NEW ZEALAND WINE

PURE DISCOVERY

SUBMISSION ON THE PROPOSED FREE TRADE AGREEMENT BETWEEN NEW ZEALAND AND THE EUROPEAN UNION

3 March 2016

Introduction – New Zealand Winegrowers

New Zealand Winegrowers (**NZW**) provides strategic leadership for the wine industry and is the peak body that represents the interests of all of New Zealand's grape growers and wine makers. Established in 2002 as a joint venture between the New Zealand Grape Growers Council and the Wine Institute of New Zealand, NZW has approximately 700 winery and 800 grape grower members. New Zealand is the only major wine producing country to have a single, unified industry body that represents both grape growers and winemakers.

Executive summary

NZW welcomes and supports the proposed free trade agreement (FTA) negotiations between New Zealand and the European Union. We have a long held ambition to have an agreement with the European Union covering wine. We look forward to engaging in the negotiation process to gain positive outcomes for both New Zealand and EU grape growers and wine producers.

NZW's submission contains the following main points:

- The wine industry is an important contributor to the New Zealand economy, both domestically and in terms of exports:
    - Wine is New Zealand's sixth largest export good with a global export value of $1.54 billion in the year to December 2015. Wine is New Zealand's third largest export good to the EU.
    - The wine industry generates significant regional employment and is a key plank in New Zealand tourism.
- An FTA with the EU could bring material gains to both markets, including tariff elimination for wine, increased investment in both directions, and cost reduction through better alignment between our respective approaches to wine regulation.

- NZW looks forward to supporting the negotiation process and to engaging with government to increase the export potential for New Zealand wines to the EU.

BACKGROUND: NZ WINE, LINKS WITH THE EU, AND CURRENT WINE TRADE

(i) Wine's contribution to New Zealand's reputation and economy

Wine is a flagship export industry for New Zealand. It is a product that expresses the unique qualities of the physical environment of our country, and carries the reputation of our country and its regions to around 200 million consumers[1] in more than 90 countries. It is highly sought after by international tourists visiting New Zealand. It is a natural complement to the high-quality food production for which New Zealand is famous, forming an essential element at any event where New Zealand or regional products are showcased.

The wine industry is also an important contributor to the New Zealand economy. The total value of exports in the year to December 2015 was $1.54 billion, making wine New Zealand's sixth largest export good by value. Key economic contributions of the wine sector include:

- Total domestic and international sales of New Zealand wine generate around $2 billion of revenue each year[2]
- The value of exports has grown every single year for the last two decades, at a compounded annual growth rate of 19% pa
- Unlike many primary products, most of the value that is added to grapes is captured in New Zealand, as most wine is sold as a consumer-ready finished product
- 7,500 jobs across grape growing, winemaking and cellar door sales, many of these in the country's regions
- Wine tourism delivers the highest spend per visitor arrival, with such visitors staying longer and spending more (average spend per person is just over $5,000 for wine tourists, compared with $3,700 for all tourists)[3]

These economic contributions make wine an important player in achieving the government's Business Growth Agenda. In addition, longstanding cooperation with both New Zealand Trade and Enterprise and Tourism New Zealand leverage the ability of wineries to expand their brands and to promote New Zealand in key markets.

(ii) The New Zealand wine industry, and its social links with the EU

The New Zealand grape and wine sector is a diverse business sector, made up of a mixture of large, medium and small businesses, drawing on both domestic and international investment. Around 90% of New Zealand's 700 wineries and almost all of our 800 independent grape growers are small, family-owned businesses.

New Zealand's wine industry has its roots in Europe. Winemaking came to New Zealand in the 19th century, brought by European immigrants who also brought with them their traditional vines and winemaking practices. Those European immigrants founded our domestic industry, and many of their descendants are still key players in the New Zealand wine industry today. Today, many of these wine links with Europe are still strong.

[1] NZW estimate: in 2014/15 209 million litres (278 million bottles) of New Zealand wine were exported.
[2] $1.54 billion of export revenue, plus an estimated $450 million from domestic sales of wine.
[3] NZIER summary of government statistics

On a visit to any vineyard or winery in New Zealand, you will find European students, interns, winemakers and viticulturists sharing their knowledge, and learning about our techniques, challenges and practices. Similarly, many New Zealand workers finish a vintage here and head off to Europe to begin the process again in the Northern hemisphere spring.

The industry actively encourages this exchange of skills and contacts through its Romeo Bragato Trust, and the Romeo Bragato Scholarship, named after New Zealand's first government viticulturist. Awarded annually since 2003, the substantial scholarship enables a student from Italy to study winemaking and travel in New Zealand, and a New Zealand student to travel to Italy.

