INDIRECT TAXATION OF WINE:
AN INTERNATIONAL COMPARISON

PAUL KENNY

The highly competitive international wine market imposes serious pressure on the viability of small wine producers as well as emerging wine nations. In this light this paper will examine the indirect taxes levied on wine manufactured in new world wine nations, Australia and New Zealand, and an old world wine nation, France. These indirect taxes include value added taxes, excises and customs duties. This paper will focus on wine produced for domestic consumption and export, as well as imported wine. The aim of comparing these indirect taxes is to help inform the debate about the indirect taxation of wine. This is highly relevant given the current review of Australia’s taxation system.

I INTRODUCTION

Australia, New Zealand and France employ different indirect tax systems for wine that are a result of numerous factors such as economic, social, cultural and historical. This paper seeks to compare the indirect tax laws on wine of the ‘Old World’ wine country (France) and the two ‘New World’ (Australia and New Zealand) wine countries. The aim of comparing these indirect taxes is to help inform the debate about the indirect taxation of wine. This is highly relevant given the upcoming review of Australia’s tax system.2

First, this article examines the rationale for specific wine taxation. Secondly, the article provides an overview of the goods and services tax (also known as the value added tax), sales tax (also known as the Wine Equalisation Tax), customs and excise duties that apply to wine in Australia, New Zealand and France. Thirdly, the article examines these wine tax policies based on the generally accepted tax policy criteria of fiscal adequacy, economic efficiency, equity and simplicity. The article finds that there is no strong case for a specific tax on wine on tax policy grounds.

II THE RATIONALE FOR WINE TAXATION

For economies that employ a broad consumption goods and services tax (also known as the value added tax) such as Australia, New Zealand and France,
wine is included as part of the consumption tax base and taxed along with most other types of goods and services in order to raise government revenue. Many countries impose additional specific taxes on wine. The rationale for this further level of taxation is twofold. Specific tax is based on revenue raising grounds or on the basis that it corrects for externalities. On revenue raising grounds, it is argued that a wine tax minimises consumption distortions. Since wine has highly inelastic demand schedule consumption is minimally affected by a small increase in price. Additionally, it is argued that a wine tax is justified on the basis that it corrects external costs which are not included in the market price of the goods. For alcohol these are the health costs from alcohol related road accidents and alcohol abuse. As discussed below, there are weaknesses in both of these arguments, and from a tax policy perspective other considerations such as economic efficiency, equity and simplicity should be taken into account.

III INTERNATIONAL COMPARISONS OF INDIRECT TAXES ON WINE

This paper examines the tax base and rates for the following types of indirect taxes on wine in Australia, New Zealand and France.

- Goods and Services tax / Value Added Tax
- Sales tax
- Excise tax
- Customs duty

A number of minor levies and other imposts also apply to wine, however, these charges are excluded from this analysis given their small quantum.

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3 P Costello, (Treasurer) House of Representatives, A New Tax System (Goods and Services Tax) Bill 1998, Second Reading Speech, stated on the introduction of Australia’s goods and services tax (GST): ‘From 1 July 2000, the Commonwealth will provide States with a secure and growing source of revenue by giving them the revenue from the GST...'

4 For example, in Australia, on 18 August 1993 the Commonwealth Government increased the tax on wine from the general wholesales tax rate (WST) of 20% to 31%. The rationale for this increase is clear given the name of the amending legislation: Sales Tax (General) (Deficit Reduction) Act 1993; Sales Tax (General) (Wine - Deficit Reduction) Act 1993. Also, on 6 August 1997 when the WST rate for wine 26% to 41% the Government provided revenue raisng as its rationale. The Explanatory Memorandum to the Sales Tax Assessment Amendment Act 1997 stated:

In order to protect the future revenue of States and Territories, and in response to the unanimous request of the States and Territories, it is proposed that Commonwealth excises on petroleum and tobacco and sales tax on alcoholic beverages be increased to collect the revenue which would be lost by the States and Territories. [as a result of constitutional invalidity of the state franchise fee on alcohol].


6 For example, in New Zealand, the Alcohol Advisory Council imposes a levy on all alcoholic beverages. The New Zealand Ministry of Health sets the rate each year in March and takes effect from 1 June. The current ALAC levy rates on unfortified wine is (NZ$) 4.93 cents per litre and for fortified wine, (NZ$) 8.04 cents per litre. Whilst, Australia levies a wine export charge on exporters to provide funds for the Australian Wine and Brandy Corporation to undertake international promotional work and increase wine demand. Also, a Grape Research Levy and Wine Grapes Levy are imposed to assist the wine industry.
IV AUSTRALIA

A Overview

Australia has only a relatively recent history of high levels of indirect taxation of wine. This is evident from the following summary of the history of wine taxation:

1930: Wholesale Sales Tax (WST) of 2.5 percent introduced, removed one year later. 1970: 50c per gallon wine excise introduced, halved one year later and completely removed after a further 6 months. Prior to August 1984: various franchise fees at state level. August 1984: 10 percent WST imposed in Commonwealth budget. [Wine was subject to the general WSR rate] August 1986: WST increased to 20 percent. [With the increase in the general WST rate] August 1993: Commonwealth increased the WST to 31 percent with the intention of it increasing further to 32% in July 1985. This was strongly opposed by the wine industry and Opposition. In October 1993, the government and the industry, The Winemakers’ Federation of Australia (WFA) reached agreement that the WST would decrease to 22% then increase to 24% and 26% in annual increments… September 1995: report of wine inquiry released… August 1997: High Court struck down the constitutional validity of the state franchise fee. To minimise the revenue losses to the states the Commonwealth agreed to increase the WST to 41 percent with the additional 15 percent was rebated to state governments and in turn partly to wineries in respect of their cellar door sales. July 2000: GST introduced (10 percent) Also Wine Equalisation Tax (WET) at 29 percent of the wholesale price, along with rebate arrangements. Surprisingly, during the time of the introduction of the Wholesale Sales Tax (WST) on wine (at 10-20 percent) the Commonwealth introduced a Vine Pull Scheme between 1985-88 to offset the grape glut. Notwithstanding the further increases of indirect taxes on Australian wine, from 1990 to 2005 Australia became a net exporter of wine and exports increased from 380 thousands of hectolitres (mhl) to 7,019 mhl, more than a 17 times increase. Outside of Europe, Australia is the largest exporter of wine but only accounts for 5 percent of

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7 Above n.5, 93.
9 A hectolitre equals 100 litres.
world wine production.\textsuperscript{11} This is an impressive result given the falling worldwide consumption of wine.\textsuperscript{12}

The Australian wine industry makes a significant contribution to the economy employing 27,959 people in 2006.\textsuperscript{13} The complexity of manufacture and marketing mean that it is a high value added process. It is also a regional business and drives regional communities. In 2008 there were 2,299 wineries operating in Australia and 89 defined wine regions.\textsuperscript{14} Further, the wine industry makes a significant impact on the tourism industry.\textsuperscript{15}

B \textit{The Good and Services Tax}

The Goods and Services Tax (GST)\textsuperscript{16} is a broad based consumption tax that is levied on the consumption of goods and services. GST or value added tax (VAT) vary all over the world but share the principle of taxing a broad base of goods and services, and they also permit businesses to offset the GST paid on their inputs against their GST liability.\textsuperscript{17} Thus the GST is only collected on the value added by each business in the production and distribution chain. The GST is ultimately paid the final consumer. Certain goods and services are excluded from the tax base by providing a GST free rate or by being an input taxed supply.\textsuperscript{19} Under a GST free supply GST is not paid on the sale of the good or service and the supplier of the good or service is entitled to a refund of the GST paid on their inputs.

