Economic Environment

Ciatti Brexit Update

Boris Johnson became prime minister of the United Kingdom on 24 July. He has pledged that the UK will leave the European Union by the end of 31 October "do or die, come what may". This would be via one of two ways.

Johnson’s stated preferred way is to re-open negotiations with the EU on the Withdrawal Agreement that his predecessor, Theresa May, negotiated with the bloc and which has failed to be passed by the UK parliament. His renegotiation would seek to strip out the so-called "Irish backstop" from the Withdrawal Agreement, or at the very least have the backstop time-limited. The Irish backstop is a protocol which essentially keeps the UK in the EU Customs Union until a trade deal between the UK and the EU is completed, in order to ensure there is no hard land border between Northern Ireland (UK) and the Republic of Ireland (EU). The Irish backstop is deemed unacceptable by UK politicians who view it as potentially trapping the UK in the EU’s Customs Union for many years, even indefinitely. They have thus voted down the Withdrawal Agreement three times.

The UK successfully leaving the EU via the Withdrawal Agreement would ensure a two-year transition period, in which the UK would effectively remain in the EU’s Customs Union and Single Market while a trade deal was negotiated. It is assumed that disruption to trade in that instance, including of wine, would be negligible or non-existent.

Boris Johnson’s problem is that the EU is refusing to re-open negotiations on the Withdrawal Agreement. He has refused to start any further talks with the EU unless the EU shows that it is ready to move on the Irish backstop. He has said that, if the deadlock continues, his government will take the UK out of the EU on 31 October without a deal – a so-called ‘Hard’ or ‘No Deal’ Brexit, in which trade between the UK and EU would immediately switch to being carried out on World Trade Organisation terms.

It is widely perceived that the upset to trade in that instance would potentially be considerable. It is understood that, should a ‘No Deal’ Brexit happen, the UK would likely adopt a continuity approach, recognising EU standards in the short term to avoid trading chaos. Inspection of goods coming into the UK would be limited, with the UK adopting EU regulations temporarily on imports.

To show the EU it is serious, on 31 July the new Johnson government announced it would be releasing an extra GBP2.1 billion to "turbocharge" the UK’s No Deal preparations – the funds will “accelerate preparations at the border, support business readiness and ensure the supply of critical medicines”. This brings the UK’s total No Deal spending to GBP6.3 billion.
Johnson’s 'No Deal' threat can be taken more seriously than any Theresa May might have made because 1) Johnson, unlike May, voted for Brexit, 2) he owes his ascent to the premiership to his Brexit-supporting position, and 3) his cabinet is entirely formed of ministers signed up to leaving on 31 October – whether there is a deal in place or not.

Politico.eu has reported George Brandis, Australia’s high commissioner to the UK, as saying that, should the UK leave the EU on 31 October, Australia is optimistic of having a free trade agreement in place with the UK “before the end of 2020”. He cited Australian wine exports as one obvious beneficiary of the UK being able to reduce tariffs on Australian products – the UK is already the leading destination for Australian wine exports by volume, taking 236 million litres in the year to June 2019.
Source: Ciatti Global market Report August 2019

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**Ciatti Global market Update**

"Rain is falling hardly anywhere pertinent to the wine industry“, we wrote in the August 2018 issue of the Global Report, and a year on we can report similar. While water reserves are finally receiving replenishment in the Western Cape and South Australia, Argentina and Chile have been experiencing drier than normal winters for a second successive year, while Europe’s crops have faced two record-breaking heatwaves this summer.

So far, bulk wine markets remain unmoved by such conditions, though this time of year is always a dubious yardstick to judge activity levels by, considering that it is holiday season. Chile’s 2020 grape prices could tick up on concern regarding the lack of rain there over the past two years (Valley Central rainfall has totalled 135 millimetres so far in 2019; in a normal year it would be over 480 millimetre by now), but bulk wine prices there and across the world are stable and – largely – expected to remain so. The stability of prices in the recent past and looking ahead suggests a reasonable level of confidence among buyers that they can secure the wines they need if they go looking for them. South Africa, for example, has lost market share as buyers successfully seek alternative sources; buyers currently enjoy some elbow room to be choosy about quality. Thus the global market as it currently stands is probably in a balanced to slightly long situation, with no sign anywhere of panic from buyers, only some sellers.

The main locations of seller nerves are California, where inventory is significant and the new harvest imminent, and South Africa, where pockets of availability on most varietals have belatedly popped up in recent weeks, often too late for international buyers who have already switched to elsewhere, such as Argentina or Spain. For the first time in a while, there are opportunities to be had on the Western Cape’s bulk wine market.

There are also significant carryover stocks in Spain – most of its generic white wine and basic reds – and in Italy. Spain’s ongoing drought, however, is expected to clip as much as 30% off the coming harvest in some areas of La Mancha, while Italy’s crop is also expected to be down in size on last year.

At the last estimate, France’s 2019 harvest could be its second smallest in the past five years. Such has been the summer heat in Europe that even the UK recorded a national record temperature of 38.7°C (101.6°F) on 25 July.
Source: Ciatti Global market Report August 2019

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**Global Trends - Beverages**
Wine revealed as Britain’s favourite alcoholic drink

Wine has beaten beer and spirits to become the favoured tipple of UK drinkers, according to a new survey of 2,000 consumers from Yougov.

Global Trends - Wine Industry Key Elements

A Comparison Of Same Wines In Bottles And Cans Ended In Near Draw

Eighty-six volunteers, aged 21-77, participated in a recent blind comparison taste. Dr Helena Williams who instigated the study confirmed, “preliminary conclusions suggest that tasters reported no strong preferences between the identical wine packaged in a can, vs. packaged in a bottle”.

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