

Economics Project

Globalisation and Trade



Background

Australia's wine trade has taken a big hit in export sales to China due to the large tariffs imposed by China on Australian wine. Therefore the chosen research question is *'To what extent have the trade barriers (tariff) impacted the Australian wine industry?'* In previous years China has been Australia's biggest export of wines, however, with the new tariffs Australian wines can not compete in the China market as the price is too high for locals overseas to purchase. This is costing Australian winemakers a lot of money through a decrease of sales, causing Australian wine to find other methods to make up for the decrease.

Context

The Australian wine industry, including wine grape-growing, wine making and wine tourism, make AU\$40.2 billion annual contributions to the Australian economy¹. The Australian wine industry supports more than 170,000 jobs and makes approximately 1.2 billion litres of wine annually, 63% of which is exported. The wine industry was exporting AU\$1.14 billion worth of wine to China in 2018, before the increased tariffs implemented by China in 2020². The increased tariffs from China has now greatly affected these numbers, Karli Currie from Elderton Wines says *"it will affect the Australian Wine Industry for the next 2 years at least"* Explaining that the tariffs will have a very large long term impact in the Australian Wine Industry. Holmes from Reschke Wines says although they are not changing the price they sell their wine at, there is now an *"excess wine needing a home and this will put pressure on demistic margins"*.

Figure 1: The before and after effect on some Australian wine companies

| Winery | Pre tariffs | Post tariffs |
|----------------|--|--------------------------------------|
| Torbreck | Exported to China for 15 years | Market currently closed |
| Reschke Wines | 5% volume sold to China Made 10% of profits | 0% |
| Izway Wines | Local Market Only | Still Local Market only |
| Elderton wines | 5% | 0% |
| Jacobs Creek | 3% of our volume and 5% of net sales | Currently exporting nothing to China |

After interviewing five separate wineries in South Australia the information in the table above was gathered. Figure 1 shows all south Australian wine industries as South Australia crush 47% of the wine grapes in Australia. The table shows the Comparison of wine sales pre tariffs vs post tariffs for 4 different wine Companies. Torbreck exported wine to China for 15 years, and on the back of China's increased tariffs they have closed the exporting to China. Due to this loss in income, Torbreck wines have traveled widely attempting to promote their wines further in Australia whilst also exploring and opening new markets in Greece, Ukraine, Serbia, Finland, India and Mexico³. Reschke Wines previously sold 5 % of their wines to China making up 10% of their profits, due to the increased tariffs Reschke Wines export no wine to China. Holmes from Reschke Wines says *"We have lost a big customer and there will be no making up for it"* apart from decreasing grape purchasing and lowering grap purchasing prices they have no way of making up the lost profits⁴.

¹ Treasury.gov.au. 2021. [online] Available at: <<https://treasury.gov.au/sites/default/files/2019-03/360985-Australian-Grape-and-Wine.pdf>> [Accessed 3 September 2021].

² Treasury.gov.au. 2021. [online] Available at: <<https://treasury.gov.au/sites/default/files/2019-03/360985-Australian-Grape-and-Wine.pdf>> [Accessed 3 September 2021].

³ Australian Wine Industry, (Tierney, 2021)

⁴ Holmes, S., 2021. *General manager Asia Pacific*.

