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make history.

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How did producers adjust to the hike in Chinese tariffs on imports of Australian wine?

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Abstract

This note explores how the production and export of Australian wine adjusted in the short-term to the introduction of Chinese anti-dumping duties in 2021. Through the exploration of other influencing factors, including the COVID-19 pandemic and shocks to the shipping industry, the future of the Chinese market and further challenges for producers are examined.

How did producers adjust to the hike in Chinese tariffs on imports of Australian wine?

BACKGROUND OF THE DISPUTE

After beginning their investigation in August 2020, the Chinese Ministry of Commerce announced on 26 March 2021 their determination that Australian exporters had been injuriously dumping wine into the Chinese market. China's anti-dumping duties fell in the range of 116.2-218.4%, with an average applied duty of 167% (DAWE 2021). These duties would be effective for a period of 5 years and would vary by supplying company. The specific target of the duties was Australian wine in containers of 2L or less, excluding sparkling wine.

Anti-dumping measures are levied by countries against foreign importers who are allegedly 'dumping' a product. Typically, this occurs when a country exports a product at a price lower than in the exporter's domestic market (WTO 2021b). The practice is criticised by the importing country as an attack on domestic producers, with the goal of anti-dumping duties to protect domestic manufacturers from unfair competition.

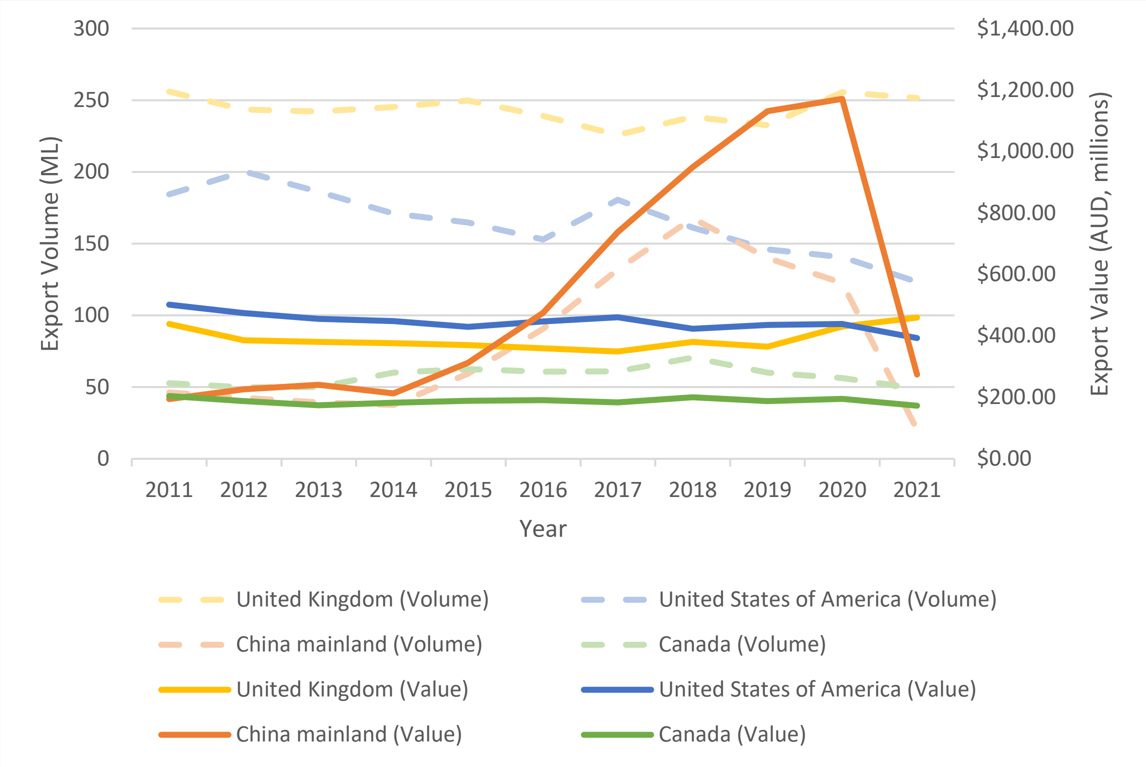
China, as Australia's largest export market, represented 33% of Australian wine export revenue and 13% of volume in 2020 (Wine Australia 2021a). As of September 2021, exports decreased by 77% in value, representing a 24% total decrease in the value Australian wine exports.