For input taxed supplies, GST is not paid on the sale of the good or service and the supplier is not entitled to a refund of the GST paid on their inputs.\textsuperscript{20} The input taxed method is used where it is technically difficult to impose GST but it is not appropriate to allow the sale to be GST free. Thus input taxation results on a reduced tax rate to final consumers as the supplier does not add GST. For business to business suppliers it increases the effective tax rate since business purchasers cannot offset the GST paid on the suppliers inputs from their GST liability.

The standard GST rate is 10 percent\textsuperscript{21} and this is applied to domestically produced and consumed wine. For imported wine, GST is imposed on 10 percent of the value of the importation.\textsuperscript{22} The importation value is the sum of the customs value, additional insurance and freight costs to place of consignment, customs duty or wine tax.\textsuperscript{23} Wine exports are GST free.\textsuperscript{24}

\begin{thebibliography}{9}
\bibitem{11} Above n 10.
\bibitem{12} See Appendix I, Table A2.
\bibitem{13} Winemakers’ Federation of Australia, ‘Submission to Australia’s future tax system review’ (2008), 10.
\bibitem{14} Above n 13, 11, 12.
\bibitem{15} Above n 13, Tourism Australia found that wine tourism grew stronger than the average annual growth for any other visitor types.
\bibitem{16} \textit{A New Tax System (Goods and Services Tax) Act 1999 (Cth)} (GSTA 1999).
\bibitem{17} Eg see GSTA 1999 Div 7, s 17-5.
\bibitem{18} GSTA 1999 Div 38.
\bibitem{19} GSTA 1999 Div 40.
\bibitem{20} GSTA 1999 s 9-30(2).
\bibitem{21} \textit{A New Tax System (Goods and Services Tax Imposition- General) Act 1999 (Cth)} s 4.
\bibitem{22} GSTA 1999 s 13-20.
\bibitem{23} Above n 22.
\bibitem{24} Subject to meeting the requirements of subdiv 38-E GSTA 1999.
\end{thebibliography}
C Wine Equalisation Tax

Sales taxes are levied on the general consumption of goods and services but unlike a GST, sales taxes are only levied at one stage of the production or distribution process, for example at the manufacturing, wholesale or retail stage. Germany and New Zealand do not impose sales tax on wine.

Australia imposes a sales tax on wine, known as the Wine Equalisation Tax (WET). The WET commenced on 1 July 2000 and was designed to replace the former wholesale sales tax on wine. Sales Tax was abolished on 30 June 2000 with the introduction of the GST and the WET.

WET imposes a wine tax on the taxable value of assessable dealings with wine in Australia. The primary types of assessable dealings are: wholesale sales, retail sales, application of wine for own use and certain importations. Some assessable dealings such as exports are exempt.

The WET is payable by wine manufacturers, wine wholesalers and wine importers. Retailers of wine pay WET in the sense that their payments to suppliers for wine includes a mark up for WET paid. In this way WET is passed on in the price of the wine to the end consumer. WET is calculated at the rate of 29 percent of the taxable value of assessable dealings with wine in Australia.

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28 Prior to the WET the last wholesale sale of wine was subject to sales tax at the rate of 41%. Given the GST rate of only 10% wine prices would have dropped severely.
29 WETA 1999 s 5-5. Assessable dealings include selling wine, using wine, or making a local entry of imported wine at the customs barrier.
30 WETA 1999 ss 31-1, 31-2, 31-3, 31-4, 31-5, 31-6 and 31-7. Wine is defined to include alcoholic products that contain more than 1.15% by volume of ethyl alcohol that are grape wine; grape wine products (such as marsala, vermouth, wine cocktails and creams); fruit wines or vegetable wines; and cider, perry, mead and sake.
31 WETA 1999 s 5-5.
32 WETA 1999 ss 33-1 to 33-7. A wholesale sale means a sale to an entity that purchases for the purpose of resale, but does not include a sale of wine from stock in a retail store (or retail section of a store) to make up for a temporary shortage of stock of the purchaser, if the wine is of a kind that: (a) is usually manufactured by the purchaser; or (b) is usually purchased by the purchaser for resale. The most common assessable dealing involves the sale of wine by a winery to a retailer, or a sale of wine by a distributor to a retailer.
33 WETA 1999 ss 33-1. A retail sale is a sale that is not a wholesale sale. This commonly is a sale made to a person who does not purchase the wine for the purpose of resale. For example, a sale at the cellar door of a winery.
34 Australian Taxation Office, Wine Equalisation Tax Ruling WETR 2004/1 para 33. This usually involves: ‘wine used for cellar door tastings; wine used for tastings at exhibitions; wine used for wine shows; wine used for promotions; wine donated to charity; wine given to retailers, restaurants and so on, as samples; wine given to staff; and wine taken for personal consumption.’
35 Such as the entry of imported wine for home consumption.
36 WETA 1999 s 7-5.
The WET is calculated on the selling price of the wine excluding wine tax and GST. Where wine is not the subject of a wholesale sale, ie where it is sold at cellar door or used for tastings or promotional activities the WET provides for calculation of alternative values for the tax payable.\(^{39}\)

The WET forms part of the GST tax base and GST is payable on the value of the wine including any WET component. For imports, an assessable dealing with wine is taxable when it enters Australia. The taxable value is equal to the GST importation value of the wine.\(^{40}\) The GST importation value is the customs value plus the costs of transport, insurance and duty.\(^{41}\)

The following diagram provides an overview of the WET.\(^{42}\)

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\(^{38}\) WETA 1999 s 5-5.

\(^{39}\) WETA 1999 Div 9.

\(^{40}\) Assessable Dealing AD10 in the Assessable Dealings Table in section 5-5 WETA 1999.

\(^{41}\) GST Act 1999 ss 13-20, 33-1, 195-1.

