Economic Environment

Ciatti Brexit Update

November 2019

On 17 October, two weeks before the UK was due to leave the European Union with or without a deal, Prime Minister Boris Johnson and UK negotiators successfully completed a renegotiation of the Withdrawal Deal with the European Union, confounding expectations that it could not be ‘reopened’. Sterling strengthened on the news.

The great majority of the revised Withdrawal Deal is unchanged from the one agreed a year ago between the EU and Johnson’s predecessor, Theresa May. The main area of change is to do with the avoidance of a hard border between Northern Ireland and the Republic of Ireland.

The Northern Ireland fudge
Although Northern Ireland will leave the EU’s Customs Union alongside the rest of the UK (and officially be inside the UK’s customs territory) it will remain partially aligned to the EU’s Single Market for goods. There will be no customs checks on the island of Ireland – they will be done in ports. For goods crossing from Britain to Northern Ireland, that are deemed to be staying there, no EU tariff will apply. A tariff will apply if they are deemed to be headed ultimately to the Republic of Ireland. Northern Ireland’s assembly must give consent after Brexit for this continued alignment with the EU regulatory regime. This fudge simultaneously allows the UK to claim it will be leaving the EU “whole and entire” and for the EU to claim the integrity of its Single Market has been upheld.

Extension until 31 January
The Johnson government had hoped the new Withdrawal Deal would be passed by the UK Parliament in time for the UK to leave the EU on 31 October, as scheduled. However, many parliamentarians – despite showing (in a non-binding vote) their majority support for the Deal – objected to what they saw as too short a time to scrutinise the Deal, and triggered legislation requiring Johnson to formally ask the EU for yet another three-month extension until 31 January 2020. The requested extension
was granted by the EU. Thus, the UK will now not be leaving the EU until that date at the earliest.

Christmas general election
Johnson, sceptical that – with less time pressure – his Withdrawal Deal would pass through parliament without being heavily amended, chose to avoid trying to pass the Deal at all. Instead, on 29 October he secured a general election, to take place on 12 December. It will be the UK’s first December election since 1923. Johnson and the Conservatives are campaigning on the message ‘Get Brexit Done’. If they secure a majority, the Withdrawal Deal will pass through Parliament and the UK will leave the EU on 31 January 2020. The UK will then move into the ‘Transition Period’, during which time it will remain in the EU’s Single Market and Customs Union while it negotiates a new trading relationship with the EU. The Transition Period is due to expire on 31 December 2020; Johnson has pledged that it will not be extended.

The opposition Labour Party says that, should it form the next government, it will seek to re-open the Withdrawal Deal yet again (and attempt to make changes towards a ‘softer’ Brexit, such as staying in the EU Customs Union permanently), then put the renegotiated Withdrawal Deal to a referendum.

The third-largest party, the Liberal Democrats, are campaigning for a second Brexit referendum (if it were to form part of a coalition government) or to cancel Brexit entirely (if it were to win a majority).

How does this affect the wine trade?
The uncertainty for the wine industry continues to some extent, but there is now some breathing space. Johnson’s successful renegotiation of the UK-EU Withdrawal Agreement has ostensibly taken a ‘No Deal’ Brexit off the table for at least another 12 months because:
- If Johnson wins a majority, the UK will remain in the EU’s Single Market and Customs Union until at least 31 December 2020 (as the UK will move into the Transition Period having successfully passed the Withdrawal Deal);
- A Labor majority government or a Labour-led coalition would completely rule out a ‘No Deal’ Brexit.

Regarding post-Brexit paperwork, the UK government announced towards the end of October that, in a ‘No Deal’ Brexit scenario, it would suspend – for up to nine months – the imposition of new ‘UK VI-1’ forms on EU wines entering the UK. The WSTA welcomed the move: “The additional form filling and laboratory tests needed had paperwork requirements not been suspended would have added a massive burden on businesses and consumers alike.”

As significant sellers to the UK of low-priced wines, French and Spanish suppliers are worried that they will lose share at that end of the UK retail market should any barriers to trade go up (appellation and high-end wines should be more insulated). However orderly the UK’s withdrawal from the EU may ultimately turn out to be, it is envisaged by many in the EU that – in the mid to long-term – the level of wine sales from the EU to the UK will decline, with the UK having already agreed trade continuity deals with some third countries like South Africa and Chile and the existence of historical ties with others, such as Australia and New Zealand.
It will likely take some time for the picture to become clear on how retail sales of wine in the UK are faring amid the ongoing uncertainty and any potential increase in the retail price of certain wines. Market research institute GFK had the UK’s consumer confidence rating at -14 in October, the same as in August. People’s personal financial outlook for the next 12 months was 3 points lower than in the same month of 2018, however.