Consultations through the World Trade Organisation's (WTO) Dispute Settlement System are the mandatory first step of dispute proceedings, involving a 60-day period of bilateral negotiations. In June 2021, Australia requested consultations with China, citing that provisions of the Anti-Dumping Agreement, the GATT 1994 Agreement and the Subsidies and Countervailing Measures Agreement had been breached. As of September 2021, a panel had been requested by Australia (WTO 2021a), indicating that initial consultations between the two countries failed to result in an agreement. Ultimately, this Australian request will result in a panel report which contains the findings of the elected panel. If not appealed by the parties, this report and its judgements will be adopted by the WTO members automatically (WTO 2020).

AUSTRALIAN EXPORT MARKETS

In 2019, 60% of Australia's produced wine, by volume, was exported. This represented approximately 44% of the value of Australian production (Wine Australia 2021a). Figure 1 shows how the relative size of Australia's export markets changed over the decade prior to the tariffs. Seemingly, the growth of the Australian wine industry during this period ($1.9b in 2011 to $3.0b in 2020) had almost entirely been driven by the Chinese market.

Figure 1: Annual Export Value and Volume of Australian Wine to Major Markets, 2011-2021 (Wine Australia 2021a)



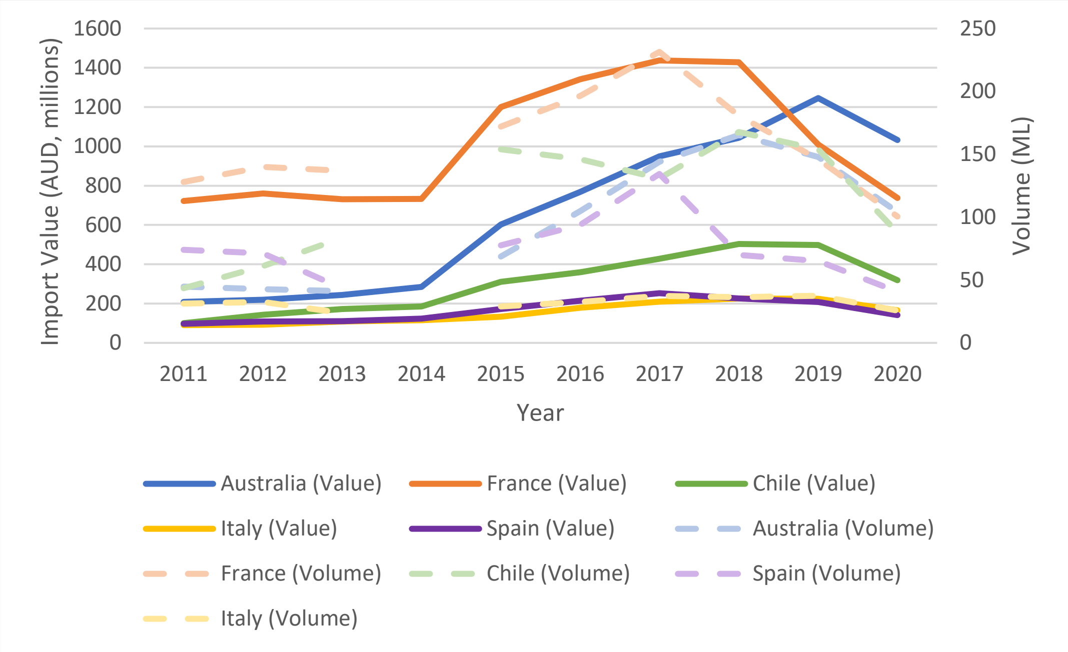
The rapid rise in Australian export value to China can partially be explained through the signing of the China-Australia Free Trade Agreement (ChAFTA). Table 1 shows how the ChAFTA affected exports of Australian wine. On January 1, 2019, the tariff fell to zero, giving Australia a 14% tariff advantage over competitors (DFAT 2020), increasing it's value share of total imports into China from 28% in 2018 to 37% in 2019 (DAWE 2021).