\(^{42}\) Australian Taxation Office, Wine Equalisation Tax Ruling, WETR 2004/1, Wine equalisation tax: the operation of the wine equalisation tax system, Appendix C.
Figure 1: How the WET Works

Determining Liability

The WET\(^{43}\) and the GST\(^{44}\) provide a concessional cash accounting rule for business with annual turnovers of less than $2 million. This means that eligible small wineries do not pay WET or GST until they actually sell the wine. It is argued that this fails to take into account the special rules that apply to the wine industry where the WET and GST have a far greater impact on cash flow than for

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\(^{43}\) WETA 1999 s 21-10.
\(^{44}\) GSTA 1999 s 29-40.
other types of businesses. The Winemakers’ Federation of Australia (WFA) provides the following example:

… for a winery that turns over $4 million the adverse cash flow impact of remitting WET and GST in advance of receiving sales is estimated at approximately $200,000. That is $200,000 of the winery’s working capital is tied up in GST and WET prepayments.

D WET Producer rebates

A rebate of WET applies for producers of rebatable wine that are registered or required to be registered for GST in Australia. From 1 July 2006, the maximum amount of rebate an Australian producer, or group of associated producers, can claim in a full financial year is A$500,000. This is equivalent to about A$1.7 million wholesale value of eligible sales and applications to own use per annum. Given this highly favourable tax treatment there are 2,072 small wineries (or 96 percent of wine producers) that do not have to pay WET.

E Excise Duties

Excise duties are levied on the production of certain goods. Excise duties are generally assessed according to the quantity, weight, volume or strength of a product. In respect of alcoholic beverages excise duties are generally applied according to the alcoholic content of the product or on the value of the product or a combination of these. Generally excise duties must be paid on wine before it can be sold for consumption. Additionally, excise duties form part of the GST tax base. That is, GST is calculated on the value of the good including its excise duties. Excise duty is imposed by the Excise Tariff Act 1921 (Cth). However, wine is not an excisable good since the WET applies to wine.

F Customs Duties

Customs duty is usually levied on certain imported goods. These duties are based on the value of the imported good or on a quantitative/volumetric basis. Like excise duties, customs duties must normally be paid on wine before it can be sold for consumption and form part of the GST tax base. GST is calculated on the value of the good including its customs duties.

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45 Above n 13, 21.
46 Above n 13.
47 WETA 1999 s 19-5(1).
49 WEA 1999 s 19-15. Previously, from 1 October 2004 to 30 June 2006, the maximum amount of rebate was $290,000, ie exempting $1 million (wholesale value) of sales per annum.
50 Above n 13, 20.
51 Above n 25, 256.
52 Above n 25, 251.
53 Above n 25.
54 Above n 25, 255.
55 Above n 25.
Customs duty is imposed by the *Customs Tariff Act 1995*(Cth) on imported goods either at the time of importation or, if the goods have been stored in a Customs-licensed bonded warehouse, at the time of their release from bond. Customs duties in Australia are levied on the value of imported wine (except New Zealand wine) and this is levied at the general rate of five percent. Under the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) any product that has 50 percent or more New Zealand content may enter Australia duty free.

V NEW ZEALAND

A Overview

In the 1970s the New Zealand government used indirect taxation to support the local wine industry and to earn foreign exchange. It developed a complex series of tariffs and tariff quotas. The following table sets out the changes in tariffs and wine imports from 1986 to 1998.

**Table 1: Changes in New Zealand Tariffs and Wine Imports 1986-98**

<table>
<thead>
<tr>
<th>Date (as I July of)</th>
<th>Specific tariff (cents/litre)</th>
<th>Ad valorem tariff (%)</th>
<th>Imports in million litres</th>
<th>Imports as % of total consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>68</td>
<td>20</td>
<td>2,792</td>
<td>6.5</td>
</tr>
<tr>
<td>1987</td>
<td>51</td>
<td>21.25</td>
<td>3,732</td>
<td>9.2</td>
</tr>
<tr>
<td>1988</td>
<td>34</td>
<td>22.5</td>
<td>4,375</td>
<td>10.8</td>
</tr>
<tr>
<td>1989</td>
<td>17</td>
<td>23.75</td>
<td>6,798</td>
<td>13.6</td>
</tr>
<tr>
<td>1990</td>
<td>25</td>
<td></td>
<td>7,988</td>
<td>13.8</td>
</tr>
<tr>
<td>1991</td>
<td>22</td>
<td></td>
<td>11,397</td>
<td>20.4</td>
</tr>
<tr>
<td>1992</td>
<td>19.5</td>
<td></td>
<td>8,418</td>
<td>19.6</td>
</tr>
<tr>
<td>1993</td>
<td>19</td>
<td></td>
<td>19,694</td>
<td>45.2</td>
</tr>
<tr>
<td>1994</td>
<td>17</td>
<td></td>
<td>32,695</td>
<td>49.6</td>
</tr>
<tr>
<td>1995</td>
<td>15</td>
<td></td>
<td>25,515</td>
<td>34.4</td>
</tr>
<tr>
<td>1996</td>
<td>13</td>
<td></td>
<td>21,318</td>
<td>31.5</td>
</tr>
<tr>
<td>1997</td>
<td>11</td>
<td></td>
<td>22,409</td>
<td>40.6</td>
</tr>
<tr>
<td>1998</td>
<td>9</td>
<td></td>
<td>28,231</td>
<td>39.3</td>
</tr>
</tbody>
</table>

As Table 1 shows, these tax policies meant that the importation of cheap wine were prohibitive in 1986. At that time non-premium wine was greatly in demand in New Zealand and cheap wines dominated the market. As a consequence domestic production of cheap varieties increased but this resulted in grape production exceeding demand. To restructure the industry away from

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56 *Customs Tariff Act 1995* (Cth).
58 Above n 57, 10. Source New Zealand Tariff Schedule, Statistics New Zealand.
59 Above n 57.
60 Above n 57.
61 Above n 57.
cheap wine production the NZ government in 1985 established the Grapevine Extraction Scheme to subsidise growers to remove vines.\(^{62}\) Further, as evident in the table, from 1987 the NZ government greatly reduced tariffs on wine. The special tariff was replaced with an ad valorem tax at 25 percent in 1990. The ad valorem tax was then phased down to 5 percent in 2000.\(^{53}\) All tariff quotas were removed.\(^{64}\) As noted above, a free trade agreement was established with Australia so all goods could enter New Zealand duty free.\(^{65}\) As seen in the above table, wine imports grew as a result of the removal of tariffs. This has also resulted in a great increase in exports as domestic producers focused on premium wines.\(^{66}\)

An APEC study concluded that these policy changes meant that New Zealand became an export orientated industry rather than an import substituting industry.\(^{67}\) The APEC study also found that New Zealand consumers benefited by the improved quality wine, reduction in price (per same quality), increase in wine varieties, access to more wine imports and their ability to substitute other alcoholic drinks for wine.\(^{68}\)

The New Zealand wine industry also makes a significant contribution to the economy being its 12\(^{th}\) largest exporter.\(^{69}\) It is also a regional business and drives regional communities. In 2006 there were 530 wineries operating in 11 defined wine regions.\(^{70}\)

### B The Good and Services Tax

New Zealand’s *Good and Services Tax Act 1985* (GSTA 1985 (NZ)) provides a broadly based value added consumption tax. The GST is imposed a standard GST rate of 12.5 percent\(^{71}\) and this is uniformly applied to most goods and services. The Organisation for Economic Co-operation and Development (OECD) considers the New Zealand GST to be one of the world’s most effective value added taxes given its broad base and singular low tax rate.\(^{72}\) The GST applies to all domestically consumed wine. For imported wine GST is payable on the sum of the Customs value of the goods, any import duty, anti-dumping and countervailing duties, Alcoholic and Liquor Advisory Council (ALAC) levies payable, and the freight and insurance costs incurred in transporting the goods to New Zealand.\(^{73}\) Wine exports are zero rated (ie GST free).\(^{74}\)

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\(^{62}\) Above n 57. By 1990 1,517 hectares were pulled out.

