Executive Summary

LIBERALISATION OF WINE TRADE UNDER THE INDIA-AUSTRALIA CECA

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EXECUTIVE SUMMARY

The global alcoholic beverages market was estimated to be at USD1.58 trillion in 2020 and is projected to grow at a compound annual growth rate (CAGR) of around 3.5 per cent between 2020 and 2023. The global wine market is expected to grow at a CAGR of 4.28 per cent during the period 2021-2026. Out of the total of 258 million hectolitres estimated to be produced globally in 2020, Australia produced 10.4 million hectolitres. It was ranked the sixth largest producer of wine in 2019. In India, several companies produce good quality wines, but the country is not among the top 20 wine producing countries in the world.

Australia holds the 10th rank globally in wine consumption. India is predominantly a whisky consuming market, but the consumption of wines is rising – between 2008 and 2018, wine consumption increased by 45.56 per cent.

In 2019, Australia was the fourth largest wine exporting country after France, Italy and Spain and held the 16th rank in global imports of wines. India, in the same year, held the 58th rank among exporters and the 68th rank among global wine importers. Around 60 per cent of the wine produced in Australia is exported and the sector holds priority in Australia's trade negotiations.

Over the last ten years, trade discussions and engagement between India and Australia have intensified at several levels – bilateral, regional and multilateral. In the year 2020, Australia and India decided to re-launch their comprehensive trade agreement negotiations, which was launched in May 2010, but was later put on hold after nine rounds of negotiation. The two countries continued to engage under the Regional Comprehensive Economic Partnership (RCEP) agreement, but in 2019, India exited from the RCEP. Given that the two countries have re-launched their trade negotiations, *the objective of this paper is to analyse the importance of 'wine' in the context of the India-Australia comprehensive trade agreement, identify the trade barriers and propose a mutually beneficial framework for trade liberalisation*.

This paper is based on secondary data and information analysis, 20 key informant interviews (KIIs) and closed-door stakeholders' consultations. The secondary information and KIIs confirmed that wine exports constitute a core component of livelihood of several small and medium enterprises (SMEs) in Australia. The sector contributes AUD45.5 billion to the Australian economy. Over 163,000 persons are in full and part-time direct or indirect employment in the wine industry. This industry has strong backward and forward linkages – from the farmers to the consumers in Australia and abroad. The sector also has a strong linkage with other sectors like tourism and hospitality. Studies have estimated that every AUD1 million of gross output generated by the wine sector would result in AUD2.03 million to the economy and every AUD1 million of value-added output generated by the wine sector, would result in an additional AUD2.18 million value-added contribution to the economy. Australia exports wines to 119 countries globally. There are over 2500 active exporters of wine and the industry contributes to 9 per cent of all agricultural exports.

During the KIIs, Australian companies expressed the need and urgency for Australia to strengthen its wine exports to markets like the USA and UK and focus on growing markets like India through its trade agreements and bilateral trade talks. As of March 2021, Australia had 15 trade agreements in force and it is in the process of negotiating some more including the one with India. In its existing trade agreements, Australia has received commitments to phase out tariffs in wines from its trading partners. At the time of the KIIs in May 2021, many companies enjoyed zero tariff after implementation of the trade agreements. The analysis of the trade agreements confirmed that (a) phasing out can be different for different types of wines and (b) the depth of the commitments depend on negotiating strategies and reciprocal concessions. This paper found that overall, liberalisation through trade agreements have facilitated wine exports and increased market access for Australian wine exporters.

The study found that wine production and consumption in India is small but growing at a fast pace. A few Indian companies are exploring global markets, including exports to Australia. Governments at the centre and in states like Maharashtra and Karnataka offer various incentives for wine production and India has allowed foreign investment in this sector. As of May 2021, there are over 200 'bottled in origin' brands imported into India. Around 40 Australian companies export wines to India including brands such as Penfolds, Lindeman's, Westend Estate, Jacob's Creek, d'Arenberg, De Bortoli and McWilliam's Wine Group. It is estimated that there are between 50-100 wine importers in India; while established importers started out as distributors of alcoholic beverages other than wine, they have started importing Australian wine to diversify their portfolios. In 2019, India imported wines worth USD21.74 million from the world, of which Australia held the second rank after Singapore. Singapore is not a wine producer, and so wines from other countries including Australia may be entering India through Singapore. Thus, Australia has a predominant position in India's wine imports. The share of Australian wines in imports increased from 16.26 per cent in 2015-16 to 23.98 per cent in 2019-20. India recently started exporting wines and exports to Australia have increased by 6.16 per cent.

