



NEW ZEALAND WINE

P U R E D I S C O V E R Y

SUBMISSION ON

POST-BREXIT FREE TRADE AGREEMENT BETWEEN NEW ZEALAND AND THE UNITED KINGDOM

11 February 2019

Introduction – New Zealand Winegrowers

New Zealand Winegrowers (**NZW**) provides strategic leadership for the New Zealand 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, NZW has approximately 1,400 members. New Zealand is the only major wine producing country to have a single, unified industry body that represents both grape growers and winemakers.

This submission primarily focuses on the UK-New Zealand relationship from a wine trade perspective, using the question prompts from MFAT's call for submissions.

Due to the uncertainty of Brexit arrangements at the time of writing, this submission is necessarily limited in scope. It has been prepared on the basis that the UK is in a position to agree an FTA and is not in a Customs union with the EU after 29 March 2019.

Executive Summary

NZW welcomes the opportunity to provide a submission to MFAT. The UK was the first global market to truly embrace New Zealand Sauvignon Blanc; on the back of that success, New Zealand wine has grown to become our country's sixth most valuable export good, and New Zealand has an important place in the global premium wine trade.

In 2018, the UK was the largest market by volume for New Zealand wine exports. At £198m f.o.b. (NZD387m), wine is New Zealand's 2nd most valuable export to the UK, accounting for 25% of all New Zealand exports to the UK.

The commercial relationships that have been built around trade in wine with the UK are extensive. As a result of vertical integration of value chains, just over 40% of that wine is exported in unpackaged format and then bottled in the UK. The value added in the UK provides an economic benefit in terms of jobs and profits to the UK economy.

The success of New Zealand wine could not have happened without open markets and a stable rules-based international trading environment. Once the UK has full competence in trade matters, we commend the rapid negotiation of a comprehensive free trade agreement between New Zealand and the UK.

NZW's submission contains the following main points:

- Export of New Zealand wine to the UK is very important to the New Zealand wine industry. It also underpins a significant amount of UK economic activity in the bottling, distribution and retail sectors.
- The New Zealand wine sector's top priority as the UK leaves the EU is to ensure stability: that all existing trade between UK and NZ continues to flow in both directions, and that no new trade barriers are erected.
- The UK is a major global wine-trading hub, with material volumes of wine traded in the UK and exported to the continent and elsewhere. We anticipate that the UK government will take care to ensure that this valuable trading market is retained, in particular by focussing on continued ease of movement of wine into and out of the UK, and removal of barriers to trade.
- The NZ/UK FTA should remove tariffs in both directions on wine and spirits. It should also embrace the fact that we each have a robust regulatory system for wine (and many other products) by adopting a mutual recognition approach to wine regulation.
 - This mutual recognition approach could bring material gains to both markets, including increased investment in both directions, and cost reduction.
 - A successful framework for such mutual recognition in wine regulation already exists between the nine members of the joint government/industry World Wine Trade Group (New Zealand, Australia, USA, Canada, South Africa, Argentina, Chile, Georgia and Uruguay).
- In the absence of mutual recognition, a NZ/UK FTA should, at a minimum, remove the requirements of the EU VI1 certifications, which impose unnecessary cost and administration, and which are not required by New Zealand's other trading partners.
- In addition, it will be important to ensure that – at a minimum – the UK agrees to all the trade improvements negotiated between the EU and NZ.

(1) What New Zealand should prioritise in a future FTA with the UK

In the first instance, the New Zealand wine sector's top priority as the UK leaves the EU is to ensure stability: that all existing trade between UK and NZ continues to flow in both directions, and that no new trade barriers are erected.

As a high priority, in the NZ/UK FTA we would hope that New Zealand will be seeking to eliminate UK tariffs on wine, simplify market access formalities, and seek mutual recognition of each other's winemaking practices. Any FTA should recognise the importance of wine to New Zealand's exports, through the removal of non-tariff barriers. Any gains in these areas that are not matched or bettered by the UK in its FTA with New Zealand will likely impact the relative competitiveness of the UK market.

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 every year it carries the reputation of our country

and its regions to around 200 million consumers¹ in nearly 100 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 June 2018 was \$1.7 billion, making wine New Zealand's sixth largest export good by value.

Wine is also New Zealand's second largest export good by value to the United Kingdom at £198m f.o.b. (NZD387m), making the United Kingdom New Zealand's second largest market for wine exports. As at June 2018, 68% of our wine exports to the EU were to the UK (NZ\$387 million out of a total NZ\$567 million).

NZW also supports measures within the FTA to facilitate e-commerce, which is becoming increasingly important to international trade. This could include matters such as a commitment not to impose duties, fees or other charges on digital products, or provisions on e-authentication and recognition of e-signatures.

(2) Areas where the UK and New Zealand could cooperate more closely

NZW strongly believes that with respect to wine, mutual recognition of winemaking regulatory standards is a proven, and effective method to ensure consumer health and safety, product integrity, and truth in labelling, while keeping regulation to a minimum. The most effective way to facilitate trade in wine would be for the UK/NZ FTA to adopt a mutual recognition framework.