\(^{63}\) Above n 57.

\(^{64}\) Above n 57.

\(^{65}\) Above n 57.

\(^{66}\) Above n 57; See Appendix 1.

\(^{67}\) Above n 57, 11-12.

\(^{68}\) Above n 57, 12.


\(^{71}\) GSTA 1985 (NZ) s 8(1).

\(^{72}\) OECD 2000, ‘OECD Surveys’, (November 2000), 109, Figure 32.


\(^{74}\) Subject to satisfying the requirements of s 11 GSTA (NZ) 1985.
C Wine Equalisation Tax

Whilst New Zealand does not impose a WET, from 1 July 2005 the Australian WET producer rebate was extended to eligible New Zealand wine producers that have their wine exported to Australia.\textsuperscript{75} The maximum amount of rebate a New Zealand producer, or group of associated producers, can claim in a full financial year is the same as Australian producers, that is A$500,000.\textsuperscript{76} ‘Old World’ countries such as France (or any other countries), though, cannot access the WET producer rebate.

D Excise Duties

All beverages containing alcohol, whether local or imported, are subject to excise duty or excise equivalent tax.\textsuperscript{77} Currently, in December 2008, for unfortified wine the excise is NZ$2.2592 per litre of the total beverage volume.\textsuperscript{78} Every six months the excise is increased in line with consumer price movements.

E Customs Duties

Imported wines, except of Australian origin,\textsuperscript{79} are subject to an additional seven percent ad valorem tax\textsuperscript{80} on the customs value of the wine.\textsuperscript{81} The customs value is generally the transaction value, the price paid or payable for the imported goods.\textsuperscript{82} Overseas freight and insurance charges are deducted if these charges are included in the transaction value.\textsuperscript{83}

VI FRANCE’S INDIRECT TAXES

A Overview

In France domestically produced wine is subject to the standard rate of VAT and a small excise. Over the last 25 years at least, France has imposed relatively low levels of specific taxes on wine. The excise rates for still and sparkling wine have not changed since 1982 and for sweet wine it has not changed since 1993.\textsuperscript{84}

\textsuperscript{75} WETA 1999 s 19-5(2). New Zealand wine producers may apply to the Australian Commissioner of Taxation to become approved New Zealand participants.
\textsuperscript{76} WETA 1999 s 19-15.
\textsuperscript{77} Customs & Excise Act 1996 (NZ), Third Schedule.
\textsuperscript{78} Above n 77.
\textsuperscript{79} Under the Australia-New Zealand free trade agreement any product that has 50 percent or more Australian content may enter New Zealand duty free.
\textsuperscript{81} Customs & Excise Act 1996 (NZ), Third Schedule.
\textsuperscript{83} Above n 82.
\textsuperscript{84} Direction Generale des Douanes et Droits Indirects, ‘Tux d’accises en France et annee de la derniere evolution’ 18 September 2008, (Table of French customs and excise duties on wine).
B The Value Added Tax

France imposes a broadly based VAT on consumption. The standard VAT rate is 19.6 percent and this applies to most goods and services, including wine. All wine exports are GST free.

C Excise Duties

In accordance with the European Union (EU), the French excise duty is levied on still wine and sparkling wine by reference to the number of hectolitres of finished product. The EU provides for a zero minimum excise per hectolitre for wine. In France the excise rates for unfortified wine vary and they are assessed on the quantity and type of wine as follows:

<table>
<thead>
<tr>
<th>Type of wine</th>
<th>Euros per hectolitre</th>
</tr>
</thead>
<tbody>
<tr>
<td>Still wine</td>
<td>3.40 € / hl</td>
</tr>
<tr>
<td>Sparkling wine</td>
<td>8.40 € / hl</td>
</tr>
<tr>
<td>Sweet wine</td>
<td>54 € / hl</td>
</tr>
</tbody>
</table>

This excise is very low, for example, for still wine this works out to €0.026 (or 2.6 cents) per 750 millilitre (ml) bottle.

D Customs Duties

As part of the harmonised trade system of the EU the Common Customs Tariff is applied to goods from non-EU countries. Thus, French imports of wine from non-EU countries are subject to EU customs duties which vary depending on the percentage of alcohol contained in the wine and the type of container. These customs duties must be paid on most products before they can access the EU. The following EU customs duties apply to wine:

90 Above n 89.
91 Above n 89, 9. The EU Commission’s main regulations in respect of wine are Commission Regulation No 1493/199, 883/2001 and 753/2002. Australia also has a bilateral wine agreement with the EU.
92 Above n 89. Total dry extract may affect tariff classification. When liqueur wines contain excessive dry extract (excessive means >90g/l at 13% vol) they are reclassified in the next fiscal
Table 3: Customs Duty on Imported Wine into the EU

<table>
<thead>
<tr>
<th>Sparkling wine (any strength) exceeding 1.5 bar at 20 degrees Celsius</th>
<th>Euro/hectolitres for wine in containers of 2 litres or less</th>
<th>Euro/hectolitres for wine in containers of more than 2 litres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual alcoholic strength at 20 degrees Celsius (% volume)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Not exceeding 13%</td>
<td>13.7</td>
<td>9.9</td>
</tr>
<tr>
<td>• Exceeding 13%, but not 15%</td>
<td>15.4</td>
<td>12.1</td>
</tr>
<tr>
<td>• Exceeding 15%, but not 18%</td>
<td>18.6</td>
<td>15.4</td>
</tr>
<tr>
<td>• Exceeding 18%, but not 22%</td>
<td>15.8</td>
<td>13.1</td>
</tr>
<tr>
<td>Aromatised Wine (Vermouth)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Not exceeding 18%</td>
<td>10.9</td>
<td>9</td>
</tr>
<tr>
<td>• Exceeding 18%</td>
<td>0.9 Euro per % vol/hl + flat surcharge of 6.4 Euro/hl</td>
<td></td>
</tr>
</tbody>
</table>

The level of customs duty is quite modest. For example, for still wine above 13 percent and below 15 percent of alcoholic strength, this works out to €0.116 (or 11.6 cents) per 750 ml bottle.

