The UK, EU27 and Global Wine Markets by 2025: Implications of Brexit

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EU Centres joint conference on Fulfilling the Vision: European Union futures?
RMIT, Melbourne, 16-18 October 2017
Why focus on Brexit’s effects on wine?

- UK is world’s 1st or 2nd largest wine importer
  - >3 times its importance in global goods imports

- UK is Australia’s largest wine export market by volume, 3rd largest by value

  - Wine in recent years has been Australia’s most valuable exported good to UK (or 2nd or 3rd)
Importance of UK to wine-exporting countries (% of their wine exports to UK, 2010-14)
Conventional wisdom from customs union theory: a ‘hard’ Brexit will hurt EU27 wine exporters ...

... but help non-EU vigneron, who’ll face less competition from EU27 in UK markets

However, that’s only a part of the likely story
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… but help non-EU vigneron, who’ll face less competition from EU27 in UK markets

However, that’s only a part of the likely story

Outcome also depends on extent to which Brexit affects UK incomes and the pound initially …

… and then on what new bilateral FTAs emerge
What initial effects matter for wine?

- Brexit will alter some bilateral import tariffs, but ...

- ... it is also **devaluing the pound**
  - which **raises the pound price of wine** in the UK

- ... **and**, unless UK adopts great macroeconomic policies, **UK income growth rate will fall**
  - which will **reduce UK demand for wine**
What will be net initial effects of Brexit

- on UK wine prices, consumption, production, imports and exports
- on EU27 wine exports, and
- on wine exports of Australia (and other countries)?
Share of UK wine import volume by source (%):
>2/3\textsuperscript{rds} have enjoyed duty free access to UK

<table>
<thead>
<tr>
<th></th>
<th>EU27</th>
<th>South Africa + Chile</th>
<th>Australia + New Zealand</th>
<th>United States</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-95</td>
<td>90</td>
<td>3</td>
<td>5</td>
<td>2</td>
<td>0</td>
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<tr>
<td>1996-01</td>
<td>68</td>
<td>10</td>
<td>16</td>
<td>6</td>
<td>0</td>
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<tr>
<td>2002-12</td>
<td>55</td>
<td>15</td>
<td>20</td>
<td>9</td>
<td>1</td>
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<tr>
<td>2013-14</td>
<td>52</td>
<td>15</td>
<td>21</td>
<td>9</td>
<td>3</td>
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</tbody>
</table>
Tariff preference is very small

- Averages just **13 pence/litre** of wine
- c.f. excise tax+VAT of approx. **£3/litre**
- ... and average off-trade retail price is around **£6/bottle**

=> tariff is <2% of final price
Model of world’s wine markets


- Model’s baseline is 2014

- Model is projected from 2014 to 2025 assuming no Brexit, to get a baseline view of markets in 2025

- Brexit is then imposed, assuming UK leaves customs union and adopts EU tariff schedules at WTO
  - and EU27 imposes its common external tariffs on UK
Baseline shares of **UK wine imports** (%)：by 2025, 4/5ths would enjoy duty-free access w’out Brexit

<table>
<thead>
<tr>
<th></th>
<th>EU27</th>
<th>South Africa &amp; Chile</th>
<th>Australia &amp; New Zealand</th>
<th>United States</th>
<th>Others</th>
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</thead>
<tbody>
<tr>
<td><strong>Volume:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2013-14</td>
<td>52</td>
<td>+ 15 = 67</td>
<td>21</td>
<td>9</td>
<td>3</td>
</tr>
<tr>
<td>2025</td>
<td>63</td>
<td>+ 16 = 79</td>
<td>13</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Value:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>67</td>
<td>+ 11 = 79</td>
<td>14</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>
Assumptions about Brexit by 2025

Two alternative initial Brexit scenarios:

1. UK adopts EU’s tariff structure which raises tariffs on EU (and Chilean and South African) wine, lowers UK income growth rate to 2025 by 2/3\(^{rd}\)s (0.9% instead of 2.6%/yr) & causes 20% real depreciation of £ ("Large")

2. As with Scenario 1 but macro impacts on growth and pound are only half as large ("Small")
Assumptions about Brexit by 2025

We then model subsequent FTA scenarios:

- ‘Small’ Brexit plus UK-EU27 FTA
- plus also UK FTAs with Aust and NZ
- plus also UK FTAs with Chile and South Africa
‘Small’ Brexit plus UK-EU27 FTA scenario:

Assumes UK pound returns to what it would have been in 2025 in absence of Brexit, but real UK incomes return only two-thirds of the way back to what they would have been without Brexit

• the ‘lost years’ because of current uncertainties
Scenario 1 (‘Large’ Brexit): effects on UK wine consumption

