THE UNIVERSITY of ADELAIDE

Wine Economics Research Centre

Wine Policy Brief No. 18

Impact of a ‘softer’ Brexit on wine

Kym Anderson and Glyn Wittwer

July 2017

University of Adelaide, Adelaide SA 5005 AUSTRALIA
www.adelaide.edu.au/wine-econ

WINE ECONOMICS RESEARCH CENTRE

The Wine Economics Research Centre was established in 2010 by the School of Economics and the Wine 2030 Research Network of the University of Adelaide, having been previously a program in the University's Centre for International Economic Studies.

The Centre's purpose is to promote and foster its growing research strength in the area of wine economics research, and to complement the University's long-established strength in viticulture and oenology.

The key objectives for the Wine Economics Research Centre are to:

- publish wine economics research outputs and disseminate them to academia, industry and government
- contribute to economics journals, wine industry journals and related publications
- promote collaboration and sharing of information, statistics and analyses between industry, government agencies and research institutions
- sponsor wine economics seminars, workshops and conferences and contribute to other grape and wine events

Contact details:

Wine Economics Research Centre
School of Economics
University of Adelaide
Adelaide SA 5005
AUSTRALIA

Email: kym.anderson@adelaide.edu.au

Centre publications can be downloaded at: www.adelaide.edu.au/wine-econ/

Impact of a 'softer' Brexit on wine

Kym Anderson
University of Adelaide and Australian National University
kym.anderson@adelaide.edu.au

and

Glyn Wittwer
Victoria University, Melbourne
Glyn.Wittwer@vu.edu.au

July 2017

This Brief was prepared following the June election in the UK, which was devastating for Prime Minister May and is likely to ensure her initial 'hard' Brexit line is softened. It draws on a longer paper recently expanded by the authors (Anderson and Wittwer 2017a), and updates Briefing Paper 9 of the UK Trade Policy Observatory, University of Sussex (https://blogs.sussex.ac.uk/uktpo), following a presentation of the latter at the Royal Institute of International Affairs' Chatham House in London, 19 May 2017. The views expressed are the authors' alone.

Impact of a 'softer' Brexit on wine

Kym Anderson and Glyn Wittwer

The general election in the UK on 8 June 2017 was devastating for Prime Minister May's government, and is likely to ensure her initial 'hard' Brexit line is softened. Earlier she had said that a bad deal with the EU was worse than no deal, implying she was willing for the UK not only to leave the EU's Single Market but also to not have even a customs union or free trade agreement (FTA) with the new EU27. On that basis we had estimated what such a 'hard' Brexit would have meant for the UK and global wine markets, and for Australia's wine trade in particular (Anderson and Wittwer 2017a,b). In that analysis we assumed the UK would leave the Single Market and adopt its own trade policy commitments by transposing the UK's current share of EU obligations at the WTO (World Trade Organization) into independent UK obligations.[1] In particular, we assumed the UK would adopt the same wine tariffs as the EU, but that EU27 wine (and other) exports to the UK would become subject to those external tariffs, as would UK wine (and other) exports and re-exports to EU27.

It is now far more plausible to assume that such an initial action at the WTO will be followed by negotiations to form a new trading arrangement with the EU such as a UK-EU27 FTA. While the initial step at the WTO may be completed before the end of March 2019, according to Alasdair Smith (2017) there is no way a deep UK-EU27 FTA also could be reached in the next 20 months. If no transition arrangement is agreed to with the EU27 before the Article 50 process finishes on 29 March 2019, then potentially bilateral tariffs on UK-EU27 trade would rise to the level of current external tariffs (as analyzed by Anderson and Wittwer 2017a,b). A subsequent impact of Brexit is the focus of this current note: how would the world's wine markets then change in response to a UK-EU27 FTA in which the newly erected tariffs on UK-EU27 bilateral trade in wine were removed? This scenario has been included in expanded results reported in Anderson and Wittwer 2017c), and the results are reported below.

[1] Simple though that sounds, the UK's rights and obligations at the WTO will need to be negotiated with the WTOs' 164 members. That includes negotiating with the EU and its main trading partners on how the hundreds of tariff rate quotas (TRQs) on various agricultural products are to be divided between the UK and EU27, and similarly how TRQs faced by the EU in markets such as Japan are to be split.

Subsequent impact of Brexit from a UK-EU27 FTA

Our analysis of this possible subsequent impact of Brexit presumes to result from the negotiating, signing, implementing and responding to, by 2025, of a UK-EU27 FTA. (Chile and South Africa both currently have preferential access to EU wine markets, but we continue to assume the UK does not implement new bilateral FTAs with them or others in our time frame). This subsequent scenario assumes the UK's pound returns to what it would have been in 2025 in the absence of Brexit, and that real UK incomes return two-thirds of the way back to what they would have been without Brexit as compared with our 'small' initial Brexit scenario.

This subsequent development in the Brexit process would reverse most of the estimated initial effects of Brexit for 2025, but not fully because of our assumption that the lost growth in the initial years of uncertainty following the Brexit vote are only partly recovered by 2025 following the implementation of a UK-EU27 FTA. Moreover, the longer it takes before this FTA is finalized and implemented, the longer will the estimated initial adverse effects persist and so the larger will be the cumulative cost of Brexit to UK wine consumers and to grape and wine producers in wine-exporting countries.