VII ANALYSIS

The following tax policy analysis of specific wine taxation is based on the generally accepted tax policy criteria of fiscal adequacy, economic efficiency, equity and simplicity. Given that Australia, New Zealand and France all apply a GST / VAT to wine at their respective standard tax rates, these tax policies are considered to be soundly based and not in need of any detailed analysis. Whilst a comparison of customs duties is dealt with separately below, it is outside the scope of this paper to undertake any trade policy analysis.

category and must pay the appropriate customs duty. The minimum alcoholic strength of “liqueur” wines is 15% and the maximum 22%.

93 Review of Business Taxation, A Tax System Redesigned, More Certain, Equitable and Durable, Report July 1999 (1999) Australian Government Publishing Service, Canberra, 9,13; J Waincymer, Australian Income Tax Principles and Policy, (2nd ed, 1993) 26; J Alm, “What is an “Optimal” Tax?” (1996) XLIX National Tax Journal 117, 117. Alm stated ‘A central issue in public economics is the appropriate design of a tax system. Such a system is usually viewed as balancing the various desirable attributes of taxation: taxes must be raised (revenue-yield) in a way that treats individuals fairly (equity), that minimizes interference in economic decisions (efficiency), and that does not impose undue costs on taxpayers or tax administrators (simplicity)’.  

167
A Fiscal Adequacy

Fiscal adequacy refers to the ability of taxation law to finance Government expenditure. Fiscal adequacy is a fundamental requirement for a tax system given the Government’s need for revenue to ensure good governance.

As discussed above, tax revenue provides a primary rationale for wine taxation. In 2006-07 Australia’s WET produced A$651 million of revenue. This only represents 0.2 percent of total tax revenue of Commonwealth government tax revenue. In France, the tax revenue from the excise tax on wine amounted to a mere €5138.3 million in 2007. In relation to total government revenue these taxes are miniscule.

Further, in a VAT or GST environment the case for specific excise taxes or wine taxes is greatly weakened. The rationale for a VAT or GST is to provide a broad tax base at a single rate to enable revenue to be raised at relatively low rates independent on consumption choices. Thus, another level of indirect taxation on selected good and services undermines the policy objectives of a GST / VAT.

As noted above, it is argued that wine has a highly inelastic demand thus a wine tax minimises consumption distortions. The New Zealand Tax Review 2001 (NZ Review), though, found that the demand for wine is often more elastic than the demand for petrol, tobacco and beer. The NZ Review calculated that the excises have high deadweight costs (losses in consumption efficiency) per dollar of additional tax revenue raised, relative to broadly based forms of taxation.

B Economic Efficiency

Given the long term decline in wine production and consumption wine producers face a shrinking market pool. Further, changing consumption patterns towards premium wines presents new challenges for wine producers. Therefore, there is an increasing need for a competitive indirect tax system that will allow the wine industry to efficiently use its resources and compete effectively.

96 Direction Generale des Douanes et Droits Indirects, ‘Tux d’accises en France et annee de la derniere evolution’ (18 September 2008), (Table of French customs and excise duties on wine).
99 Above n 98.
100 See Tables A1 and A2 in Appendix 1.
It is also argued that to maximise efficiency, a tax system should not impose any tax on goods and services as such a tax will reduce the level of demand leading to efficiency costs.\(^{102}\) On this basis, to minimise the efficiency costs of indirect taxes, the tax base should be broad so as to include all goods and services and one low rate of tax should be employed.\(^{103}\) This will result in fewer changes in the consumption decisions by the impact of tax on the prices of goods and services.\(^{104}\)

The following table provides a basic comparison of the specific wine taxes on bottles of non-premium and premium wine in Australia, New Zealand and France (in Australian equivalent dollars).

**Table 4: Comparison of A$ tax equivalents on a 750ml bottle of unfortified wine**

<table>
<thead>
<tr>
<th></th>
<th>A$ tax equivalent on a A$5 750ml bottle of wine(^{105})</th>
<th>A$ tax equivalent on a A$15 750ml bottle of wine(^{106})</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>0.75</td>
<td>2.25</td>
</tr>
<tr>
<td><strong>WET</strong>(^{107})</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>New Zealand</strong></td>
<td>1.46</td>
<td>1.46</td>
</tr>
<tr>
<td><strong>Excise</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>France</strong></td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td><strong>Excise</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

France, with its minimal level of excise appears to have the most efficient specific wine tax. Australia’s WET is significant as seen by the WET of approximately $A2.25 on a 750ml bottle of unfortified still wine that retails for $15 (15 percent of retail price). A non-premium bottle retailing for $5 will be subject to WET of approximately $0.75 (15 percent of retail price). In Australia alcohol accounts for just under 2 percent of household consumption but it produces about 9 percent of the tax revenue from goods and services.\(^{108}\) As the Australia’s 2009 Tax Review notes, such specific taxes are “generally less efficient as they also distort production decisions”.\(^{109}\) It is likely that Australian consumers would gain from removal of the WET with improved quality wine, reductions in price (per same quality), increases in wine varieties, access to more wine imports and their ability to substitute other alcoholic drinks for wine.

\(^{102}\) Above n 94, 278.

\(^{103}\) Above n 94, 277.

\(^{104}\) Above n 94, 277.


\(^{106}\) Above n 105.

\(^{107}\) Winemaker’s Federation of Australia, ‘Australian wine: regional, sustainable essential’ (2008): The Winemaker’s Federation of Australia estimates that the wholesale price for a bottle that retails for $15 would be $7.75 per bottle, and that the WET (29% of the wholesale sale value) would account to 15% of the retail price. On this basis this analysis assumes that WET accounts for 15% of the retail price.

\(^{108}\) Above n 94, 278.

\(^{109}\) Above n 94.
New Zealand’s excise tax is significantly higher for non-premium wine than Australia (29 percent of retail price) but the excise for premium wine is less than the WET (10 percent of retail price).

1. Wine Tax: Volumetric or ad valorem tax?

The comparison in Table 4 also highlights the impact of imposing volumetric (such as New Zealand’s and France’s excise tax) as opposed to ad valorem taxes (Australia’s WET). This issue has been at the centre of some stern tax debates within the Australian wine industry as evident with the introduction of the 10 percent GST and the WET in Australia.\footnote{110}

As evident in Table 4, the volumetric excise tax on wine results in higher prices on non-premium wine whilst the ad valorem WET tax results in higher levels of tax on premium wine. Given the relatively low price of Australia’s domestically consumed wine, the Centre for International Economic Studies (CIES) modelled that a volumetric tax could increase the price of wine by up to 50 percent.\footnote{111} The shift to premium wine would result in a loss of employment of about 6 percent in non-premium wine areas (Riverland, Murray Valley and Riverina).\footnote{112} Thus the Winemakers’ Federation of Australia (WFA) opted for an ad valorem tax. However, premium wine makers were disadvantaged and some sectors of the wine industry were critical of the WFA decision (Western Australian and Tasmanian wineries).\footnote{113} Given the world wide trend for greater consumption of premium wines the WET maybe counter productive. New Zealand’s volumetric excise on wine, though, would have an adverse impact on non-premium wine producers.

