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HOW MUCH WILL PREFERENTIAL TARIFF ENTRY INTO INDIA BOOST AUSTRALIA'S WINE EXPORTS?

Kym Anderson and Glyn Wittwer

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Kym Anderson
Wine Economics Research Centre, University of Adelaide, Adelaide and Arndt-Cordon Department of Economics, Australian National University, Canberra
kym.anderson@adelaide.edu.au

and

Glyn Wittwer
Centre of Policy Studies, Victoria University, Melbourne, Australia
glyn.wittwer@vu.edu.au

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Corresponding author:
Professor Kym Anderson, Executive Director,
Wine Economics Research Centre
School of Economics and Public Policy
University of Adelaide
Adelaide SA 5005, Australia
Phone +61 (0)414 254 121
kym.anderson@adelaide.edu.au

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With grapes left on the vine this vintage for want of tank space following the loss of China's wine market, the industry cheered then news on 2 April 2022, of an interim Comprehensive Economic Cooperation Agreement (CECA) between Australia and India being signed by the two countries' trade ministers. The possibility of such an agreement has been talked about since 2011 but negotiations lapsed in 2015, before re-opening in June 2020. Many still had low expectations of an agreement being reached promptly, and few expected wine import tariffs to be among those lowered most.

India has a whopping 150% tariff on all wine imports, but has agreed to reduce that on Australian bottled wine from the outset of this agreement coming into force. The tariff will be immediately lowered to 100% for bottles in the US$5 to $15 range and to 75% for bottles above US$15. Each of those two tariff rates will then be lowered further, by 5 percentage points every year for a decade. Since Australia's wine exports to India are almost all in the bottled commercial premium range, it means by the early 2030s those entering India's market with a cif price in the US$5-15 range will face a tariff of just 50%, and those above US$15 will be hit with just a 25% tariff instead of the current 150%. Moreover, India has committed to extend to Australia any market access improvements it may offer other countries in future bilateral, regional of multilateral trade agreements.

To see how that might boost Australia's wine exports and offset the loss of the China market, this article first provides a summary of the Indian market and then uses our model of global beverage markets to assess the wine trade impacts of CECA. Massive though this sudden preferential access might sound for Australia in this rapidly growing market, it will not solve Australia's current wine surplus problem for two reasons: India's wine consumption is still tiny compared with China's, and most of Australia's exports to India are currently well below US$5 per litre where tariffs are unchanged. Nonetheless, this new bilateral trade agreement provides a great opportunity for Australia to boost its exports of higher-quality wines to India.

India's wine market

India has a small wine market, accounting for barely 0.1% of the nation's alcohol consumption. It is largely supplied by domestic producers because of a 150% tariff on all wine imports and myriad behind-the-border regulations, taxes and charges by both central and state governments that add further to the cost of penetrating this market (Wine Australia 2021; Madras Consultancy Group 2021). As a result, India accounts for just 0.1% of global wine imports. Thus any conceivable market expansion via income and population growth, or changes in policies or consumer preferences, is unlikely to have any discernible impact on international wine prices in the near term.

Nonetheless, this market is growing rapidly from its low base, and Australian wine is contributing disproportionately to that: it was the largest importer of wine into India by both value (slightly ahead of France) and volume in 2018 (USDA 2019). Australia's shares of India's wine imports in 2018-20 averaged 25% by value (four times Australia's share of global wine exports) and 41% by volume (six times Australia's global export share). That is, Australia already has a much stronger foot-hold in India's wine market than any of its competitors, accounting for about 7% of Indian wine consumption volume and expenditure. Yet India accounted for just 0.3% of Australia's wine exports in 2018-20 and 0.6% in 2021.

Given Australia's recent loss of access to China's wine market (Wittwer and Anderson 2021), it has ample scope to expand its exports to India without putting immediate upward pressure on the prices or volumes of Australia's exports to other markets. Meanwhile, India's wine market is growing at 12% per year, according to Madras Consultancy Group (2021).

