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For the Industry by the Industry

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WINEMAKERS' FEDERATION OF AUSTRALIA

Submission to the Australia-Malaysia FTA scoping study

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INTRODUCTION

Australian wine exports recorded exceptional growth in both volume and value in 2003, with sales up 19% to reach a total of A$ 2.42 billion and export volume reaching 517 million litres (up 22%). In the past 12 months, the United States has now just overtaken the United Kingdom in terms of dollar value of wine exported, with United Kingdom imports of 208 million litres with a FOB value of $857 million and United States imports of 147 million litres with a FOB value of $858 million (an increase of 41% by value).

This concentration on two markets has left the Australian wine industry vulnerable to trade barriers and/or shocks in these key markets. In contrast, the Asian market for wine accounts for under 5% of our wine exports, but is one of the fastest growing economic regions in the world (Battaglene, 2004) .

Over the past 10 years the international wine trade has been focused on the traditional large wine consuming nations - in particular Western Europe and the America's. However, consumption in Western Europe and South America has been either stable or declining over the past decade. Clearly, in the next decade (2010 onwards) increasing focus will be on the Asia Pacific region and to a lesser extent the Eastern European markets. This is forecast to accelerate from around 2025 onwards (Ruthven, 2004).

The key drivers of this growth will be increasing economic growth in the Asian region, leading to higher incomes, increased consumption of consumer goods and resulting in increased demand for quality wine products.

APEC economies are very significant consumers and producers of wine. Grape based beverages are relatively new alcoholic beverages for most APEC economies. Australia has the highest per capita consumption in the region of around 20.7 litres, followed by New Zealand (13.4), Canada, the United States (7.4 litres), Japan (2.2 litres), Singapore (1.6 litres), Chinese Taipei (1.4 litres), Hong Kong (0.8 litres) and China (0.3 litres).

However, in the last decade of the 20^{th} century there has been a trend towards greater grape wine consumption among higher income consumers and this trend is expected to continue.

Increased wine consumption is being driven by several factors, including higher per capita incomes; appeal as a healthier lower alcohol beverage, liberalization of market access in some markets for better quality imported wines and better distribution within markets with modernization of food and beverage retailing. It is clear that for the Australian wine industry to maintain its growth it needs to have a significant presence in Asia by 2010.

The Malaysian market for wine

Malaysia is a Muslim nation, and as such the consumption of alcohol is forbidden for a large proportion of the population. The non-Muslim ethnic Chinese population, totalling approximately 25 per cent of the total, along with some expatriates, display a growing interest in wine drinking. While the National average per capita consumption appears to be c0.1 litres by 2001, it is estimated closer to .4 litres among the non-Muslim population, with total consumption at 2.5 – 3 million litres by 2001, supplied entirely by imports (and some smuggling). Of the alcoholic beverages, wine is the fastest growing category, albeit from a low base, due to health benefits and affordability.

While white wine is popular, red wine has the highest consumption rate, again due to the perceived health benefits. The lower excise tax on wine due to its lower alcohol content as compared to spirits and other alcoholic beverages adds to its appeal, as does its perceived social status. Sixty per cent of wine sales used to be through restaurants and hotels, however, the recent increase of sales, through hypermarkets and supermarkets has lowered the average retail price and is likely to help further stimulate growth in consumption.

In an effort to promote healthy lifestyle and reduce social ills, the Malaysian government announced in September 2003 that import and excise duties of alcoholic drinks would be raised by 10% with effect from October 2003. While the idea is to promote healthier lifestyle, it is believed that raising sin tax is a foolproof way to increase revenues, while satisfying certain quarters.

As demand for such goods are relatively inelastic, analysts believed that consumers would end up paying for most of the eventual price increases. As such, the rise is alcohol import and excise duties are not expected to seriously harm the alcoholic drinks market in Malaysia.

As in the Thai FTA, it is likely that the local beer industry may resist decrease in tariffs. There are two domestic brewers in a very competitive local beer market as well as a number of local spirit producers.

Grocery outlets are expected to become the main channel for sales of most alcoholic drinks in Malaysia. This is largely due to two reasons. First, urban consumers are attracted to the convenience of one-stop shopping, especially at hypermarkets. Second, several key grocery chains engage in a price war in 2003 to attract customers.