2. Other WET Issues

Since the WET only applies to domestic sales it provides a big incentive for smaller producers to focus on the domestic market rather than export.\footnote{114} This has resulted in Australian wines selling for less than $2 per bottle given that producers pass on the rebate to consumers in lower wholesale prices. Given the lower profitability of exports under the WET some producers sought to increase the price of exported wine and thus struggle.\footnote{115} Some winemakers argue that WET pushes them into exporting before they are ready.\footnote{116}

3. Correcting Externalities

A specific tax, though, can increase market efficiency if it reflects the external costs that the goods impose on the community.\footnote{117} Thus, it is argued that

\footnote{110} Above n 5, 100-103.  
\footnote{112} Above n 5, 95-96.  
\footnote{113} Above n 5, 95-96.  
\footnote{115} Above n 114.  
\footnote{116} Above n 5, 101.  
\footnote{117} Above n 94, 279.
a tax on wine / alcohol will ensure that users or producers will incorporate the negative affect of alcohol when making consumption or production choices.\textsuperscript{118} The negative affect includes the health costs from alcohol related road accidents and alcohol abuse. The use of specific taxes on alcohol will allow consumption to achieve a socially optimal point.\textsuperscript{119}

However, this argument is offset by a number of factors. The health costs of alcohol abuse are generally incurred by the consumer rather than taxpayers.\textsuperscript{120} There appear to be benefits associated with the moderate consumption of wine.\textsuperscript{121} Renaud found that the French’s high consumption of fats but low incidence of heart disease may be explained by their high wine consumption.\textsuperscript{122} Also, Kinesella proposed that the natural anti oxidant phenolic compounds of wine may protect against heart disease.\textsuperscript{123} Additionally, targeted regulation and public advertising campaigns may be preferable to minimise alcohol abuse.

Further, corrective taxation is most efficient when the external costs are taxed directly,\textsuperscript{124} that is, by targeting the people who abuse alcohol. This can be achieved to some extent through the effective enforcement of anti drink driving rules and associated fines and penalties. The use of excises or a WET are blunt instruments that impact widely throughout the community. Also, if a specific tax on wine was thought to be justified on this basis, then the tax would need to be based on the alcohol content and not its value. Under the WET the tax is based on the value of the wine and for many small producers no WET applies at all. Overall, the argument for wine tax on externality reasons appears to be some what contentious.

C Equity

Equity concerns the degree of fairness of the taxation laws. A widely accepted and fundamental principle of social justice demands equal treatment for people in similar circumstances (this is known as horizontal equity).\textsuperscript{125} Horizontal equity requires the determination of a tax base, to measure similar circumstances so that an appropriate amount of tax can be imposed on a taxpayer. Accordingly, most commentators\textsuperscript{126} have defined the tax base in terms of a taxpayer’s ability to pay. Ability to pay could be based on income or wealth or a combination thereof. To ensure equity, the tax base should be defined as comprehensively as possible, so as to include both income and wealth.

As horizontal equity concerns the equal treatment of equals, as a corollary, vertical equity is required to ensure that tax imposed on people in different

\textsuperscript{118} Above n 94, 279.  
\textsuperscript{119} Above n 94.  
\textsuperscript{120} Above n 5, 98.  
\textsuperscript{121} Above n 5.  
\textsuperscript{123} J E Kinsella, E N Franknell, J B German and J Kanner, ‘Possible mechanisms for the protective role of antioxidants in wine and plant foods : physiological mechanisms by which flavonoids, phenolics, and other phytochemicals in wine and plant foods’ (1993) 47 Food Tech 85-89.  
\textsuperscript{124} Above n 94, 280.  
\textsuperscript{125} R Krever and N Brooks, A capital gains tax for New Zealand (1990), 43.  
\textsuperscript{126} DF Bradford, Untangling the Income Tax (1986), 150-51.
circumstances is also fair. Vertical equity requires both progressive income tax rates and a tax based on the “ability to pay”.

Indirect taxes have a very regressive impact as such taxes are not based on one’s ability to pay. Those on lower incomes pay a larger proportion of their income on indirect taxes. The following Australian Bureau of Statistics survey compares household expenditure on alcohol for five (low to high) gross income quintiles:


<table>
<thead>
<tr>
<th>Gross Income Quintiles</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure relative to Income: Alcoholic Beverages (percent)</td>
<td>3.3</td>
<td>2.5</td>
<td>2.4</td>
<td>1.9</td>
<td>1.7</td>
</tr>
</tbody>
</table>

The above table shows that low income earners spend about twice as much of their income (as a percentage) on alcohol as people in the highest income quintile. This underlines the regressive impact of taxing alcohol at higher rates.

D Simplicity

The most rigorous and the generally accepted measure of simplicity seeks to identify the operating costs of a tax law. Operating costs consist of the compliance costs of taxpayers and the administration costs of the Government. Simplicity can, theoretically at least, be measured by estimating these operating costs, and dividing this amount over the amount of tax revenue. It follows that simplicity will improve where the operating costs or this ratio falls.

Compliance costs can be defined as the costs “incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax.” These costs will include the costs of keeping records, preparing taxation financial statements and taxation returns, obtaining tax advice, undergoing tax audits, tax planning and disputes. Taxation administration can be categorised into four types of Government activities: tax policy, design and planning, tax law drafting and enactment, Australian Taxation Office costs, and tax dispute resolution.

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127 Above n 125, 43.
130 Above n 129, 245.
131 Above n 129.
However, there is no known quantification of the compliance and administration costs associated with wine taxes in Australia, New Zealand and France. The greater the number of layers of indirect tax on wine, though, the greater the level of complexity. This means higher levels of compliance costs for the wine industry and administration costs for governments.

Australia’s WET provides a vivid example of the complexity involved with imposing another layer of tax on wine. The complexity of the WET is evident from the above overview and from Diagram 1. This is also evident from the number of Australian Taxation Office (ATO) publications on the WET as follows:

**Australian Taxation Office (ATO) Publications on WET**

**ATO Rulings**
- WET Ruling 2002/1: The WET rulings system
- WET Ruling 2004/1: The operation of the wine equalisation tax system
- WET Ruling 2006/1: The operation of the producer rebate for producers of wine in New Zealand

**Fact Sheets**
- Overview of Wine equalisation tax
- Excise - wine fortification NAT 15677
- What is mead?
- Wine equalisation tax - packaging of wine by retailers
- Wine equalisation tax - quoting for GST-free supplies
- Wine equalisation tax - wine export and re-entry
- Wine equalisation tax (WET) - associated producers
- Wine equalisation tax (WET) - wine producer rebate
- Wine equalisation tax - frequently asked questions

**Forms**
- Application for refund of wine equalisation tax Nat 9241
- Approved quoting forms

**How to complete your business activity statement**
- Wine equalisation tax - how to complete your activity statement Nat 7390
- Wine equalisation tax and the business activity statement for wine producers
- Wine equalisation tax and the business activity statement for wine retailers

**New Zealand WET rebate**
- Application for approval as a New Zealand participant for a wine equalisation tax rebate NAT 15344
- Application for payment of wine equalisation tax rebate by an approved New Zealand participant NAT 14199
Many of these publications are highly technical and lengthy. For example, WET Ruling 2004/1\(^\text{134}\) on the operation of the wine equalisation tax system runs to some 146 paragraphs.