Table 1: Historic Tariff Levels on Australian Wine Exports to China, MFN, % (DFAT 2020)

Pre-FTA	14.0
Dec. 2015	11.2
Jan. 2016	8.4
Jan. 2017	5.6
Jan. 2018	2.8
Jan. 2019	0.0

As can be readily seen in Figure 2, both the value and volume of Australian wine exports to China increased markedly from 2015. In 2010, Australia represented 21.2% of Chinese import value, the second largest after France (43.1%). In 2020, Australia was Chinas largest importer of wine at 39% of value (ITC 2021). Except from France, other major importers did not experience the same explosive growth in the Chinese market as Australia. This suggests that the rise in Chinese demand was largely limited those countries exporting premium, high unit-cost wines.

Figure 2: Annual Import Value and Volume of Major Wine Exporters to China, 2011-2020 (ITC 2021)



Note: Volume data unavailable for 2014.

THE IMPACTS OF THE DUTIES

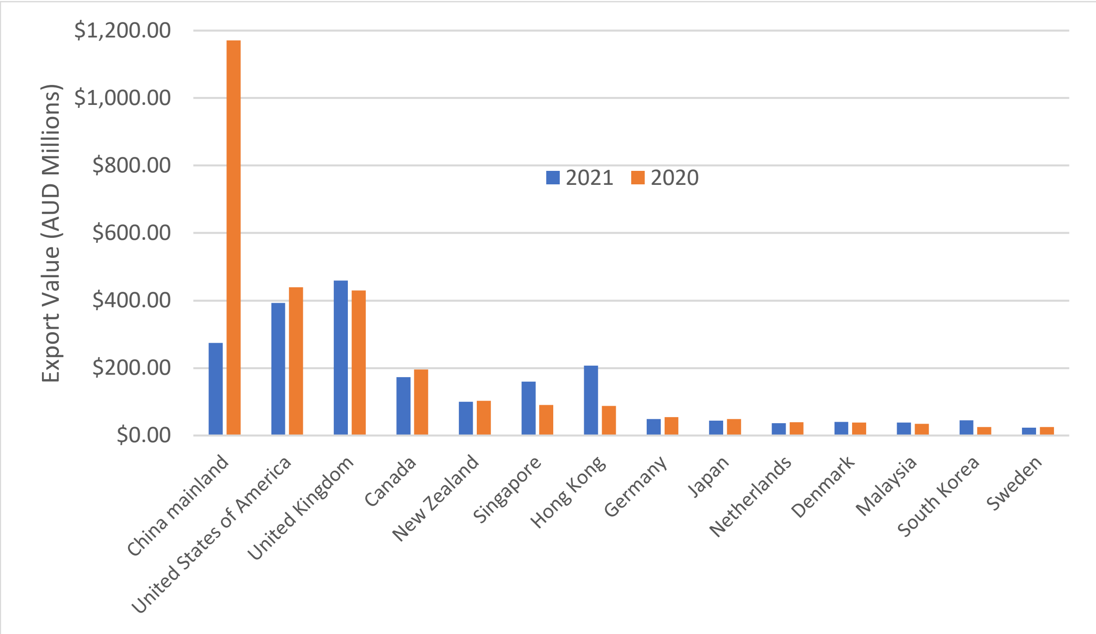
Foreseeing the impact of Chinese duties on the Australian wine industry has been a challenge in several areas, especially in evaluating the dynamic response of international trade flows in the presence of tariff shocks. While a large portion of Australian exports are expected to shift to other markets, other wine exporting countries will subsequently shift their sales to China to make up for this sudden lack of supply, opening other markets to Australia.

Further complicating analysis, wine is highly segmented by price compared to other agricultural and food products. This is particularly relevant as the average price of Australian wine sales in the 12 months to September 2020 were one-tenth above the average to other Asian markets, one-third above the domestic market average and three times the average to the rest of the world (Wittwer and Anderson 2021). As wine exports to China were priced highly, there will be a limit to how much of the premium wine previously destined for China can readily be absorbed by other markets.