(iii) Current NZ-EU wine trade

New Zealand has been exporting wine to the EU since 1981, and has been importing wine from Europe for considerably longer.

From an export marketing perspective, the EU needs to be considered as many different markets. However, taken together as a whole, the EU members constitute the single largest export market for New Zealand wine, with annual exports valued at around $465 million (€283 million).

Of these, the United Kingdom has consistently been the strongest EU market for New Zealand wine; it is the second largest importer of New Zealand wine in the world, importing three times more New Zealand wine than the rest of the EU combined[4]. Of the other EU member states, Netherlands, Ireland and Germany import the greatest volume (although imports to Netherlands in particular may be inflated as a port of entry, rather than the ultimate destination).

On the import side, New Zealand imports EU wine valued at around $70 million (€42 million) a year, with most of these imports originating in France, Spain and Italy.

NZ WINE'S SUCCESS HAS BEEN BUILT ON OPEN MARKET ACCESS

(i) FTAs have enabled our success to date

The growth of the New Zealand wine sector has been underpinned by a deliberate strategy of producing distinctive wines that capture characteristics derived from New Zealand's maritime cool climate and long growing days, and which meet evolving consumer demand for fresh, exciting styles. This allows us to maximise New Zealand's competitive advantage by positioning New Zealand wine as a distinctive product from a unique location, developing export markets, and exporting the product to the markets where the return is the greatest.

Our success in doing so is built squarely on the back of a set of high-quality free trade agreements – starting with the *Closer Economic Relations Agreement* with Australia – that have provided us with open market, rules-based access under which our products can freely compete on their merits, and under which barriers to entry and competition have been steadily reduced.

(ii) New Zealand Winegrowers strongly supports an EU-NZ FTA

The lack of a free trade agreement between New Zealand and the EU leaves New Zealand at a competitive disadvantage in trade when compared to almost every other developed economy in the world, with which the EU does have a trade agreement.

[4] For this reason, the current risk of a "Brexit" is concerning. An EU without Britain would be still be a very significant market, but our priority would naturally shift to ensuring that a high quality free trade deal with Britain was rapidly secured.

The official announcement to start the process for negotiations to achieve a comprehensive, quality agreement is strongly supported by our industry.

We look forward to actively participating in the development of the material and supporting information to inform the negotiating team of the key industry outcomes. We believe that while issues remain between New Zealand and the European Union, these will be able to be properly addressed in the context of a comprehensive negotiation.

(iii) Key benefits we see from an EU-NZ FTA

A comprehensive outcome for wine under the proposed EU NZ FTA will enable the industry to continue to invest for strong, sustainable growth in the EU, with the prospect of tariff removals, simplification of non-tariff hurdles, and an improved investment climate. Benefits would include:

(a) Growth in wine trade

For our leading EU markets such as the United Kingdom, Ireland, Germany and France, we see potential for continued market value growth, particularly at the higher end of the market. Tariff reduction (see next section) would facilitate trade in both directions

(b) Growth in two-way investment

Given New Zealand's relatively open regime for foreign investment, it is not surprising that European interests have also invested in, and provided capital to support growth of, New Zealand's wine industry. Pernod-Ricard (Brancott Estate, Church Road) and LMVH (Cloudy Bay) are just two of the larger European companies with substantial investments in New Zealand wine. Many smaller wineries also have European owners or investors. These investments bring with them enormous depth in terms of financial capital, technology, people and skills, and distribution networks. These contributions benefit both our industry, the investors themselves, and the New Zealand economy as a whole.

The New Zealand wine sector is proud of its ability to innovate. Wine sector innovation in New Zealand has, for example, transformed the way the world sees both Sauvignon Blanc and screw caps closures. As New Zealand wine businesses continue to innovate and grow, they will increasingly be looking to expand and diversify their operations into other markets, such as the EU. Already New Zealand wine businesses have significant investments in personnel and operations in Australia, USA, China and many EU countries. The existing close links between wine businesses in New Zealand and in EU states such the UK, Ireland, France and Germany indicate strong potential for even closer business links, given the right conditions. An FTA with the EU would facilitate the ability for our wine industries to leverage their respective strengths, and invest where the gains for all are greatest.

(c) Growth in equipment and services trade

On a visit to most New Zealand wineries or vineyards, the extent to which our production of quality grapes and wine makes use of high-quality imported European equipment is clear. This includes harvesters and tractors from France and Italy; oak barrels from France; valves, pumps, air compressors, heat exchangers, boilers and wine making technology from French, Italian, Swedish and German companies, and much more.

