not, as to whether this agreement is a success. We will leave it to other organisations to give broader views of the negotiated outcome. Overall, we believe there is value for wines and spirits.

### **To what extent does the FTA deliver on the UK-Australia Agreement in Principle?**

11. The FTA does not completely deliver on the ambition for wines and spirits as set out in the Agreement in Principle.

12. Whilst the agreement includes a chapter on technical barriers to trade, which will help with setting out general parameters for the introduction of new regulations, the agreement does not include an annex to the TBT chapter on spirits, which was proposed in the AIP document. There is also – currently – no clear indication as to how Australia’s proposals related to wine are progressing towards adoption by the UK as part of the UK-Australia Wine Agreement.

*“Ongoing discussion of outcomes to address technical barriers to trade in specific sectors that do not constrain public policy making, create new non-tariff barriers or create additional regulatory burdens. This includes continued discussions on UK annex proposals on spirits, cosmetics, medicines, and medical devices, and Australian proposals on wine and organics. Australia and UK commit to use best endeavours to secure agreement in Australia to the UK proposal for a whisky definition in a form enforceable by domestic authorities and to implement in the UK Australia’s proposals under the Wine Agreement, both taking account of consultation requirements.”<sup>5</sup>*

13. Whilst we should be sure that the pursuit of perfect outcomes in negotiation is not the enemy of an agreement being concluded, the UK government has negotiated an agreement which does not go as far as was set out in the AIP in regards to wines and spirits. It is not clear if the reason for not doing so was due to a wish to reach an agreement by a set date, i.e. the end of 2021 or whether the decision was taken by both sides to deviate from the AIP. To implement fully the best endeavours of the agreement may have led to greater trade in wines and spirits between our nations, as well as potentially increased inward investment into the UK.

14. It is now important that we continue to explore other avenues to deliver these benefits for the UK economy, including through updating the UK-Australia Wine Agreement using the ‘joint

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<sup>5</sup> Section 1.8 of the Agreement in Principle document, <https://www.gov.uk/government/publications/uk-australia-free-trade-agreement-negotiations-agreement-in-principle/uk-australia-fta-negotiations-agreement-in-principle>

management committee' function, and through joining the CPTPP agreement, which includes a wine and spirits annex<sup>6</sup> (although one which is not as deep as might have been achieved in this bilateral agreement).

15. Adding flexibility to allow Australian wine importers to blend, sweeten and further process wines post-shipment would see a high likelihood of increased FDI in the UK economy and further employment in the UK's wine industry. Such changes would also increase the quality of wine available on the market to UK consumers. We should capitalise on the good will of this agreement and realise these benefits sooner rather than later preferably by including a timeframe to conclude these additional negotiations, perhaps when the text is formally ratified.

**How are the terms of the FTA between the UK and Australia likely to affect you, your business or organisation, or those that you represent?**

16. If implemented effectively, the terms of the FTA are likely to alleviate some of the difficulties in trading between both countries, including removing tariff barriers for our products and potentially reducing customs clearance times, which would benefit already under-pressure supply chains.

17. In the longer term, joint committees, such as the 'Committee on Technical Barriers to Trade', may lead to additional benefits for traders and are welcome future mechanisms for dialogue, including how UK spirits, such as whisky and gin may gain greater access to the Australian market. In the short-term, the tariff barriers already in place are relatively low, and so the benefits are more likely to make UK spirits and Australian wines slightly more competitive and trade more efficient, rather than any of the products cheaper at point of sale.

18. Significantly, for the UK's wine importers, the benefits of this agreement are not yet secured and will depend largely on the outcomes of the Treasury's Alcohol Duty Review. Should the Alcohol Duty Review progress according to Treasury plans as currently proposed, the benefits of this agreement for the UK wine industry will not just be wiped out by the added burden but negatively affected. Under current plans for excise reform, 90% of Australian wine on the UK market would see an increase in duty and therefore prices would rise, not fall. The beneficial removal of any trade barriers, including the tariff on wine, will have been nullified overnight.

19. The Government has been quick to promote how the removal of tariffs will make iconic Australian wines "more accessible for British consumers"<sup>7</sup>. However, the lack of a joined-up approach with Treasury currently suggests that overall, Government policy will increase pressures on UK consumers 'cost of living' by giving Australian wine tariff-free access on the one hand, and more than taking it away with the other.

20. The Government's current proposed tax model is set to increase the overall duty burden on wines by £250m a year.

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<sup>6</sup> Annex 8-A Wine and Distilled Spirits, begins page 17, <https://www.mfat.govt.nz/assets/Trade-agreements/TPP/Text-ENGLISH/8.-Technical-Barriers-to-Trade-Chapter.pdf>

<sup>7</sup> <https://www.gov.uk/government/news/uk-and-australia-sign-historic-trade-deal>

21. The Australia FTA is set to remove tariffs of typically 6-9p per bottle on Australian wines. However, under the current alcohol duty review, it is likely that simultaneously, the Government would increase the tax 35p for a 13% abv wine and 82p for a 15% abv wine.