Brexit’s continuing uncertainty and the spectre of a general election is not helpful. People can only feel confident if they believe the external environment is stable, yet consumers are witnessing too many Brexit shifts and surprises, too many Brexit timelines and counter proposals to justify any longer-term confidence.”

Global and SA Trends

Global Market Report Update
The harvests in Europe are finished and yields look to have come in down from 2018’s bumper output – OIV estimates the crops were down 15% in Italy, 24% down in Spain, and Agreste estimates the crop was down 15% in France. That said, this year’s harvest sizes – especially in Italy and France – were not considerably down from the five-year average, and all are larger to varying extents than the troubled harvests of 2017.

The bulk wine markets in Italy, France and Spain are all quiet as winemaking is underway and the markets for the white wines are getting set up. A recurring theme is that, despite the harvest declines, buyers are not tolerating price increases on the majority of wine categories, in some cases even rejecting pricing that is in-line with the previous campaign. Many buyers of Italy’s leading export wines – Prosecco, Pinot Grigio and Primitivo – have the ability to wait and see if prices decline; many European and domestic buyers of Spanish wines are well-covered until the end of winter; meanwhile, in France, a large carryover of red wines in the Languedoc, coupled with slow retail sales of red wines at home and abroad, means little pressure on the red wine market there.

Particular wines do continue to experience dynamic markets: Languedoc whites and rosés, Spanish international varietal reds (especially as 2019 yields of these underperformed the headline harvest figure), and Italian high-quality reds and good sparkling base wines. Few categories in California, meanwhile, exhibit similar dynamism: with big inventories and the bulk wine market there continuing to be very slow despite some very attractive pricing, Ciatti expects that more grapes were left on the vine than has been seen for many years. International buyers should not rule out finding some very attractive opportunities in California, even on Coastal wines.

Highly attractive on price at the moment is Argentina, with early signs that the 2020 harvest in Mendoza will be a good one and with significant red wine inventory available.

Instability in the key consuming markets of the US, UK and China is worrying everybody. The US has levied retaliatory tariffs on all Spanish, French, and German bottled wine imports containing up to 14% alcohol; the UK’s Brexit drama will
continue until at least 31st January 2020; China’s economy has taken a downturn and the imported wine market there is increasingly competitive.

Key Takeaways
Argentina can offer bulk wines in good volumes at very attractive pricing; the price of its generics is the world’s most competitive. International interest is steady and there’s been a slight uptick in domestic demand. Buyers seeking generic white wines out of Argentina are recommended to move quickly as remaining inventory of these is not huge; in addition, there is the ability to contract 2020 whites at current prices on a sample approval basis. Generic White Standard trading at 0.22 - 0.24 USD/litre, Generic Red at 0.25 - 0.30 USD/litre.

France- Buyers with immediate needs of specific white or rosé wines should move onto the market as soon as possible – ditto those seeking high alcohol reds (14.1%+), as demand for these could increase as exporters to the US seek to get around the new tariffs. Generic White trading at 0.66 - 0.78 USD/litre and Generic Red at 0.72 - 0.89 USD/litre.

The market on 2019 wines in Spain is yet to really get underway, with prices stabilising after the short 2019 crop and the big European buyers still working through their inventories for a few more weeks yet. Buyers with immediate need of Spanish red wines, international varietal wines, low alcohol wines and traditional/semi-controlled fermentation white wines are encouraged to get in touch as soon as possible, as Spain’s supply of these is reduced this year. Generic White trading at 0.33 - 0.44 USD/litre and Generic Red at 0.44 - 0.55 USD/litre.

Sales of Italy’s flagship products – Prosecco, Primitivo and Pinot Grigio – remain strong but the market for the 2019 wines is yet to get fully underway as suppliers seek a rise in prices from the 2018 vintage levels and buyers hold off in the hope the offer prices come down. Good quality sparkling bases and high-quality red wines are in good demand, but the delayed harvest means sampling and blending will take place towards the end of November. Quality looks good.

Australia’s wine exports to China continue to grow strongly in value, reaching a record high in the 12 months to September 2019; Australia is now the leading country of origin for imported wine – by value – into China, surpassing France. The average value of Australia’s total unpackaged wine exports, meanwhile, increased 9% to AUD1.22/litre FOB, the highest level since 2009.

Source: Ciatti Global Market Report November 2019