Our wine industry – small by global standards – does not yet support equipment manufacturing and supply chains of anywhere near the scale and complexity of those in Europe. As a result, we are likely to continue to rely on specialised imported machinery and equipment in our vineyards and wineries for the foreseeable future. An EU-NZ FTA that facilitated trade in such equipment and related services would increase the availability and competitiveness of European products and services.

WINE-SPECIFIC OUTCOMES SOUGHT FROM AN FTA WITH THE EU

New Zealand is the only major wine producing state that does not have either a broad FTA or a wine-specific agreement with the EU. This puts New Zealand winemakers at a competitive disadvantage compared to other winemaking states.

Our ambition is for a comprehensive outcome that addresses areas of mutual interest relating to wine, including the following:

(i) Removal of tariffs

In the year ended June 2015, New Zealand exported 77 million litres of wine to the EU, valued at around $465 million (€283 million). We estimate these exports incurred EU tariffs in the order of $15.4 million (€9.4 million).

EU wine imports into New Zealand are valued at around $70 million (€42 million) a year, and incur NZ tariffs that we estimate to be in the order of $3 million (€1.8 million).

Given the overall value of wine traded, at this level the tariffs primarily function as an irritant:

- they impose unwelcome cost pressure on producers, who already operate with low margins
- they cause an unwelcome price increase for end consumers
- their collection imposes a bureaucratic impediment to trade, increasing compliance costs and slowing the supply chain
- and yet for all that, they generate little revenue for the taxing authority, and are likely have limited effect on the imported wine’s competitiveness against comparable domestic products.

Complete removal of tariffs as part of an overall trade deal would be beneficial to the wine industries and consumers of both parties.

(ii) Different regulatory approaches can be accommodated through mutual recognition

Wine is a single-ingredient food: the mission of the viticulturist and the winemaker – whatever country they are in – is to grow and select ripe, healthy, flavourful grapes and then to carefully bring flavours and complexities from those grapes through to a finished wine in the hands of the consumer. As a result, winemaking practices are fundamentally the same all around the world.

In addition, given the composition and production methods of wine, it is well accepted that wine is inherently safe from a food-safety perspective.

Despite these fundamentals being similar in all countries, approaches to the regulation of winemaking show notable philosophical differences around the globe.

New Zealand’s wine regulation adopts a “New World” approach, focussing primarily on:

- the food safety of the finished product, and on
- measures to ensure the integrity of the product as wine, and that the finished product is labelled truthfully and accurately, so that consumers can buy the wine based on its label, and then decide whether or not to purchase it again.

This leaves winemakers with flexibility to innovate, within the bounds of food safety and integrity, and to respond rapidly to changing conditions and consumer preferences.

The EU's regulatory approach to winemaking tends to be more prescriptive, with more of a focus on defining wine types, and the oenological practices that are permitted for each wine type, so as to ensure wine identity and "guarantee" the consumer that their expectations for that type – which have developed over time – are met.

Recognising the validity of different regulatory approaches, NZW works within international bodies such as the World Wine Trade Group (**WWTG**), the APEC Wine Regulatory Forum, and the International Organisation of Vine and Wine (**OIV**), and with European and global industry groups, such as Comité Européen des Entreprises Vins (**CEEV**) and FIVS, to facilitate open dialogue on viticulture, winemaking and removal of barriers to trade in wine.

However, despite good international collaboration, the philosophical differences in approaches to wine regulation can result in the imposition of very real practical obstacles to free trade, requiring, for example, that substantially identical wine destined for different markets be manufactured in separate batches, with different winemaking practices applied for each market, and bottled under different labels.

New Zealand's wine exports to the EU are subject to more of these types of restriction than its exports to most other significant markets, so reconciling these differences in regulatory approach may throw up some challenges in the FTA negotiation. While our ideal would be to see the EU adopt our New World approach, our more realistic ambition is to have the two different approaches recognised in the agreement in such a way that neither regime is compromised, but trade in the other's wine is facilitated. Members of the World Wine Trade Group have signed up to very successful agreements which simplify wine labelling and other wine trade requirements amongst the signatories, and provide for mutual recognition in wine regulatory matters. Some of these provisions have been adapted into the text of a wine and spirits annex within the recently negotiated Trans Pacific Partnership. We commend the WWTG approach for consideration in the EU NZ FTA.

(iii) Specific oenological practices

New Zealand industry has a strong desire to resolve differences of approach around the use of specific oenological practices which are appropriate to New Zealand conditions, but which are restricted or treated differently in the EU, including:

- chaptalisation
- alcohol level restrictions (both minimum and maximum levels)
- acidification and de-acidification limits
- use of additives and processing aids, and appropriate limits (such as "good manufacturing practice")
- treatment of naturally occurring substances, and
- various other legitimate winemaking practices.