22. The alcohol content of a wine is largely determined by how hot the environment in which the grape is grown, and as Australian wine is typically one of the hottest environments for growing wines, this new policy is likely to adversely affect wines originating from the country.

23. The Treasury's proposed new policy is trade restrictive, and disadvantageous to the exports of Australia as our preferential trade partner, in effect, imposing a non-tariff barrier. The proposed policy would be inconsistent with the outcomes of the negotiation and dissuade future direct investment in the UK from Australia, potentially negatively impacting UK thousands of jobs reliant on wine imports.

**What is likely to be the impact of the agreement on the UK's economy as a whole?**

24. Not applicable to our response beyond the benefits for the wine and spirit sector set out in the next two answers.

**What is likely to be the impact of the agreement on the wine and spirit industry?**

25. For spirits exporters, the agreement is set to remove tariffs, on entry into force. This is positive, including for British gin producers, who continue to see great potential in the Australian market. The Government must now consider how best to support these companies, especially SME craft distillers, to trade with a market which is geographical distant and expensive to build a brand in. Removing a 5% tariff will not be the end of the job for spirits exports to boom. Export support and promotion will be crucial, and that can take many forms, from support for trade shows and introductions to buyers, to access to market insights.

26. For wine, arguably, the two most important goals of the post-Brexit environment have been delivered, with the tariff removal coming alongside December's more widely applicable removal of burdensome VI1 forms. The UK and Australia continue to have a separate wine agreement which is likely to be updated over time but this particular FTA agreement does not seem to deliver any additional benefits for industry around winemaking practices, blending, sweetening, carbonation, aeration, stabilization and delocalization. It is also worthwhile pointing out that the UK's wine regulations as they currently exist do not suitably accommodate changing consumer preferences to lower ABV products. This should be addressed in the ongoing review of the wine regulations to encourage reformation and innovation.

27. Overall, the agreement will help to increase trade between the UK and Australia, but it would appear that some "best endeavours" included in the AIP have fallen short in place of a tight timeline that was set to finish the deal by the year's end.

28. The agreement is welcome but could have provided more for our industry, including the elements mentioned in the section on AIP, which could have delivered tangible benefits for both wines and spirits. As mentioned above, the Government's alcohol duty review has the potential to nullify the benefits of the agreement for wine imports.

**What is likely to be the impact of the agreement on the UK's devolved nations and English regions?**

29. The UK's wine and spirit industry is present in all three of the devolved nations and across the English regions. The benefits any agreement brings to employment and investment are likely to be spread across the United Kingdom.

30. For example, there are many bottling plants across the country which could benefit from further investment with the removal of the wine tariffs and from the delivery of further easements and flexibility through the UK-Australia Wine Agreement.

**What is likely to be the impact of the agreement on UK consumers?**

31. This will entirely depend on the outcome of the Treasury's alcohol duty review. UK wine and spirit consumers are facing an increasingly difficult cost of living crisis and current government proposals on taxation are only likely to make wine and spirit products more expensive, not more affordable.

**How well has the Government communicated its progress in negotiations – and how much has it listened to stakeholders during those negotiations?**

32. The Government's communication on the progress of negotiations has been a process of improvement. Things are better than when the negotiations first began, but Australian negotiators were more open with its industry partners than the UK was with UK trade associations and businesses. This may be a natural relationship built up through years of greater experience, but the UK needs to engage more openly and earlier with UK stakeholders in future negotiation processes. At points, the formal engagement meetings have felt too much like a one-way report function from Government to industry and not inclusive of enough two-directional dialogue.

**How well has the Government communicated the possible impact of the FTA, to enable you or other stakeholders to prepare for its implementation?**

33. The Government has adequately communicated the possible impact of the FTA, to enable our members to prepare for its implementation.

34. However, greater clarity on expected timelines for entry into force would allow relevant stakeholders to prepare with greater certainty than they can currently. Companies are not clear on whether they should expect the agreement to enter into force in 6-, 12- or 18-months time, making budgetary decisions for the year ahead difficult.

**What lessons and inferences for other current and future negotiations can be drawn from how the Government approached, and what it secured in, the FTA with Australia?**

35. The Government should figure out a mechanism through which it can engage industry more, allowing it to play a greater role in advising negotiations and to share more openly with business the progress it is or isn't making on the less-sensitive areas of a negotiation – for example, the TBT chapter and annexes. If a trade agreement doesn't work for business, it will not deliver the outcomes the Government would like to see for the economy.

**For further information, please contact:**

Rob Ivory, Head of International Trade, the Wine and Spirit Trade Association

If requested, we would endeavour to provide someone from the Association to present at the oral evidence sessions of the Committee's inquiry.