The KIIs found that the Australian wine industry not only wants to export to India, but they are also keen on entering into collaborations and partnerships that can lead to "Make in India" in the future. Increased imports of good quality wines and subsequent partnerships with Indian companies will lead to transfer of knowledge and good practices in areas like packaging and storage along with wine production. Many Indian companies are keen on such partnerships and in learning from Australian companies. Besides, the Australian wine industry wants to test market their product before they establish a manufacturing presence and in this, they face extremely high tariffs and many non-tariff barriers. The KIIs also revealed that wine produced in Australia meet the FSSAI requirements. At present, most imports from Australia are 'Bottled in Country of Origin'. However, Australian companies are evaluating the cost and benefits of bulk imports and bottling in India; they have expressed significant concerns regarding quality control in the supply chain due to fragmented logistics, and storage and packaging quality related issues. They have also faced delays in custom clearances, variation in customs requirements and processes in different ports of entry, lack of storage facilities in customs, issues with respect to sampling processes, etc.

Since Australia is the world's fourth-largest exporter of wine, Australian industry opined that the country's negotiations in market access in agriculture should include market access for wines.

Indian wine manufacturers pointed out that there is scope for collaboration with Australian companies to explore new export markets jointly. There can be collaborations among experts, knowledge partners and between tourism companies in Australia and India to promote wine tourism in India. Since both India and Australia have a large number of SMEs in this sector, both countries should promote SME collaborations through buyer-seller meets and through government funding of other marketing initiatives. Partnerships with Australian companies will help develop a better supply chain for wines in the country and there can be knowledge sharing in areas like packaging technology. Thus, overall, the industry on both sides have shown keen interest in enhancing trade and collaboration.

Among the barriers to imports, high tariff has been identified as the most important barrier. Other barriers include labelling requirements, geographical indications related issues, ban on 'Bottled in Origin' (BIO) wines in canteen stores department (CSD), state-level discriminatory and high taxes, lack of regulatory transparency, logistics and storage related issues, small size of the wine market in comparison to other alcoholic beverages, and information asymmetry. These have been discussed in the report.

The KIIs found that high tariff is a major deterrent to test marketing as it puts quality wine beyond the reach of a majority of Indian consumers. This restricts investment and business partnerships. Until the Union Budget of 2021-22, the basic customs duties on all wine products was 150 per cent. In the Union Budget 2021-22, India announced that for all kinds of wine (HS 2204), the basic customs duty will be 50 per cent, but this would be accompanied by an Agriculture Infrastructure and Development Cess (AIDC) of 100 per cent, effective from February 2, 2021. Thus, the overall duty remains at 150 per cent.

The discussions highlighted that high tariffs are imposed for various reasons. Although some justify it on health grounds, the centre and states like Maharashtra and Karnataka offer various subsidies/incentives for wine production. Hence, this justification is weak. High tariffs may have been imposed to reduce imports and protect the domestic wine industry from foreign competition. Imported wines account for less than one per cent of domestic consumption. Unless foreign companies see a market demand, the KIIs found that they would not invest in India. A minimum threshold level of USD25 per case of 9 litres or 12 bottles of 750 ML (free on board -FOB), below which tariffs may not be reduced, will protect the domestic industry. Regarding quality of imports, all imports must meet the food safety and quality standards laid down by the Food Safety and Standards Authority of India (FSSAI) and the same quality standards should apply to both domestic production and imports.

The paper found that India has not liberalised tariffs for wine imports in its existing comprehensive trade agreements with countries like the Republic of Korea, Japan and Singapore. This is despite the fact that bilateral trading partners have reduced tariffs for wine from India. India has recently re-launched its trade discussions with the Australia and the European Union (EU) and expressed interest in launching trade agreements with the USA and the United Kingdom (UK). Alcoholic beverages will be a key sector in the discussions although products may vary – for example, whisky for the UK and wines for EU and Australia. Given that (a) imports are only one per cent of domestic consumption and is not a major source of customs revenue, and (b) India has strong domestic producers who now export, India can offer phased tariff liberalisation in this sector to gain market access in sectors of its export interest.