(iv) Labelling and certification requirements

Other restrictions relate not to oenological practices, but to labelling and certification requirements, including:

- requirement to display certain labelling requirements (eg allergens, importers) on a member state (rather than EU-wide) basis
- other labelling matters (alcohol measurement precision, ability to display non-EU information such as the NZ "standard drinks" information)
- permanent EU recognition of the world-leading Sustainable Winegrowing New Zealand programme and certification, and assurances that the EU's PEFCR programme will not be made mandatory, or implemented in a way that has the effect of undercutting the SWNZ sustainability certification
- permanent EU recognition of New Zealand organic certification for wine
- requirement to undergo seven analytical laboratory tests for VI-1 certification (other winemaking countries with FTAs or wine agreements with the EU have been granted self-certification rights, or simple testing requirements). These tests currently cost New Zealand exporters around $1 million each year. No other markets (except Brazil and China) require similar tests.

(v) Geographical Indications

Geographical Indications are likely to be a key area in any negotiation. We note that they have been a focus of the EU in other recent FTA negotiations. Particularly in light of the *Geographical Indications (Wine and Spirits) Registration Act 2005* (**GI Act**), GIs for wine may be less contentious than GIs in respect of other products.

Each party will have an interest in ensuring that:

- any wine GIs registered as a direct result of the FTA are legitimate GIs, and
- the process for recognising the other party's legitimate GIs under the FTA is fair and transparent, and is aligned with the process applying to domestic GIs.

New Zealand's GI registration system that will come into force under the GI Act is based on a fairly pure application of the TRIPS requirements, and use of a GI does not impose additional requirements on winemaking practices or labelling. New Zealand wine producers will want to extend to the EU the flexibility that they currently have outside of the EU in the way they use their GIs. For example, where applicable they will want to retain the ability to use two GIs on a label, as is current New Zealand practice.

There are number of GIs which for which the EU can be expected to seek protection which may be controversial (including widely used names like "Port", "Chablis" and "Sherry"), plus others that are the names of recognised grape varieties, such as "Prosecco" and "Montepulciano".

(vi) Traditional terms

A issue of some sensitivity in previous bilateral wine discussions has been the matter of restrictions the EU imposes on the use of "traditional terms" – which is the name given by the EU to certain wine descriptors such as "reserve", "tawny", "auslese", "noble" and "vintage". Although these are not intellectual property in any accepted sense, the EU affords them a level of protection similar to that of recognised formal IP, prohibiting their use except for on specific categories of wine (or fortified wine) in connection with EU protected GIs. These terms have broad, legitimate and longstanding wine usage outside of the EU, including by New Zealand winemakers, which needs to be protected.

(vii) Industry protection

We recognise that seeking to reform the EU's approach to agricultural and other subsidies from which EU grape growers and wineries benefit is Herculean task, and one in which New Zealand may have little negotiating capital. However, we consider that this issue should not be avoided, and that FTA negotiations should include an assessment and review of the extent to which the EU wine industry is currently given support – whether through direct EU funds or through "national envelopes" – and whether framed as subsidies, support to grow grapes, make wine, "modernise", market their products in third countries, protect the environment, protect culture, rural development, or carry out (or not) any other activity.

Of particular note is that the EU allocated €1.6 billion ($2.6 billion) over 2014-2018 for "investment and promotion support for the competitiveness of the wine sector". Based on annual EU wine exports of 2.12 billion litres[5] we calculate that this equates to a state-funded "marketing" subsidy of around 25 cents for every litre of EU wine exported over that 5-year period. To put this state largesse in context, based on last year's New Zealand wine exports of 209 million litres, the New Zealand equivalent would be an annual subsidy to winemakers of around $52 million.

CONCLUSION

The New Zealand wine industry warmly welcomes the proposal to commence negotiation of an FTA between New Zealand and the European Union. The global success of the New Zealand wine industry has been facilitated by successive trade-liberalising international agreements, and we have every reason to believe that an EU NZ FTA will further contribute to this success, as well as being beneficial for the EU wine industry.

The wine sector relationship between the EU and New Zealand is already strong, not just in terms of trade in wine, but also in terms of historical and cultural links, personnel exchange, and investment. There is, however, plenty of scope for improvements by reducing tariffs and simplifying regulatory hurdles to trade and competitiveness.

We look forward to engaging with the New Zealand government in the negotiation process to gain positive outcomes for both New Zealand and EU grape growers and wine producers.

Yours sincerely

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[5] EU-28 exports in 2014, from US GAIN report, *Wine Annual Report and Statistics 2015*.