Figure 2: Graph showing the decrease of Australian wine sales in Chinese market⁵

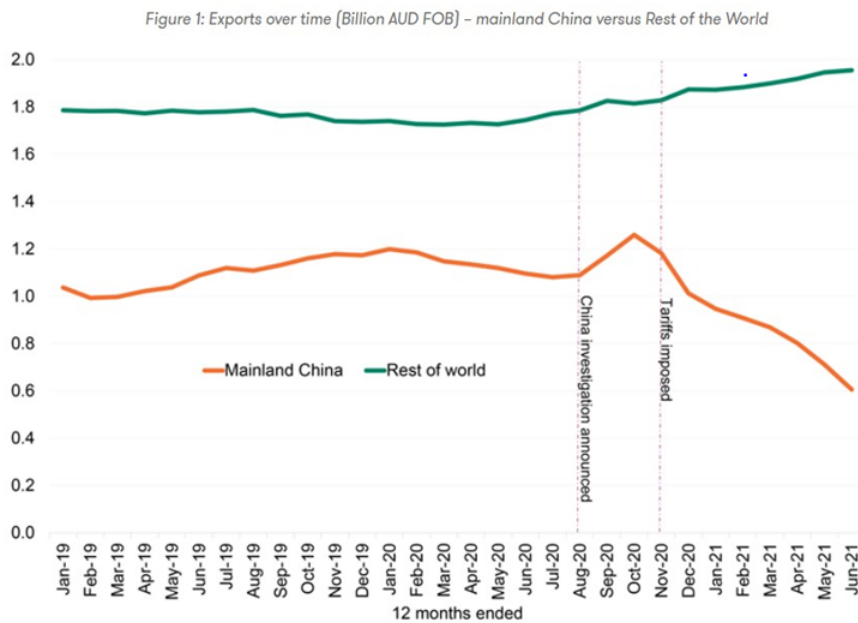
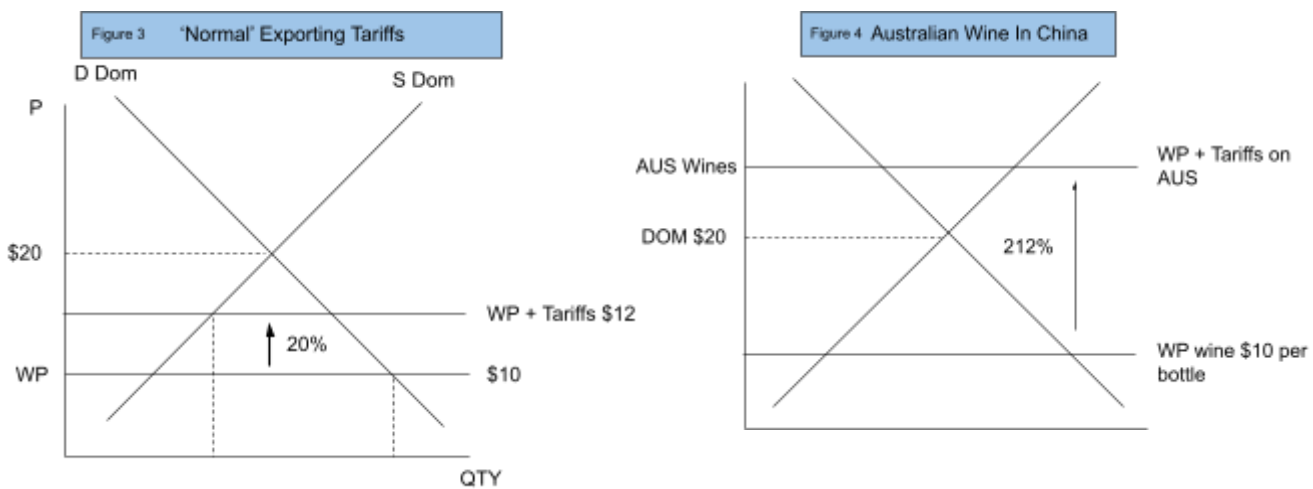


Figure 2 shows the decrease of Australian wine in the Chinese Market. The Chinese market saw an increase in sales before the tariffs were imposed, therefore suggesting Australian wine is popular in China. According to Tierney, Sales, Export and Marketing Director of Torbeck explained that the wine has “effectively been raised by 3 times the retail price”⁶ due to the Chinese Tariffs. Therefore allowing all the Chinese substitution wines irresistible due to the price difference.

Outcome

A tariff is a tax imposed by one country on the goods and services imported from another country⁷. Governments impose tariffs to increase the price of goods and services purchased from another country, making them less attractive to domestic consumers⁸.

In the diagrams below it shows the world price, World price (WP) is the global market price in which people are willing to purchase a product at. By imposing a tariff the country is protecting the domestic market and increasing goods to make local products more appealing.



