

Direct Wines Response to International Trade Committee Inquiry – Australia FTA Negotiations

Who we are:

Direct Wines Holdings Ltd is a family-owned business headquartered in the UK, employing approx. 1,000 staff globally. In the UK, Direct Wines has traded since 1969 as wine importers, exporters and direct to consumer wine merchants, and more recently English wine producers. In Australia we trade as vineyard operators, wine producers, importers, exporters and direct to consumer wine merchants.

Summary of Response

- I. This is a very important agreement to Direct Wines and the UK wine industry.
- II. Australian wine is a very significant 'country of origin wine' for our UK direct to consumer retail business, and is the number one country of origin wine on the wider UK wine market (by volume), supporting thousands of wide-ranging jobs throughout Britain
- III. We export English and European wines to our retail business in Australia.
- IV. It is important that Parliament views value of imports as of equal significance to exports.
- V. The FTA provides strong and reciprocal benefits but does not go as far for wines as the ambition set out in the Agreement in Principle.
- VI. In the longer term, joint committees, dialogues and other mechanisms should be used to achieve greater access for wines in both directions.
- VII. As a UK wine importer, the benefits of this agreement are not yet secured and will depend largely on the outcomes of HM Treasury's Alcohol Duty Review.
- VIII. The Government could be clearer in communicating the progress of negotiations.
- IX. Direct Wines would be happy to provide oral evidence if called on.

Introduction:

1. Australian wine represents a significant proportion of sales for our UK retail business. It 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 sales¹. 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.
2. Direct Wines regularly exports English and European wines from the UK to our retail business in Australia.
3. An agreement that removes tariffs and eases non-tariff barriers has great potential to support the growth in the trade of wine in respective directions.

Questions and responses

¹ WSTA Market Report, 2021

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

4. Overall, we believe the UK-Australia FTA is a good deal for the UK. This is a genuinely reciprocal FTA with key beneficiaries in equal measure in both nations.
5. It is important that Parliament scrutinises the outcome of this FTA negotiation through a politically neutral lens and resists 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”. Direct Wines imports wines from and exports wines to Australia.
6. 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. HM Treasury’s Alcohol Duty Review proposals, as they currently appear, would entirely negate (and then some) the tariff benefit afforded to Australian wine producers and encourage many of them to either depart from the UK market or divest their interests.

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

7. We will focus on wine and the outcomes that the sector can achieve or not, as to whether this agreement is a success. Overall, we believe there is value for the wine trade.

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

8. The FTA does not completely deliver on the ambition for wines as set out in the Agreement in Principle.
9. 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, there is – 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...
...Australian proposals on wine and organics. Australia and UK commit to use best endeavours to...
...implement in the UK Australia’s proposals under the Wine Agreement, both taking account of consultation requirements.”²*

10. The UK government has negotiated an agreement which does not go as far as was set out in the AIP in regards to wines. 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 between our nations.

² 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>

11. 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 management committee' function, and through joining the CPTPP agreement, which includes a wine and spirits annex³ (although one which is not as deep as might have been achieved in this bilateral agreement).

12. 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 goodwill 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?

13. 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.

14. In the short-term, the tariff barriers already in place are relatively low, and so the benefits are more likely to make Australian wines slightly more competitive and trade more efficient.

15. Significantly, as a UK wine importer, the benefits of this agreement are not yet secured. Furthermore, HM Treasury's Alcohol Duty Review, if implemented as currently proposed, will not just wipe out the FTA benefit by the added excise duty burden but negatively affect it. Under the Alcohol Duty Review proposals in their current form, 93% of Australian wine we import into the UK would see an increase in duty net of the FTA and therefore prices would rise, not fall. The beneficial removal of any trade barriers, including the tariff on wine, would be nullified overnight.

16. The Government has been quick to promote how the removal of tariffs will make iconic Australian wines "more accessible for British consumers"⁴. 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. As one of our wine producers put it "it's as if the UK has thrown us a bone, then taken it away".

17. The Government's current proposed alcohol duty review model is set to increase the overall duty burden on wines by £250m a year, impacting Australian wines more than for other wine producing countries.

18. The Australia FTA is set to remove tariffs of 6-8p per bottle on Australian wines. However, under HM Treasury's current Alcohol Duty Review, it is likely that simultaneously, the

³ 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>

⁴ <https://www.gov.uk/government/news/uk-and-australia-sign-historic-trade-deal>

Government would raise the excise tax by 35p per bottle for a 13% ABV wine and by 68p per bottle for a 15% ABV wine.

19. The alcohol content of wine is largely determined by how hot and sunny the environment in which the grape is grown. Australia is one of the hottest and sunniest environments for growing grapes, so the Alcohol Duty Review proposals will disproportionately affect Australian wines.

20. HM Treasury's duty proposals seem incredibly trade restrictive, and disadvantageous to a preferential trade partner, at a time when the Government claims to be a champion of free trade. As one of our wine producers put it "your Trade Minister must be livid with your Finance Minister for undoing all the work invested to secure the FTA".

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

21. Not applicable to our response beyond the benefits for the wine trade set out in the answers to the next two questions.

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

22. 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.

23. 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.

24. 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 wines. 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?

25. Direct Wines retails wines to 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. Equally the negative impact of the Alcohol Duty Review proposals, as currently drafted, will be spread across the United Kingdom.

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

26. This will entirely depend on the outcome of HM Treasury's Alcohol Duty Review. UK wine consumers are facing an increasingly difficult cost of living crisis and current Government proposals on alcohol duty are only likely to make wines 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?

27. Australian negotiators appear to have been more open with its industry partners than the UK was with UK trade associations and businesses. The UK Government should engage more openly and earlier with UK stakeholders in future negotiation processes. There is not 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?

28. The Government has adequately communicated the possible impact of the FTA, to enable Direct Wines to prepare for its implementation. However, greater clarity on expected timelines for entry into force would allow us to prepare with greater certainty.

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?

29. The Government should harness the role industry can play in advising negotiations. If a trade agreement doesn't work for business, it will not deliver the Government's desired outcomes.