More specifically, the Indian market in 2018-20 involved average annual domestic wine production of 18 ML, wine imports of 4 ML, and wine consumption of 22 ML (or 0.02 litres per adult per year); and its wine imports were valued at US$20 million. Australia accounted for US$5m of that, but in 2021 it rose to US$8.8m, all bottled. The average price of the 1.6 ML imported by India from Australia in 2018-20 was US$3.20/litre, or about one-third above Australia's average price of exports to the rest of the world.

In the 12 months to March 2022, 85% of the *value* of Australia's wine exports to India had an import price of less than US$4/litre. Another 4% were in the US$4-6 range, 2% were in the US$6-8 range, and the remaining 9% were above US$8, while in *volume* terms those shares were even more skewed at 95%, 3%, 1% and 1%, respectively (Table 1).

These data suggest less than one-sixth of the value of India's imports of Australian wines in the past year were above the threshold of US$5/litre required to qualify for a reduced tariff under the interim CECA agreement, and just 5% of the volume of those imports.

However, with the progressive lowering of tariffs on higher-priced Australian wines, exporters will be encouraged to export more than the currently miniscule volumes of super premium wines to India, as consumers there take advantage of the tariff-inclusive lowering of their price. In addition, those Australian exporters whose wines currently are priced in the US$3-$5/litre range will find it in their interest to raise their price to that first threshold of $5 to attract a lower tariff, just as those in the US$12.50-$15/litre range will find it worth raising their price to US$15.

Modelling the wine trade impacts of CECA

To estimate the impact of CECA on the Indian wine market and its imports of wine from Australia and elsewhere, a global model of beverage markets is needed. This is because any new preferential access to a market can lead to trade creation and diversion for the favoured trading partner country but also trade diversion and possibly a trade reduction for some other countries. Wittwer and Anderson (2020, 2022) recently generated and enhanced such a model, the GLOBAL-BEV model. It identifies three red still wine qualities, three white still wine qualities, and sparkling wine, in addition to having a beer sector and a spirits sector in each country. The middle of the three still wine quality ranges is commercial premium wine with an fob export price between US$2.50 and $7.50 per litre. We use that model here to assess the likely impact of the new CECA on:

- India's wine imports,
- Australia's wine exports, and
- Wine exports of the rest of the world.

We first project the baseline in the GLOBAL-BEV model to 2025 assuming business as usual with these markets growing according to World Bank projections of income per capita and population plus the authors' expectations of trends in beverage preferences on the demand side and productivity growth on the supply side. This baseline is then compared with two scenarios in which Indian market access to Australian wine is one-third the way along its ten-year liberalization path. We do so assuming the tariff on Australia's wine is down to either 85% or 50% for wines with an Indian import price range of US$5-15 per litre. The lesser liberalization (to 85%) would imply a delay until 2023 in ratifying the CECA to trigger the reform path; the greater liberalization case (to 50%) provides a sense of how much larger the annual trade could be once the reform is fully phased in over the next ten years. Because our model's commercial premium wine sector is defined as between US$2.50 and $7.50 per litre, we assume that only one-fifth of that sector's wine would enjoy that tariff cut (after some bottles currently priced in the US$3-4.99 range are assumed to be re-priced above $5 so as to enjoy the lowered tariff).

Results

Table 2 reports the difference between the 2025 baseline (no CECA) and what it would be if one-fifth of Australia's wine exports to India by then faced a preferential tariff of 85% (Sim 1) or 50% (Sim 2) instead of the 150% faced by all other exporters of wine to India. Sim 1 can be thought of as the lower-bound projected outcome, while Sim 2 indicates how much greater that difference would be if the preferential tariff was 50% -- as it will be by the early 2030s for Australian wines in the US$5-15/litre range.

Sim 1 suggests India's wine consumption would be 0.5% above the baseline (no reform), but Sim 2 suggests it could be as much as 1% above when Australia's preferential tariff is as low as 50% (row 1 of Table 2). A short-hand way of describing that result is to say India's wine consumption would be 1-2% larger thanks to the CECA. Its annual imports would be about 1 ML or US$2-4 million larger (rows 2 and 3). Australia's wine exports to India would be larger by 1-2 ML or US$4-6m. By contrast, the rest of the world's wine exports to India would be lower by US$2-3m (row 8 of Table 2) as they would be less able to compete with Australia there.