Concurrent shocks induced by Brexit and COVID-19 present new challenges affecting both wine and transport industries. Exporters, anticipating China's tariffs, increased shipments to China in late 2020, as well as to the United Kingdom ahead of the Brexit transition conclusion. This resulted in the lowest Australian inventory levels in 10 years coming into the 2021 year (DAWE 2021). Further, the transport industry experienced massive backlogs of shipping containers at world ports emerging in 2021, after COVID-19 led to an increase in international trade levels in early 2020. Survey data from the International Road Transport Union (IRU) found a 20% shortage of drivers in 2020, forecast to intensify over 2021 (IRU, 2021). Cumulatively, these shocks have caused major increases in shipping costs.

Figure 3 shows the impact of the decrease in total value to Australian wine exports relative to changes in other markets. In total, Australia gained $280m in sales in export markets in 2021, but lost $1,009m, representing a difference of approximately $729m between the two years. The gains experienced by Australia in other export markets did not compensate for losses in China ($896m). Australian exports contracted in several key markets, including the United States by $46m and Canada by $23m (Wine Australia 2021a).

Figure 3: Annual Export Value of Australian Wine by Major Importing Countries, 2020-2021 (Wine Australia 2021a)



Gains were made in other South-East Asian countries, with a 135% increase in export value to Hong Kong, an 81% in South Korea and a 76% increase in Singapore. These changes could indicate relative ease in the relocation of shipping to broader South-East Asia from China compared to Europe or North America.

Observing the varieties of Australian wine exported in 2021 indicates how producers reacted to a contracted international market. In 2021 there was a 31% decrease in the annual value of exported Shiraz-labelled wine, and a 42% drop in the value of Shiraz Blends. A similar pattern was seen for other premium red varieties, with a 46% drop in the export value of Cabernet Sauvignon blends. Less impact was seen for varieties in which exports have been less dominated by the Chinese market. Both the United States and the United Kingdom have historically maintained a large share of Australian Cabernet Sauvignon and Chardonnay exports, relative to other varieties. Producers were therefore able to shift some sales to these markets over the 2021 year, with a 14% drop in the value of Cabernet Sauvignon exports and no significant change in the value of Chardonnay sales.

In 2021 Australian buyers contributed 41% of total sales (Wine Australia 2021b), representing the highest domestic share of total sales since 2013; however, excess supply appeared not to shift to the domestic market. Evidently, this shift was driven by the drop in exports, with no apparent increase in the volume of domestic sales. This is to be expected given large differences in unit prices between the Chinese and Australian markets.

Wine Australia (2021b) estimates total wine production for the 2021 vintage at 1.48 billion litres- the largest production levels in 15 years, a 34% increase from 2020. Driven by favourable growing and ripening conditions, increases in production were largely composed of red varieties, which contributed to two-thirds of the additional 500,000 tonnes of grapes crushed compared to the 2019-2020 year. This added further pressure on the inventory levels of Australian sellers already affected by tariffs and shipping-related shocks. As a result, the national wine inventory increased by 24% to 2.1 billion litres, increasing stock-to-sale ratios to 2.05 for red wines and 1.53 for whites, above the 10-year averages of 1.58 and 1.30 respectively (Wine Australia 2021b). Given the adjustment in varieties sold by Australian exporters in 2021, inventory issues seem likely to remain a concern for future years as Australian grape growers alter planting decisions to better serve non-Chinese markets.

THE FUTURE OF THE CHINESE MARKET

In exploring the future importance of the Chinese market to Australian exports, the duration of the applied duties should be considered. Of the 27 Anti-dumping disputes initiated[1] post-2010, the average length of a dispute (from initiation of consultations to the final notification to the WTO) was 3.39 years. (Kucik 2020). Complications that can defer a conclusion include an appeal of a panel's decision, a failure to reform policies consistent with WTO rules, or disagreements between parties to the extent of compensation or retaliation (Anderson 2002). Therefore, even if the panel requested in September 2021 found in Australia's favour, it seems likely that the duties will remain for some years. This promotes the suggestion that alternative markets should be sought and developed.