Why does mutual recognition make sense for wine?

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 approach was embodied in the Australia New Zealand Food Standards Code, which essentially permits all legitimate global winemaking practices to be used for wine sold in New Zealand.

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.

¹ NZW estimate.

The EU (and therefore the UK's) regulatory approach to winemaking under its current law 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, 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.

As noted above, members of the World Wine Trade Group have signed up to very successful agreements which simplify winemaking, wine labelling and other wine trade requirements amongst the signatories, and provide for mutual recognition in wine regulatory matters. Some of these provisions have also been adapted into the text of a wine and spirits annex within the CPTPP. We strongly commend to the Committee the WWTG's mutual recognition approach for consideration in any UK/NZ FTA.

In the absence of mutual recognition, we would be pleased to discuss with you specific matters which could be addressed within an FTA. Some matters of particular significance are discussed below:

(a) 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 currently restricted or treated differently in the UK under EU law. All of these matters have been successfully and simply addressed between many major wine trading nations through mutual recognition of each other's winemaking practices.

(b) Labelling and certification requirements

There are a number of labelling and certification requirements in EU law which act as non-tariff barriers, imposing additional cost and delay for no material benefit. Foremost amongst these is the requirement that wine imported from New Zealand undergo seven analytical laboratory tests for EU "VI-1" certification. Other winemaking countries with FTAs or wine agreements with the EU have been granted self-certification rights, or simplified testing requirements. These tests currently cost New Zealand exporters around \$1 million each year. Few other markets require similar tests.

Mutual recognition would also allow for ease of other labelling requirements (e.g. allergen labelling and organics certification).

(c) Geographical Indications & IP

New Zealand has enacted a statutory Geographical Indications register, which expressly provides for the registration of foreign geographical indications for wine and spirits, including those accepted for

registration through a treaty (such as an FTA). “Scotch Whisky” has already secured acceptance as the first international GI to be registered on the New Zealand register.

In any FTA negotiation between New Zealand and the UK, each state will have an interest in ensuring that:

- any wine or spirit GIs registered as a direct result of the FTA are legitimate GIs;
- 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; and
- claims for protection of terms that are not legitimate GIs are appropriately rejected.

(d) Labour

Within the wine industry, there is a significant global exchange of skilled labour; particularly winemakers, assistant winemakers and cellar hands. As the UK has a growing wine industry, we welcome them to both visit and work in our wineries, and in fact New Zealand’s industry needs access to this kind of skilled labour. The FTA should facilitate such labour movement by ensuring access to visas for people in this position.

(e) Environmental matters

MFAT has signalled New Zealand will seek closer cooperation on progressive trade issues, including environmental protections, in the negotiations. New Zealand’s wine industry prides itself on its measures to ensure environmental sustainability and welcomes environmental protection measures being addressed through the FTA.

NZW operates the Sustainable Winegrowing New Zealand programme, which is a world-leading sustainability accreditation programme. The programme is based on continuous improvement and adherence to standards which ensure members meet international guidelines for sustainability practices in the vineyard and winery. Today, 98% of New Zealand’s vineyard producing area is certified by Sustainable Winegrowing New Zealand. 7% operate under a recognised certified organic programme (and this part of the industry is growing).

(3) Potential trade barriers / areas of concern in trading with the UK after Brexit

A joint committee, or otherwise cooperation undertakings to meet regularly to discuss ongoing wine issues, would assist with implementation and reduce the risk of non-tariff barriers arising.

(4) Other outcomes that will make it easier for New Zealanders to do business in the UK

New Zealand’s experience with many other FTAs has been that the market signal provided by the implementation of an FTA has itself been a stimulant to overall bilateral trade and investment – in effect it acts as a bright new “open for business” sign between the two countries.

New Zealand already has a significant wine trade with the UK, and the UK exports a significant value of spirits to New Zealand. With respect to wine (and spirits), an FTA which removes bilateral tariffs and other non-tariff barriers is unlikely to threaten those sectors of the UK economy. To the contrary, the impact is likely to be beneficial to both the wine and spirits exports of both countries, facilitating trade and investment in each other’s markets.

Specifically with respect to the nascent UK wine industry, we anticipate that UK sparkling wine will find an open-minded new market amongst New Zealand’s many wine-drinking consumers.

Conclusion

The New Zealand wine industry warmly welcomes MFAT's work towards a potential FTA negotiation between New Zealand and the United Kingdom.

The global success of the New Zealand wine industry has been facilitated by successive trade-liberalising international agreements. The UK is a critical market for New Zealand wine, and maintaining and improving access is a very high priority for the New Zealand wine industry. From the UK perspective, we have every reason to believe that an UK/NZ FTA would contribute to the success of the UK wine and spirits sectors, the continued relevance of the UK as a major wine trading hub, the continued success of the UK bottling and processing sector.

Should MFAT wish to receive any further evidence on any of the matters discussed in this submission please do not hesitate to contact us.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jeffrey Clarke', with a long horizontal flourish extending to the right.

Jeffrey Clarke
General Manager Advocacy, New Zealand Winegrowers