

VI-1 Mythbuster

This document has been produced to address critical issues with the UK Government's intention to introduce import documentation (VI-1 forms) for wine imported into the UK from the EU from 1 January 2021.

The Wine and Spirit Trade Association's (WSTA) position is that the Government must:

- Commit now to suspending the introduction of the VI-1 requirement for wine from the EU; and
- As a long-term goal, review the need for import documents for wine. If deemed necessary, the paper-based forms should be replaced for all wine entering the UK with a new simplified, electronic import documentation system to entrench the UK's position as the world's wine hub.

Myth #1: Opportunities that arise from leaving the EU will outweigh the impact of introducing VI-1s from EU countries

It is impossible to build on the UK's position as the world's wine hub if opportunities from the UK leaving the EU are outweighed by the loss in trade which could be caused by introducing VI-1 requirements for wine from the EU on 1 January 2021.

The UK's position is built on the basis that the UK is the world's second biggest importer of wine by volume (to Germany) and value (to the US) and a major hub for the fine wine trade. A new requirement for VI1s for EU wines from 1 January would have a significant impact, because EU wines represent over 50% of UK's wine imports, and currently require no import documentation or information at all. The WSTA estimates that full VI1s for EU wines would mean 600,000 additional forms at a cost of £70m in additional processing.

Moreover, the Government has not committed to the opportunities that the UK wine industry has highlighted which would benefit the UK wine industry, such as joining the World Wine Trade Group (WWTG), removing tariffs and reducing unnecessary red tape costs for all wine.

Myth #2: The EU can just produce the forms and continue to sell their wine to the UK

Mixed messaging (such as the previous implied introduction of a VI-1 suspension period, multiple "false starts" for no deal) and the lack of detail from the UK Government as to what is required has meant that the EU wine trade, EU Governments and EU producers have been unable to put in place the infrastructure needed to carry out the necessary laboratory tests and complete the forms. This is the same situation for the UK wine trade – there are no

details for example on processes and what is required from businesses (for example who the registered laboratory or competent authority will be). Even if these were announced today, there is insufficient time for businesses to amend their entire supply chain in order to produce the forms, the testing for which takes around 3 days. The WSTA believes it will be impossible for EU producers to be producing VI-1s from 1 January 2021.

Furthermore, the EU is made up of thousands of smaller producers which send limited quantities of their product to the UK. The prospect of producing a VI-1 which costs around £330, on top of the additional costs of having to produce a customs declaration and pay tariff, may well put them off sending their products to the UK if they can more easily sell their products in other, more accessible countries. This will affect UK SME's such as independent wine merchants, the hospitality trade, and the UK's 33 million wine consumers – who will see reduced choice and increased costs.

Myth #3: We can just import products from third countries instead

Two thirds of the world's wine is produced in the EU, the UK is the second biggest wine importer and 55% of wine imports to the UK are from the EU. Replacing this would mean having to source enough wine to replace approximately £5.8 billion worth in EU wine sales on the UK market from third countries which already have established supply chains and customer bases closer to their area of production. Even if it were possible to do, it would, again, result in increased cost for consumers and a potential decline in revenue to the Exchequer.

More simply, consumers will not be able to get hold of the products they want. Wine sales are often based on style and provenance and you cannot simply replace products like Rioja, Bordeaux, Barolo etc. with wines from outside the EU as they have distinctive characteristics as a result of their terroir and local wine-making practices. It would be almost impossible to replace the volume of a product like Prosecco with third country wines.

The fine wine sector almost exclusively focuses on French wine and substitution is not possible.

Myth #4: We can just drink more English wine

English wine accounts for less than 1% of UK market. The English wine sector is world class and is growing year on year, but even if the UK were producing English wine at its full potential capacity, the quantity would be nowhere near enough to make up for a loss in EU wine imports. Moreover, the average price is often over 3 to 6 times higher than the average cost of a bottle of wine. UK wine competes on quality, not price.

Myth #5: Having to import more third country wine will boost the UK's bulk wine bottling industry

Third country wine imports are massively important to the UK economy, and bulk wine bottling in the UK creates jobs and investment. However, we do not believe the potential loss of volume of EU wine could be substituted by increasing imports from outside the EU.

There are better ways to grow the UK wine sector, including boosting the UK's bulk wine bottling industry, such as joining the World Wine Trade Group (WWTG) and removing all third country wine tariffs.

Myth #6: Replacing a VI-1 with a simplified VI-1 on the 1 January 2021 would lessen the burden of importing wine from the EU

While introducing a simplified VI-1 would help remove some of the cost of producing a VI-1, it does not recognise the severe bureaucratic impact of introducing the forms themselves. Even a simplified form would bring EU wine imports to a standstill.