⁵ Wineaustralia.com. 2021. *Wine export value slows as Chinese tariffs take effect*. [online] Available at: <<https://wineaustralia.com/news/market-bulletin/issue-231>> [Accessed 4 September 2021].

⁶ Australian Wine Industry, (Tierney, 2021

⁷ The Conversation. 2021. *What is a tariff? An economist explains*. [online] Available at: <<https://theconversation.com/what-is-a-tariff-an-economist-explains-93392>> [Accessed 23 September 2021].

⁸ The Conversation. 2021. *What is a tariff? An economist explains*. [online] Available at: <<https://theconversation.com/what-is-a-tariff-an-economist-explains-93392>> [Accessed 23 September 2021].

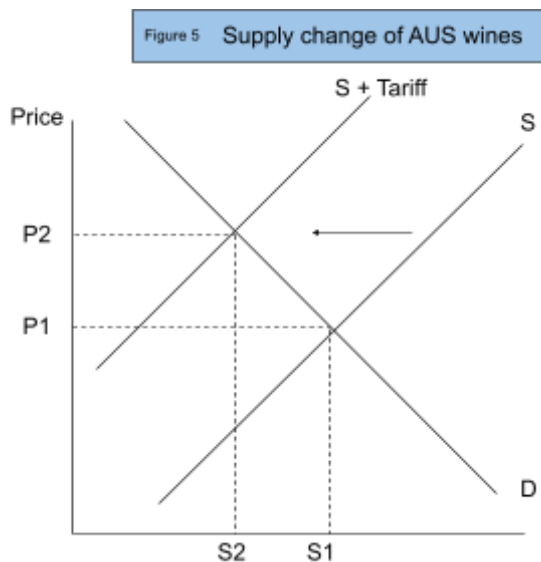


Figure 3 is a diagram showing the effects a normal exporting tariff has on exporting goods. As the Tariff is slightly increasing the international products to protect local domestic products.

Figure 4 is a diagram showing the impact of China's tariffs on the Australian wine prices in the Chinese market. The 210% tariff has gone above the domestic equilibrium price and quantity demanded. China has increased the tariff to a point in which Australian wine isn't an option to the middle class, ensuring that Chinese Wine is purchased as substitutes.

Figure 5 is a diagram showing the effect of China's tariffs on the Australian wine supply due to the price. As Australian wine has increased to an unreasonable price, it has forced many wine producers to stop exporting wine overseas to China decreasing the wine supply

It is estimated that 60% of Australia's wine exports that would originally have been destined for China that year, the equivalent of AU\$720 million in 2020, will be diverted to alternative markets⁹.

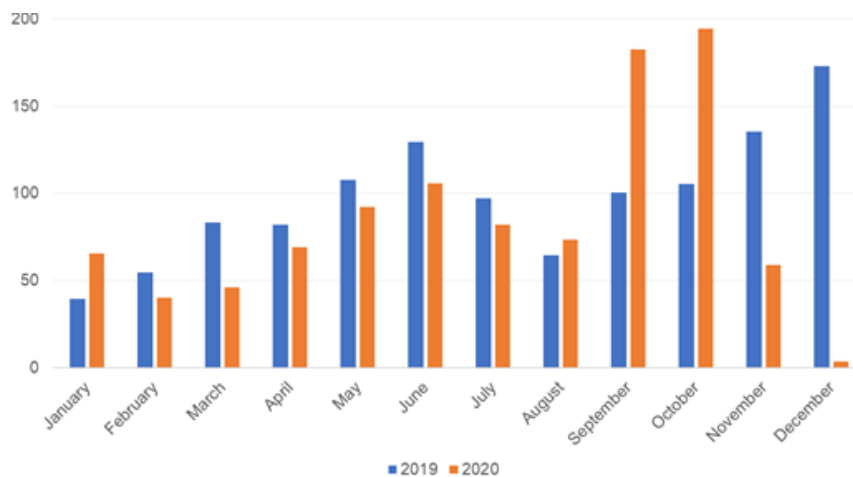
The downturn in exports to mainland China following the imposition of tariffs has hit overall exports, as cumulative effects of three consecutive lower vintages in 2018, 2019 and 2020. Meaning there is less wine to sell. Exports to the UK however, are at the highest level in a decade, having increased in value by 23% over the last year to AU\$472m¹⁰. Exports to Singapore, South Korea, Malaysia, Taiwan and Hong Kong have also increased making up for the lost market in China¹¹. From 2020 - 2021 exports to China dropped by 45% in value to AU\$606m, in volume it dropped 57% to 52 litres. Although the very large decrease in wine exports to China, China still remains Australia's largest market by value. Total exports for Quarters 3 and 4 in 2020-21 were AU\$13m compared to AU\$419m in 2019-20 prior to the imposition of tariffs, creating a AU\$404million decrease in value caused by the China Tariffs. However outside the China market the exports have been increasing making up for the loss of income. Excluding China exports have increased by 12% in value to AU\$1.96bn and 6% increase in volume to 643 million liters. Post tariffs, the UK marks Australia largest market by volume and the second largest by value.