The story does not end there though. Assuming that stocks are not run down in Australia (as this modelling does, even though that is unrealistic given the current high stock-to-sales ratio), then Australia would export less to the rest of the world, by US$2-3m, while other countries would export more to the rest of the world, by US$2-4m (rows 9 and 10). This partial preferential liberalization by India thus will boost annual world wine exports by US$2-5m (row 11 of Table 2).

The estimated impact on wine producer prices in Australia is tiny (row 12) and would be even smaller if Australia's greater exports were taken out of excess stocks rather than from current supplies. Australia's share of India's wine import market will rise from about one-quarter in value terms to nearly one-third, and even higher in volume terms (rows 13 and 14 of Table 2).

This modelling has ignored the wines above US$15/litre, as they currently represent well under 1% of the volume of Australia's exports to India. That share could grow a lot, though, with tariffs on those imports to halve initially to 75% and then progressively fall to 25% by the early 2030s.

Conclusion

Welcomed though this interim trade agreement has been by vignerons in Australia, a net increase in Australian exports of US$2-3 million (row 7 plus row 9 of Table 2) is but a very small (<1%) offset to their loss of wine exports to China since 2000, which in 2018-20 averaged US$745 million. Hence the on-going importance of the multiple efforts currently under way to find other new markets for Australian wine.

These are not the only benefits of CECA to our wine industry though. Just as important are the enhanced opportunities to work with the Indian wine industry's leaders and policy makers on technical standards, which can otherwise impede trade. Encouraging India to join the World Wine Trade Group (www.wwtg-gmcv.org) could be an additional means to that end. And greater familiarity in each country will foster more investment in the other's industry, which brings with it mutual benefits from two-way information and technology exchanges.

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Table 1: Annual volume, value and average fob export price of Australian wine exports to India, by price range, 12 months to March 2022 (ML and US$)

Price range (US$/litre):	Volume (ML/yr)	Value (US$m/yr)	Average price (US$/litre)
Less than $4	95	85	2.95
$4.00-5.99	3	4	4.18
$6.00-7.99	1	2	6.23
$8+	1	9	30.22
TOTAL	**100**	**100**	**3.28**

Source: https://marketexplorer.wineaustralia.com/export-dashboard, accessed 7 June 2022 and converted at AUD1= 73.8 US cents.

Table 2: Differences in India's wine market and Australia's wine exports as a consequence of the interim Comprehensive Economic Cooperation Agreement (CECA) between India and Australia, 2025,[a] (%, ML and US$ million)

Row			Sim 1 (85%)	Sim 2 (50%)
1	India's wine consumption volume (% change)		0.5	1.0
2	India's wine import volume change (ML)		0.6	1.2
3	India's wine import value change (US$ m)		2.0	3.8
4	India's self-sufficiency in wine (percentage point volume change)		1.0	2.0
5	India's self-sufficiency in wine (percentage point value change)		0.8	1.6
6	Change in volume of Australia's wine exports to India (ML)		1.0	1.8
7	Change in value of Australia's wine exports to India (US$ m)		3.6	6.4
8	Change in value of rest of world's wine exports to India (US$ m)		-1.6	-2.6
9	Change in value of Australia's wine exports to rest of world (US$ m)		-1.8	-3.0
10	Change in value of rest of world's wine exports to rest of world (US$m)		2.2	4.0
11	Change in total value of world's wine exports (US$ m)		2.4	4.8
12	Producer price of Australian wine (% change)		0.0	0.1
13	Australia's share of India's wine import volume (%):	base = 42%	47	49
14	Australia's share of India's wine import value (%):	base = 27%	30	32

[a] Sim 1 reports the difference between the 2025 baseline (no CECA) and what it would be if Australia by then faced a preferential tariff of 85% instead of the 150% faced by all other exporters of wine to India; Sim 2 reports how much greater that difference would be if the preferential tariff was 50% (as it will be by the early 2030s).

Source: Authors' GLOBAL-BEV model projections.