India cannot sign trade agreements with its large export markets without reducing tariffs for alcoholic beverages.

Framework for Tariff Reduction: Key Findings

The study provides three different scenarios – ambitious, pragmatic and conservative – of possible tariff reduction. In the ambitious scenario, basic customs duty (BCD) + AIDC is proposed to be reduced to "zero" within five years of the implementation of the trade agreement; in the pragmatic scenario, it is proposed to be reduced to "zero" in seven years and in the conservative scenario, duties are proposed to be reduced to "zero" within 10 years.

Wines are a key item in the "Ask List" of Australia to India as they start their trade agreement negotiations, whether it is an Early Harvest or a comprehensive trade agreement. Australia needs to ensure that other issues like the use of anti-dumping regulations after tariff reduction, ban on government procurement or other kinds of non-tariff barriers do not erode the benefits of tariff reduction. In other words, Australia has to identify and secure future trade barriers.

As far as other issues are concerned, some can be addressed through trade agreements while for others, there is a need for structural reforms, and transparency and clarity in policies, most of which are under the domain of Indian states, for alcohol. Some states subsidise production and impose discriminatory taxes on wines from other Indian states, undermining the concept of a 'single country, single market'. Discriminatory state taxes on imports are a major deterrent to attracting foreign investment in manufacturing even in states that offer subsidies for manufacturing. In this regard, state governments need to revisit their wine related policies.

Consumers in India are changing – they are becoming more aware and health conscious. They should be able to decide what to purchase and how to purchase (through store and non-store retail formats), with due diligence related to the approved age of purchase. There should be predictability and transparency in government procurement as over 75 per cent of the liquor in the country is procured through government channels and India is not a party to the World Trade Organization's plurilateral government procurement agreement. The recent restriction on CSD procurement has raised concerns that barriers can be raised through the government procurement route even after tariff liberalisation through a trade agreement. Hence, along with current barriers, trade negotiations have to secure business against future barriers. On the Australian side, there is need for more market development initiatives to understand Indian consumers and promote Australian wine. Industry on both sides must be actively engaged in trade negotiations so that their concerns are addressed during the negotiations.

ABOUT THE AUTHORS

Arpita Mukherjee is a Professor at ICRIER. She has over 25 years of experience in policy-oriented research, working closely with the government in India and policymakers in the European Commission and its member states, United States (US), Association of Southeast Asian Nations (ASEAN) and in East Asian countries. She has conducted studies for international organizations, Indian industry associations, non-government organisations and companies.

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The COVID-19 pandemic has led to changes in government strategies, partnerships, and supply chain diversification. India wants to be an integral part of global supply chains and the country has fast-tracked the process of negotiating trade agreements with strategic trading partners like Australia, Canada, the European Union and the United Kingdom. Greater market access for alcoholic beverages is a key component of these trade negotiations. The Indian market for alcoholic beverages is growing and Indian consumers are willing to experiment with a diverse range of products, including different varieties of wines. Until recently, India had kept alcoholic beverages in its negative list for tariff reduction under its trade agreements, primarily to protect its domestic industry. The country had imposed a tariff plus cess of 150 percent on alcoholic beverages, which is one of the highest in the world.

In April 2022, India and Australia signed an Interim Economic Co-operation and Trade Agreement, and India for the first-time liberalised wines under this agreement. This report studied the scope for liberalisation of tariffs in wines and the scope for removal of non-tariff barriers under the India-Australia trade agreement. It not only investigated different aspects of trade, like tariffs, standards and other non-tariff measures, trade facilitation and logistics in the context of a trade agreement, it also examined how a sector can be liberalised under a trade agreement so that both sides benefit from it. Besides, it sets a framework for tariff liberalisation under different scenarios. The objective of this report is to enhance knowledge about trade agreements and how they can be negotiated to facilitate business-to-business collaboration, especially among small and medium enterprises.

This report will help policymakers negotiate trade agreements, sector experts to provide inputs into trade negotiations and scholars to understand the nuances and complexities of negotiating a trade agreement.

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