Australian Government

Australian Wine and Brandy Corporation

Malaysia-Australia Free Trade Agreement Negotiations

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Submission

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Background

In December 2004 the Australian Wine and Brandy Corporation (AWBC) provided a submission to DFAT as part of the Malaysia-Australia Free Trade Agreement Australian Scoping Study (MAFTA Scoping Study). In that submission we indicated that the AWBC was strongly supportive of the commencement of FTA negotiations as it had the potential to significantly improve the trading environment for Australian wine exports to Malaysia.

With respect to wine, the MAFTA Scoping Study concluded that:

> "While the majority of Australian agricultural exports to Malaysia face very low or zero applied tariffs, there are some notable exceptions which could be addressed in FTA negotiations…Specific rate tariffs with a higher ad valorem incidence apply to some …alcoholic beverages (notably wine)"[1]

The AWBC supports this key finding and welcomes the opportunity to provide the following update to inform the negotiations now that they have resumed following the signature of the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

Export Performance

In the 12 months ended October 2009, Australia exported 2.3 million litres of wine to Malaysia valued at A$20.6 million (FOB). This ranked Malaysia as the 20th largest destination for Australian wine by volume and 15th by value. While volumes shipped were the same as the previous 12 months, value increased, on the back of a 13% increase in the average value to A$9.04 per litre (FOB). The average value of shipments to Malaysia was nearly three times the average value of all Australian shipments (A$3.06 per litre FOB). And over a third of Australian shipments to Malaysia were priced at A$10 per litre (FOB) and above, compared to just 2% of all Australian shipments. Shipments to Malaysia in this segment grew 70% in the past 12 months, in contrast to a 6% decline in the same segment for total Australian shipments.

Bottled shipments accounted for 90% of the shipments with 10% in soft-packs. Nearly three-quarters of Australian wine shipped to Malaysia is bottled red wine. Shiraz is the most popular varietal with a 43% share followed by Cabernet Sauvignon with 23%.In the past decade, Australian shipments to Malaysia have doubled, with volumes growing at an annual compound rate of 7% and value at 11% per annum.

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AANZFTA

Under AANZFTA, Malaysia excluded all wine product lines from tariff commitments. We understand Malaysia's position is that it should not be required to grant preferential tariff treatment to alcoholic beverages, such as wine, in free trade agreements because a majority of its population are Muslim and therefore required to abstain from consuming alcoholic beverages.

We suggest, however, that Malaysia's position that alcoholic beverages should be excluded from free trade agreements on the basis of religious and cultural sensitivities is not sustainable. Not only is there strong consumer demand for wine in Malaysia, there is also significant domestic alcohol production, primarily beer and stout brewing, which benefit from the high tariff wall for imported wine.

Now that Australia and Malaysia have resumed bilateral FTA negotiations we welcome the opportunity to build on the outcomes achieved in AANZFTA.

Malaysia: Alcohol Consumption and Production

According to Euromonitor International, 149 million litres of alcohol beverages were consumed in Malaysia in 2008. Of this, 88% was beer, 7% spirits, 4% wine and 1% RTDs. In 2008, the volume of wine sales grew 9% to 6 million litres largely accounted for by growth in per capita consumption which grew 7% to 0.2 litres. Wine sales in Malaysia have grown solidly and consistently at rates of between 9% and 11% in each of the last five years. In 2008, 6.8 million litres of wine was imported by Malaysia. Australia is the largest importer with 2.3 million litres well ahead of second-placed France on 0.9 million litres.

There is significant beer production in Malaysia with two significant brewing companies listed on the Malaysia's securities exchange – Bursa Malaysia. Carlsberg Brewing Malaysia BHD, part of the Carlsberg Group, operates an established brewery that manufactures and distributes beer, stout and other beverages mainly in the domestic Malaysian market. Guinness Anchor BHD is controlled by a joint venture between Diageo and Asia Pacific Breweries of Singapore, itself a joint venture with Heineken and Fraser and Neave. Collectively, the beer and stout industry employs 60,000 to 70,000 people directly and indirectly. The Confederation of

Malaysian Brewers BHD – the lobby group representing Carlsberg and Guinness Anchor – has successively lobbied the Malaysian Government to freeze beer excise duties following successive increases from 2003-2005.

Malaysia's alcohol taxation regime is set out below. Clearly, both the excise and custom duties preference beer production.

Beer	Sparkling Wine	Still Wine
Excise Duties (per litre) **[A 15% ad valorem tax on invoiced value (CIF + Import Duty) is also payable in addition to the specific duty]**		
RM 7.40	RM 43	RM 12
Import Duties (per litre)		
RM 5	RM 23	RM 7

In addition, we understand there is an active local spirits industry which produces approximately US$43.4 million worth of samsu, the generic name for cheap spirits, per year. These drinks average 38 per cent alcohol and are widely available illegally from outlets such as sundry shops and private residences.

There is also evidence of substantial production (up to 100,000 cases per year) of synthetic or fake wines using imported non-alcoholic grape juice as base which is not subject to import duties or wine excise taxes. These products are passed off as regular wines and compete unfairly with genuine fully-taxed imported wine. The fake wines are produced by adding locally made ethanol to grape juice to achieve 13% ABV. Only the ethanol component is subject to the excise tax (which is levied on a per litre basis). We understand this is lawful as there are no standards for wine production or labelling in Malaysia. Wine is only regulated from a fiscal and customs perspective. If possible, we should consider encouraging the Malaysians to introduce a wine production standard and could offer assistance in that regard.

Summary

While mindful of religious sensitivities, we submit that maintaining high import duties is neither an efficient nor defensible mechanism for regulating wine imports, especially as there is a sizeable consumer market in Malaysia. Moreover, given the presence of sizeable domestic beer production industry, maintaining high import duties for other alcoholic beverages, such as wine, can only be interpreted as an overt protectionist measure.

Finally, we note that from a government revenue perspective the recent experience of China provides strong support for the case for lowering import duties. In China in 2001, the import duty on bottled wine was 65% and bottled wine imports totalled 258,313 cases resulting in total revenue received by the Chinese government from the sale of imported wine (import duty + consumption tax + VAT) of $US5.6 million. Following China's accession to the WTO, the duty was cut to 14% in 2004. By 2007, bottled wine imports jumped to 4.7 million cases and the total Chinese government revenue increased to $US86 million – 15 times the revenue received in 2001.