- Wine **consumer prices** in UK (in pounds) would be **24% higher** on average:
  - 4% because of *altered tariffs*
  - 22% because of *pound depreciation*
  - -2% because of *lower income growth*

- Volume of wine **consumption** in UK would be **28% lower**:
  - 5% because of *altered tariffs*
  - 7% because of *pound depreciation*
  - 16% because of *lower income growth*
**Scenario 1: effects on UK wine imports**

- UK wine imports would be $\frac{1}{4}$th lower
  
  by 430 ML (or 25%), and

  by US$1.75 billion (or 27%) in 2025:
  - $0.15 billion because of *altered tariffs*
  - $0.5 billion because of *pound depreciation*
  - $1.1 billion because of *lower income growth*

- UK share of global wine imports falls 2% by value, 5% by volume
World wine trade would be 240 ML (2%) less due to 430 ML less imports by UK but 190 ML more by other countries.

Value of world wine trade US$1.8b (3%) less
Effects on wine-exporting countries

- World wine trade would be 240 ML (2%) less
  - due to 430 ML less imports by UK but 190 ML more by other countries
- Value of world wine trade US$1.8b (3%) less
- All major wine-exporting countries export less
### Effect on wine export values (US$ m)

<table>
<thead>
<tr>
<th>Country</th>
<th>UK</th>
<th>RoW</th>
<th>WORLD</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
<td>-1182</td>
<td>-217</td>
<td>-1399</td>
<td>(-4)</td>
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<tr>
<td>Chile</td>
<td>-170</td>
<td>31</td>
<td>-139</td>
<td>(-11)</td>
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<tr>
<td>South Africa</td>
<td>-106</td>
<td>20</td>
<td>-86</td>
<td>(-7)</td>
</tr>
<tr>
<td>USA</td>
<td>-75</td>
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<td>Australia</td>
<td>-25</td>
<td>-59</td>
<td>-84</td>
<td>(-3)</td>
</tr>
<tr>
<td>Argentina</td>
<td>-16</td>
<td>-38</td>
<td>-54</td>
<td>(-5)</td>
</tr>
<tr>
<td>New Zealand</td>
<td>-162</td>
<td>71</td>
<td>-91</td>
<td>(-4)</td>
</tr>
<tr>
<td>WORLD</td>
<td>-1752</td>
<td>-16</td>
<td>-1768</td>
<td>(-3)</td>
</tr>
</tbody>
</table>
Increase in value of Australian wine exports, 2014 to 2025, without & with ‘Large’ Brexit (2014 US$m)
Conclusions for wine world

‘Large’ Brexit reduces global welfare

- **UK wine consumers** and most **non-UK wine producers** will lose, compared with no Brexit

- **Non-UK consumers** will be slightly better off, but not enough to offset losses to others, hence a **global loss** overall

Even ‘Small’ Brexit with follow-on UK-EU27 FTA involves initial losses due to years of uncertainty

- and its effects on Aust wine trade depend also on subsequent bilateral FTAs not only with AU but also NZ, Chile, SA, US, ...
What could UK do for a brighter future?

- **Lower UK taxes on wine consumption**
  - ... e.g., as in EU27 wine-producing countries

- **Adopt low or zero tariffs on wine imports**
  - ... to become the Hong Kong of Europe?

- **Adopt better macroeconomic policies** to boost UK economic growth and pound
What should Australia do?

- Australia can respond by seeking an Australia-UK FTA
  - but not before UK settles on new trade commitments with WTO and EU27 countries, and
  - probably not before Australia-EU27 FTA negotiations are completed

- In the meantime, Australia should negotiate with UK for an equivalent (or better) Wine Agreement than it has with EU28
  - and encourage UK to join World Wine Trade Group
Thanks!

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Model is revised and updated from:

Results are detailed in:

See www.adelaide.edu/au/wine-econ
Increase in value of Australian wine exports, 2014 to 2025, without & with ‘Small’ Brexit + UK-EU FTA (in 2014 US$m)
### Scenario 2: Effects on wine export values (US$m) if Brexit’s UK income slowdown and pound depreciation are only half as large

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>RoW</th>
<th>WORLD</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU27</td>
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<td>Chile</td>
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<tr>
<td>South Africa</td>
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<td>23</td>
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<tr>
<td>USA</td>
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<td>Australia</td>
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<td>(-1)</td>
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<tr>
<td>Argentina</td>
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<td>-28</td>
<td>(-3)</td>
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<tr>
<td>New Zealand</td>
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<td>34</td>
<td>-46</td>
<td>(-2)</td>
</tr>
<tr>
<td>WORLD</td>
<td>-990</td>
<td>-32</td>
<td>-1022</td>
<td>(-2.0)</td>
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