The mechanisms and structures are not yet in place to produce a VI-1, fuelled by a lack of clarity and certainty from both the UK Government and the EU. EU producers and exporters have never had to produce these forms before and their introduction, on 1 January 2021 without any time to put structures in place, will be hugely damaging for the UK wine industry which relies on their import. Regardless of this, their introduction would significantly disrupt "just in time" supply chains and there is still a cost associated with the production of the forms and the tests required for the simplified VI-1 – and this is on top of new requirements such as customs declarations.

For fine wine, it is almost impossible to obtain the information required even for a simplified VI-1 form as it can be decades old and the bottle would need to be opened in order to undertake the test, completely devaluing the product. The UK acts as a world wine hub, exporting around £650m worth of wine making it the UK 6th biggest food and drink export – we export more wine to Hong Kong by value than the world's biggest wine maker, Italy. This is in part due to the UK's streamlined customs processes, systems such as its excise warehousing capabilities, and the expertise of the UK wine industry. Introducing a VI-1 form requirement for wine from the EU will complicate processes and completely undermine the competitiveness of the UK fine wine sector.

Myth #7: The introduction of VI-1s is a good negotiating tool with the EU

VI-1s act as a technical barrier to trade in something the UK cannot produce itself but is worth billions to the UK economy and supports thousands of jobs. The sale of EU wine in the UK contributes approximately £2bn to the UK Treasury in excise duty alone and introducing the VI-1 measure outlines the lack of understanding of the value of imports to the UK

economy. The Government's own assessment recognises that imports are just as valuable to the UK economy as exports, and in a 2017 DIT paper, states: "[The UK's] total trade with the world is equivalent to over half of [its] GDP – exports and imports were each equivalent to about 30% of GDP in 2016".¹

Myth #8: The wine industry has had the whole transition period to prepare for the introduction of VI-1 forms on 1 January 2021

It is absurd to suggest that the transition period following the time the UK left the EU should have been used to prepare for 1 January 2021 when both the UK and EU have been unable to answer very simple questions the industry has been asking for several years - such as confirming who the competent authorities will be, who the authorised laboratories will be and where the forms will be issued.

Myth #9: The cost of introducing VI-1s will fall to EU producers, not UK companies or consumers

Even if EU producers were to take on provision of VI-1 forms, they would be a new requirement for EU wine producers and the cost will have to be accounted for somewhere. This is on top of additional costs they will already have to incur (e.g. customs declarations, the new UK Global Tariff etc.) and it will fall on the UK importer to make sure they have a VI-1 form, meaning they are the ones taking on the risk if the goods are not accompanied by the correct documentation. Many EU producers may decide that sending goods to the UK is not worth the time or cost, meaning UK businesses will lose access to their long held and trusted suppliers. So, in the end, UK businesses and 33m consumers would lose out.

Myth #10: Applying the same rules to all imports of wine removes a long-standing market distortion and creates a level playing field for the global wine trade with the UK

Introducing VI-1 forms from 1 January 2021 does not result in a level playing field when both EU and UK businesses have had little time to prepare. It is imperative that these rules are suspended from 1 January 2021.

Moreover, the WSTA believes that current third country VI-1 requirements are also unnecessary and the UK would be rolling over a protectionist EU rule introduced for and by wine producing countries. The UK imports 99% of wine consumed in the UK and making it harder to import a product we do not produce will simply drive up prices. The WSTA's ideal

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/880607/Preparing_for_our_future_UK_trade_policy_Report_Web_Accessible.pdf

scenario would be to level the playing field, but by removing all VI-1 requirements and replacing it with a new, electronic system which facilitates trade and entrenches - and that at the same time significantly enhances the UK's place as the world's wine trading hub.

Myth #11: We need a VI-1 so we can obtain important information ensuring safety and authenticity

Wine is the only alcoholic drink which is required to have an additional certificate. The WSTA would argue that some information on the form, such as dry matter and three types of acidity, is wholly unnecessary and does not denote either safety or authenticity of a product. Instead, government should define the information it really needs and importers should be required to provide this information from commercial documentation, not producers.

Myth #12: VI-1s wont hurt small businesses and importers because there is an exemption for VI-1s for wine under 100 litres.

The exemption from a VI1 form for a small consignment of wine - which is itself a roll-over of EU rules (i.e. this exemption exists currently for 3rd country wine imported into the EU) - allows businesses to import less than 100 litres of wine (around 130 bottles) without needing a VI-1 form. However, the 100 litres applies to the total consignment, e.g. if you have one lorry with 20 types of wine each under 100 litres but totalling more than 100 litres, you would need to include a VI-1 for every different wine. That means you would need 20 VI-1 forms – which could cost up to £6,600 if testing were required for each form. If a business wanted to move these wines independently, transport costs would be uneconomic and not environmentally friendly. It also means that if several smaller businesses in the UK wanted to combine shipping with another small wine producer, they would end up having to request that their goods were accompanied by a VI-1 form.

WSTA 06/08/2020