From a simplicity point of view it is preferable to only apply one layer of indirect tax to wine. Preferably, such a wine tax would be part of a comprehensive indirect tax base with a common tax rate such as a GST / VAT. This would remove a layer of tax law and the use of a uniform rate would remove the problem of having to classify goods against a range of taxation rates and / or structures. From a simplicity point of view the wine excises and the WET should be repealed. A minimal increase in the general rate of the GST / VAT could be enacted to replace the forgone revenue.\(^\text{135}\)

### VIII TARIFFS

Tariffs such as customs and import duties provide tax revenue and are also a form of industry assistance to protect domestic firms from import competition.\(^\text{136}\) They enable local firms to charge higher prices on the domestic market than otherwise possible and / or to increase their sales.\(^\text{137}\) Thus, these tariffs benefit the owners and employees of protected domestic producers at the expense of domestic consumers who bare the higher prices and the foreign competitors who lose sales and profits. Tariffs also levy costs on domestic firms that use imported products subjects tariffs or buy goods from domestic producers who use inputs that are subject to tariffs.\(^\text{138}\)

Whilst tariffs were historically an important source of Australian tax revenue their importance has declined as other taxes have grown.\(^\text{139}\) Tariffs are now used as a form of industry assistance\(^\text{140}\) and it is beyond the scope of this paper to apply any trade policy analysis. However, all three countries provide some level of protection for their wine industry.

The industry assistance provided to the Australian wine industry is significant given the combined impact of the 5 percent customs duty and the 29

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\(^{134}\) Australian Taxation Office, Wine Equalisation Tax Ruling WET Ruling 2004/1: ‘The operation of the wine equalisation tax system’.

\(^{135}\) Above n 97.

\(^{136}\) Above n 94, 282.

\(^{137}\) Above n 94.

\(^{138}\) Above n 94.

\(^{139}\) Above n 94.

\(^{140}\) Above n 94.
percent WET that applies to imported wine (excluding New Zealand wine). Foreign competitors (apart from New Zealand) cannot access the producers’ WET rebate.

New Zealand also provides industry assistance through its 7 percent customs duty that applies to imported wine (excluding Australian wine). France through the EU tariffs policy provides some industry assistance. Additionally, concerns are also raised about non-tariff and technical barriers in the EU that stymie Australian and New Zealand wine exports.\textsuperscript{141}

IX CONCLUSION

Reflecting different economic, social, cultural and historical factors all three countries have adopted different models for taxing wine. The policies range from the low taxing policies of France to the higher taxing Australian model.

From a tax policy perspective, imposing a specific indirect tax on wine such as an excise or a WET only minimally assists fiscal adequacy. However, on economic efficiency grounds a specific wine tax will damage efficiency as it distorts the decisions of producers and consumers. A wine tax appears to be a very blunt instrument to correct public externalities. Targeted regulation and public health campaigns could be employed to minimise alcohol abuse. Further, the regressive impact of such a tax clearly damages the equity criterion. Imposing another layer of indirect tax law on wine such as an excise duty or WET impedes simplicity. The New Zealand Tax Review 2001 concluded that wine excises could not be justified on tax efficiency or tax equity grounds.\textsuperscript{142} While the New Zealand Review found that wine excise could be justified on externality grounds, such a tax should be well below the excises currently imposed.

Most of the tax policy criteria (economic efficiency, equity and simplicity) appear to be damaged by specific taxes on wine. Whilst specific taxes on wine could be justified on revenue raising grounds the costs of the policy trade offs appear to be significant. In particular, the type of wine tax (volumetric or ad valorem tax) raises special concerns for a wine industry given its differential impact on non-premium and premium producers. Overall, it appears to be difficult to justify the imposition of specific taxes on wine on tax policy grounds, especially for significant wine producing countries. If externalities are a concern non-tax policies could be employed to counter these issues.

\textsuperscript{141} Above n 111, 3.
\textsuperscript{142} Above n 97, v.
APPENDIX 1: INTERNATIONAL WINE BACKGROUND

A Wine Production

In 2005 the top ten wine producer countries were: 143

Table A1: Top ten wine producers in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>mhl</th>
<th>% of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>54,021</td>
<td>19</td>
</tr>
<tr>
<td>France</td>
<td>52,105</td>
<td>18</td>
</tr>
<tr>
<td>Spain</td>
<td>36,158</td>
<td>13</td>
</tr>
<tr>
<td>United States</td>
<td>22,888</td>
<td>8</td>
</tr>
<tr>
<td>Argentina</td>
<td>15,222</td>
<td>5</td>
</tr>
<tr>
<td>Australia</td>
<td>14,301</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>12,000</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>9,153</td>
<td>3</td>
</tr>
<tr>
<td>South Africa</td>
<td>8,406</td>
<td>3</td>
</tr>
<tr>
<td>Chile</td>
<td>7,886</td>
<td>3</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>282,276</strong></td>
<td></td>
</tr>
</tbody>
</table>

The old world wine countries, France, Italy and Spain also dominate wine production, followed by the new world wine countries such as United States, Argentina, Australia and China. New Zealand produced 1,020 mhl (0.3 percent of the world total) in 2005. 144

From 1990 to 2005, Australian wine production increased from 3,800 mhl to 14,301 mhl, an almost four times increase. 145 New Zealand has similarly experienced a rapid expansion of its wine industry. From 1990 to 2005, wine production virtually doubled from 544 mhl to 1,020 mhl. 146

B Wine Consumption

Over the period 1971 to 1985, world wine consumption was static at about 282,000 mhl (thousands of hectolitres). 147 From 1986 to 1990 this had fallen to approximately 240,000 mhl, 148 a fall of 15 percent. From 1991 to 2002 this further decreased to approximately 226,000 mhl, 149 a fall of 20 percent from the 1971-85 period. An uptrend began in 2003, with wine consumption from 2003-05

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144 Above n 143, Annexe F.
145 Above n 143, Annexe F; Above n 143, 2.
147 Above n 143, 15.
148 Above n 143.
149 Above n 143.
averaging approximately 237,000 mhl.¹⁵⁰ Nevertheless, these figures suggest that world wine consumption appears to be declining over the long term. Not surprisingly, given the decline in world wine consumption noted above, the total of world vineyards have fallen from an average of 9,961,000 hectares (ha) from 1971-75 to 7,929,000 ha in 2005, a decrease of 20 percent.¹⁵¹ Relevantly, the non-premium market for world wine is shrinking but the premium side is expanding.¹⁵²