Table 1 summarizes the marginal trade effects of this now-likely subsequent development in the Brexit process, as compared with our estimated initial 'small' impact scenario. It suggests that all but one-tenth of the loss in value of world trade in wine from the initial 'small' impact would be eventually restored following the FTA's implementation. Most of that improved outcome is because of recovered imports from EU27, commensurate with the latter's high share of UK imports. Even though Chile and South Africa are assumed in this scenario to have not yet signed an FTA with the UK, they export slightly more to the UK (and even more to all other countries) than in the initial 'small' scenario.

Within the UK, this FTA would bring down the local currency consumer price of wine by 9%, largely offsetting the 11% rise in the initial 'small' Brexit scenario; and it would raise the volume consumed in the UK by 18%, fully offsetting the 17% fall in the initial 'small' Brexit scenario.

In short, this subsequent step in the Brexit process can be expected eventually to restore much of the estimated initial adverse effects in the UK of the Brexit vote. It matters greatly how quickly that FTA is implemented though: the longer it takes, the longer will the adverse initial effects persist and so the larger will be the cumulative cost of the Brexit vote to UK wine consumers and to the wine industry in wine-exporting countries.

Implications for Australia

The above model results are just two of many Brexit scenarios that could be explored. Once commitments with the WTO membership are settled and a UK-EU27 FTA or something similar is bedded down, the UK will no doubt look to conclude FTAs with other trading partners including wine exporters including Australia, Chile, New Zealand, South Africa and the US. During this transition Australia may well begin bilateral FTA negotiations with the EU27, since Australia trades much more with the EU27 than with the UK: two-way goods and services trade in 2016 with the EU27 was 10.3% of Australia's total trade, while the UK's share was just 4.3%. That process was first foreshadowed by the European Commission in November 2015 (see http://dfat.gov.au/trade/agreements/aeufta/Pages/aeufta.aspx).

Australia also has an interest in the tariff that will apply to exports of wine from the UK to EU27 countries, since half the value and 80% of the volume of wine shipped from Australia to the UK is in bulk containers and is bottled in the UK, and some of those bottles are then re-exported to other EU countries.

Meanwhile, Australia could negotiate with the UK for an equivalent to the hard-fought technical agreement between Australia and the EU28 on trade in wine (or ideally a more liberal form of that Wine Agreement, which was first signed in 1994 but was re-negotiated in 2008 and implemented in its revised form from September 2010). Also, Australia should encourage the UK to join the World Wine Trade Group (http://www.wwtg-gmcv.org/), which aims to facilitate international trade in wine through information sharing, discussion of regulatory issues in wine markets, and joint actions for the removal of trade barriers.

References

Anderson, K. and G. Wittwer (2017a), 'Will Brexit Harm UK and Global Wine Markets?', Wine Brief No. 16, Wine Economics Research Centre, University of Adelaide, May (www.adelaide.edu.au/wine-econ/pubs/wine_briefs), and Briefing Paper 9 of the UK Trade Policy Observatory, University of Sussex (https://blogs.sussex.ac.uk/uktpo), May.

Anderson, K. and G. Wittwer (2017b), ‘How Will Brexit Affect Australia's Wine Exports?’, Wine Brief No. 17, Wine Economics Research Centre, University of Adelaide, June (www.adelaide.edu.au/wine-econ/pubs/wine_briefs).

Anderson, K. and G. Wittwer (2017c), ‘The UK and Global Wine Markets by 2025, and Implications of Brexit’, Working Paper 0217, Wine Economics Research Centre, University of Adelaide, revised July.

Smith, A. (2017), ‘Brexit: Hard Truths and Hard Choices’ UKTPO blog, 19 June, at https://blogs.sussex.ac.uk/uktpo/2017/06/19/brexit-hard-truths-and-hard-choices/

Table 1: Difference in 2025 bilateral wine import volumes and values from key exporters by the UK and rest of the world (RoW) as a result of implementing a UK-EU27 FTA following initial 'small' Brexit shock (ML and 2014US$ million difference relative to initial 'small' Brexit scenario)[a]

	Volume (ML)				Value (2014US$m)			
	UK	RoW	WORLD	('small')[a]	UK	RoW	WORLD	('small')[a]
EU27	212	-112	100	(-96)	750	0	750	(-806)
Chile	1	3	4	(-18)	3	40	43	(-92)
Sth. Africa	3	2	5	(-14)	3	18	21	(-60)
USA	3	3	6	(-5)	26	21	47	(-50)
Australia	1	1	2	(-5)	8	38	46	(-33)
Argentina	1	4	5	(-6)	4	20	24	(-28)
NewZealand	4	-3	1	(-1)	61	-25	36	(-46)
Others	1	6	7	(-9)	5	-46	-41	(92)
WORLD	**226**	**-96**	**130**	**(-154)**	**860**	**66**	**926**	**(-1022)**

[a] Numbers in parentheses are the world trade differences between the 'small' initial Brexit scenario and the baseline scenario, reported in columns 3 and 7 of Table 2(b) of Anderson and Wittwer (2017a).

Source: Authors' model results.