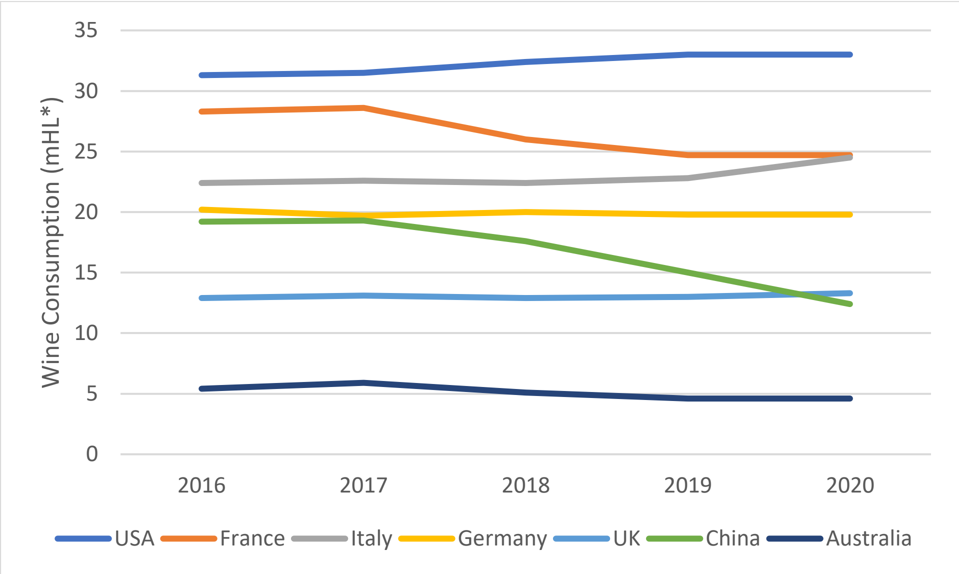
Changes in consumption patterns can indicate the future importance of export markets. For Australian exporters, this might indicate the capacity of the Chinese market in future years. Figure 4 shows the top 5 wine consuming countries by volume in 2020, as well as China and Australia. Consumption levels in China were 12.4mHL in 2020- a sharp decline for the third year in a row (OIV 2020). Despite this, OIV cites strict COVID-19 lockdown measures in the first quarter of 2020 as playing a role in this decrease. If this downwards trend continues, it would substantially diminish the importance of the Chinese market to exporters.

Detailed analysis of the welfare impacts of the tariffs on those working in industries ancillary to wine production, as well as those located in wine regions, has yet to be carried out. While wine sales represented $6.54 billion in sales in 2019, the total contributions (including through indirect industries) to the Australian economy have been estimated at $45.5 billion in gross output (AgEconPlus and Gillespie Economics 2019). Though there were an estimated 163,790 full and part-time jobs in the Australian wine industry in 2016, of these only 5,626 were assessed to be directly in grape growing and 13,563 directly in wine manufacturing (AgEconPlus and Gillespie Economics 2019). Notably, 55,885 were estimated

[1] Calculated with data from Kucik (2020) using disputes initiated after 2010 and settled prior to 2021 that proceeded past initial consultations.

to be employed in the wine tourism industry. While wine tourism requires a healthy domestic wine industry to survive, there is also evidence to suggest decreasing exports to China will diminish the country-of-origin effects which have been found to be a key driver for international wine tourism (Lee and Lockshin 2011).

Figure 4: Wine Consumption of Major Wine Consuming Countries, 2016-2020 (OIV 2020)



* 1 mHL = 100,000,000L

** Data are taken from the Chinese National Bureau of Statistics (NBS) which OIV states as being revised frequently, impacting the estimation of 2020 wine consumption volume.

CONCLUSION

The imposition of anti-dumping duties by China saw major decreases in the value and volume of Australian wine exports in 2021. Compounding the loss of the Chinese market were several additional supply chain issues that pervaded the global transport industry, increasing freight costs and shipping times. While the 2021 vintage saw record levels of production, the decrease in foreign demand for premium red wines have caused a significant increase in the Australian national wine inventory. This is particularly concerning for manufacturers who specialise in Shiraz and Cabernet Sauvignon production, which both saw significant decreases in export sales.

Given the length of time WTO disputes have historically taken to resolve, producers should not expect the Chinese market to re-open to Australian exports in the short or medium-term. Further, statistics from the Chinese National Bureau of Statistics indicate falling consumption, casting some doubt on the future size of the market. Entering and building alternative export markets remains a major challenge for Australian producers moving forward. In evaluating the welfare impacts of the tariffs, attention should be paid to both regional communities that had employment concentrated in the wine industry, as well as those ancillary industries that have been adversely impacted.

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