In 2005 the top ten wine consuming countries were:¹⁵³

Table A2: Top ten wine consuming countries in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>mhl</th>
<th>% of world total</th>
<th>Population¹⁵⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>33,530</td>
<td>14</td>
<td>64,420,073</td>
</tr>
<tr>
<td>Italy</td>
<td>27,016</td>
<td>11</td>
<td>58,126,212</td>
</tr>
<tr>
<td>United States</td>
<td>25,110</td>
<td>11</td>
<td>307,212,123</td>
</tr>
<tr>
<td>Germany</td>
<td>19,848</td>
<td>8</td>
<td>82,329,758</td>
</tr>
<tr>
<td>Spain</td>
<td>13,686</td>
<td>6</td>
<td>40,525,002</td>
</tr>
<tr>
<td>China</td>
<td>13,500</td>
<td>6</td>
<td>1,338,612,968</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>12,000</td>
<td>5</td>
<td>61,113,205</td>
</tr>
<tr>
<td>Argentina</td>
<td>10,972</td>
<td>5</td>
<td>40,913,584</td>
</tr>
<tr>
<td>Russia</td>
<td>10,500</td>
<td>4</td>
<td>140,041,247</td>
</tr>
<tr>
<td>Portugal</td>
<td>4,900</td>
<td>2</td>
<td>10,707,924</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>237,674</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The old world European wine countries (France, Italy, Germany and Spain) and one new world wine country (United States) dominate world wine consumption. Whilst Australia only consumed 4,523 mhl (1.9 percent of world consumption) and New Zealand 0.8 mhl (0.3 percent of world consumption) in 2005.¹⁵⁵

¹⁵⁰ Above n 143.
¹⁵¹ Above n 143, 5.
¹⁵³ Above n 143, 30, Annexe 1.
¹⁵⁵ Above n 154.
C Wine Exports

Also, in 2005 the top ten wine exporting countries were: 156

Table A3: Top ten wine exporters in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>mhl</th>
<th>% of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>15,721</td>
<td>20</td>
</tr>
<tr>
<td>Spain</td>
<td>14,439</td>
<td>18</td>
</tr>
<tr>
<td>France</td>
<td>14,077</td>
<td>18</td>
</tr>
<tr>
<td>Australia</td>
<td>7,019</td>
<td>9</td>
</tr>
<tr>
<td>Chile</td>
<td>4,209</td>
<td>5</td>
</tr>
<tr>
<td>United States</td>
<td>3,459</td>
<td>4</td>
</tr>
<tr>
<td>Germany</td>
<td>2,970</td>
<td>4</td>
</tr>
<tr>
<td>South Africa</td>
<td>2,811</td>
<td>4</td>
</tr>
<tr>
<td>Portugal</td>
<td>2,620</td>
<td>3</td>
</tr>
<tr>
<td>Moldova</td>
<td>2,425</td>
<td>3</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>79,738</strong></td>
<td></td>
</tr>
</tbody>
</table>

Again, the old world wine countries, France, Italy and Spain lead world wine exports followed by new world wine countries, Australia, Chile, United States. In 2005 New Zealand exported 514 mhl of wine (0.6 percent of world total). France though is the number one exporter by value with 35.1 percent share of the world wine market with total exports valued at $6.8 billion. 157

Overall, in 2005, the old world countries, France, Italy and Spain remain dominant in the consumption, production and export of wine. However, over the last 20 years there has been a shift in wine production from old to new world countries. In 1975, France, the leading wine producer, had a 50 percent global market share by value and it is predicted that this share will fall to 25 percent by 2010. 158 Notably, just three countries, Germany, United Kingdom and United States import 41 percent of world wine.

From 1990 to 2005 Australia became a net exporter of wine and exports increased from 380 mhl to 7,019 mhl, more than a 17 times increase. 159 Outside of Europe, Australia is the largest exporter of wine but only accounts for 5 percent of world wine production. 160 Given the decline in the global wine industry this strong performance was achieved by growing market share against other competitors. In 2006 the United Kingdom and the United States purchased the vast majority of the exported wine (65 percent of volume). 161 Canada with 7 percent is the third largest export market. 162

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156 Above n 154.
158 Above n 157.
159 Above n 157.
160 Above n 157.
161 Above n 114, 3.
162 Above n 114.
The United Kingdom market is important for low to medium quality wine but commentators view it as the most competitive.\textsuperscript{163} There is a trend for major retailers to switch to buyers own brands (they account for 48 percent of the market). In the United States the demand for Australian boutique wine is strong and one non-premium wine (Yellowtail) is experiencing strong growth.\textsuperscript{164} The demand in Canada for Australian wine is growing strongly.\textsuperscript{165} Asia is viewed as having prospect as a long term wine export destination.\textsuperscript{166} However, increased levels of competition are expected in these major wine markets and other markets.\textsuperscript{167} European countries that have received subsidies to revamp vineyards, and production is expected to increase from California, Chile, Bulgaria and South Africa.\textsuperscript{168}

From 1990 to 2005, New Zealand wine exports increased from 40 mhl to 514 mhl, more than a 12 times increase.\textsuperscript{169} In 2006, United Kingdom, United States and Australia purchased the vast majority of the exported wine (84 percent).\textsuperscript{170}

D Wine Imports

In 2005 the top ten wine importing countries were:\textsuperscript{171}

Table A4: Top ten wine importing countries in 2005

<table>
<thead>
<tr>
<th>Country</th>
<th>mhl</th>
<th>% of world total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>13,262</td>
<td>17</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>11,727</td>
<td>15</td>
</tr>
<tr>
<td>United States</td>
<td>7,052</td>
<td>9</td>
</tr>
<tr>
<td>Russia</td>
<td>6,227</td>
<td>8</td>
</tr>
<tr>
<td>France</td>
<td>5,495</td>
<td>7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3,799</td>
<td>5</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.9</td>
<td>4</td>
</tr>
<tr>
<td>Canada</td>
<td>2,897</td>
<td>4</td>
</tr>
<tr>
<td>Italy</td>
<td>1,833</td>
<td>2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,813</td>
<td>2</td>
</tr>
<tr>
<td><strong>World total</strong></td>
<td><strong>772,286</strong></td>
<td></td>
</tr>
</tbody>
</table>

\textsuperscript{163} Above n 114.
\textsuperscript{164} Above n 114, 4: Ten million cases were sold in 2007. The United States / Australian Free Trade Agreement will have a minor impact as the tariff reduction occurs over 15 years.
\textsuperscript{166} Above n 114, 4.
\textsuperscript{167} Above n 166, 9, 11.
\textsuperscript{168} Above n 166, 9, 11.
\textsuperscript{170} Above n 143, Annexe G.
Old world countries that are not significant wine producers, Germany and United Kingdom, head this list of importing nations. Australia only imported 221 mhl (0.02 percent of world total) and New Zealand 359 mhl (0.05 percent of world total) in 2005.\textsuperscript{172}

\textsuperscript{172} Above n 143, Annexe G.