However, independent food stores remain the leading channel for local spirit products such as ad-mixes and the second most important retail channel in Malaysia. Sales of wine are still prominent in specialists, as such outlets tend to carry better grades of wine and cater to the more affluent and discerning drinkers.

In general, the improved global economy is expected to boost consumer confidence, which will lead to an increase in private consumption. As such, the alcoholic drinks market in Malaysia is expected to reach nearly 164 million litres by 2008.

Over the forecast period, wine will continue to be the fastest growing alcoholic drink in both value and volume terms. The purported health benefits of red wine will be the main reason behind the strong growth. The other main reasons are rising consumer knowledge with regards to wine as well as the rise in exposure to Western culture and cuisine.

Market Access issues

Tariffs, regulations and quotas

Presently there are **no import quotas or restrictions** imposed by the Malaysian Government on wine and brandy. All liquor shipments entering the country are subject to customs clearance and duties. It is normal for the Royal Customs and Excise Department Malaysia to take one bottle from each case to assess the alcohol content, thereby affecting landed prices.

Local importers must obtain a **wholesale licence** from the Royal Customs and Excise Department. All relevant shipping and negotiable documents, including the pro-forma invoice, bills of lading and packing lists should be forwarded to the importer immediately after shipment.

Current **import duty** for wines in containers is presented in table 1. Sales tax is 20 per cent.

Table 1: Import duties – Wine (Source: APEC Tariff data base)

2204 Wine of fresh grapes, including fortified wines; grape must other than that of heading No. 20.09.	
2204 10 000 - Sparkling wine	RM 425/litre
2204 21 - - In containers holding 2 1 or less:	
2204 21 100 wine	RM 120/litre
2204 21 200 grape must with fermentation prevented or arrested by the addition of alcohol	
2204 29 - - Other:	RM 113/litre
2204 29 100 wine	RM 120/litre
2204 29 200 grape must with fermentation prevented or arrested by the addition of alcohol	RM 125/litre
2204 30 000 - Other grape must	RM 112/litre

Distribution channels

Some wines may be **shipped** into Malaysia but most wines are **airfreighted** into Malaysia's international airport, Kuala Lumpur International Airport (KLIA) or the Penang airport. KLIA is located in Sepang, about 60 kilometers from Kuala Lumpur. Port Klang, the national port is the main port of entry if the wines are shipped into Malaysia.

Trade sources commented that on-premise sales attribute 60 per cent of the import wine market, with the remaining 40 per cent contribution from the retail sector. The on-premise sales are mainly through people dining in restaurants, hotels and patrons at entertainment outlets.

Industry standards

There is no large-scale, domestic production of wine in Malaysia, therefore no industry standards for wine. The *Food Act 1983* and the *Food Regulations 1985 of Malaysia* govern the various aspects of food quality control including food standards, food hygiene, food import and export, food advertisement and accreditation of laboratories. Specific compositional and labeling requirements were developed for particular food products. The content requirements are not generally restrictive for Australian products.

Any FTA should seek to harmonise MRLs and ensure that additives and processing aids for Australian wine are acceptable in the Malaysian market.

Labeling

The Department of Public Health Malaysia (Food Quality) legislates guidelines pertaining to **labeling** including the design and content of labels and the **contact details** of the importer. The label must include information such as specific description of the product, the alcohol content stating the words **'Arak Mengandungi x% Alkohol'** as well as the primary ingredients used in production. A font size of 12 points must be used to inform Muslims, as non-alcoholic sparkling grape juice and other fruit juices are packaged in similar bottles.

Labeling is a key area of reform that Australia will be seeking in any FTA. We would be seeking to harmonise labeling laws for wine.

Conclusion

The Winemakers Federation of Australia supports the initiation of Free Trade Agreement talks with Malaysia. The market is one in which we forecast strong growth, albeit from a low base. We would envisage the FTA would seek to address market access issues, particularly high tariffs for wine and standards issues including labeling, additives, and MRLs.

References

Battaglene, T (2004), *Reducing barriers to trade and improving consumer understanding though the harmonization of labeling - wine industry*, Paper presented to the Third Conference On Good Regulatory Practices APEC Sub-Committee On Standards And Conformance , Espacio Riesco – Santiago, 22 September 2004.