Figure 6 : Australia Wine in Chinese markets from 2019 to 2020

⁹ Department Of Agriculture, Water And Environment. 2021. Australian wine in China: Impact of China's anti-dumping duties. [online] Available at: <<https://www.agriculture.gov.au/abares/research-topics/trade/australian-wine-in-china>> [Accessed 6 September 2021].

¹⁰ *beveragedaily.com*. 2021. *Australian wine exports decrease*. [online] Available at: <<https://www.beveragedaily.com/Article/2021/08/05/Australian-wine-exports-decrease>> [Accessed 7 September 2021].

¹¹ *beveragedaily.com*. 2021. *Australian wine exports decrease*. [online] Available at: <<https://www.beveragedaily.com/Article/2021/08/05/Australian-wine-exports-decrease>> [Accessed 7 September 2021].



Similar to Figure 2, this graph shows the Australian wine sales in the Chinese market from 2019 to 2020. Similar to Figure 3, this graph also shows a large spike in late 2020 from September to October¹². This was the time before the tariffs on Australian wine were introduced and the Australian wine was highly demanded in China before the increase in price.

Evaluation

Before the tariffs on Australian wine were increased, there was a potential downturn in China's economy. Australia was building on investments and using advanced tools and technology to connect with the anticipated 750 million people that make up China's middle class¹³. Australian Exports grew 27% per annum over the last 5 years before the tariffs, 18% in 2019 just before the tariffs.

Moving forward and China continues to impose tariffs, Australia is going to need to find a different market to replace China. The United States (USA) is the second most valuable export of Australian wine but since the GFC Australia lost significant income due to numerous reasons such as exchange rate, consumer perceptions and falling demand. Initial investment into the USA would unlock further potential in this market, an additional investment into the USA could unlock half a billion dollars in the next 5 years.

Holmes from Reschke Wines says the government should stop taxing the Australian wine industry so hard *"41% tax on wine is ridiculous"*¹⁴ says Holmes.

The Australian Government is working through Austrade and Wine Australia officers to identify and provide market intelligence and entry for the industry.

"The double whammy effect of China Tariffs and no travel with reduced market entry has exacerbated problems" says Tierney from Torbreck Wines .

The supply and demand balance will be the key to the industry maintaining margins and profitability. In the long term it is predicted that some produces will fall out and lower asset values in the longer term if business cannot adapt.

¹² Agri Investor. 2021. *China imposes tariffs on Australian wine for five years* | Agri Investor. [online] Available at: <<https://www.agriinvestor.com/china-imposes-tariffs-of-up-to-212-on-australian-wine-for-five-years/>> [Accessed 23 September 2021].

¹³ Australians, F. and Exporters, F., 2021. For Exporters. [online] Austrade.gov.au. Available at: <<https://www.austrade.gov.au/australian/export>> [Accessed 21 September 2021].

¹⁴ Holmes, S., 2021. *General manager Asia Pacific*.

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