Enotria&Coe
Brexit Plan

The UK is at the heart of the global wine industry as the World's sixth largest wine market and second largest trader in wine by volume.

- Over 30M consumers in the UK drink wine, consuming about 140M cases annually.
- The WSTA attributes £17 billion of economy activity in the UK to wine contributing over £9 billion to the public purse every year.
- Since 2010, duty on wine has increased by 39%. In comparison, duty on beer, spirit and cider has increased by just 16%, 27% and 27% respectively.
- On average, 50p in every pound spent on wine bought to consume at home is tax. The UK pays 68% of all wine duties across Europe.

Despite taking actions which reduced economic output more than any others in the EU, the UK has experienced one of the World's worst Covid death rates. As the Prime Minister mulls additional Covid lock-down measures and deals with the ramifications of increasing infections, time is running out and there is a strong likelihood for a "no deal" Brexit at the end of the year.

This outcome has become even more likely as the Prime Minister infuriated senior EU officials after it was reported the Government will table new legislation, which overrides key elements of the Withdrawal Agreement. Mr Johnson stated that he would not compromise on the "fundamentals" of what made Britain an independent nation and insists that a no deal would still be a "good outcome for the UK".

If Covid and Brexit were not enough, there is an on-going review of alcohol taxation driven by the powerful Spirits Lobby proposing the Chancellor reallocate duty onto other beverage alcohol categories.

The timing of this comes on the back of a Fall budget that may call for additional taxes to pay for Covid spending. Despite these challenges, Enotria&Coe (E&C) believe we are well placed to emerge stronger than ever.

This document reviews high level Brexit impact, E&Cs Brexit plans and summarises E&C's continuity plan dealing with Covid, Duty and Alcohol Review.

No Deal - Facts:

"Wine" means alcoholic drinks produced exclusively from the fermentation of fresh grapes, including sparkling and fortified wines.

There will be changes affecting wine imports if the UK leaves the EU without a deal.

Importing wine into the UK from a non- EU (third) country

There will be a 9-month transition period to a new system for importing wine from a non-EU (third) country.

During this time, you'll be able to bring wine from a third country into the UK using either:

- an existing EU VI-1
- a new UK VI-1

A VI-1 is a document issued in a third country that fully describes wines imported into the European Community.

Government bodies in third countries are responsible for issuing VI-1s for wine to be exported to the UK and to the EU.

Importers should start using the new UK VI-1 as soon as third country government bodies are able to issue them. After the 9-month transition period, the EU VI-1 may not be valid.

Exemptions to the VI-1

There are some circumstances in which you can import wines to the UK, or export from the UK to the EU, without a VI-1. This will continue from 1 January 2021.

You won't need a VI-1 for wines that are:

- in labelled containers up to 10 litres with a single use stopper, where the total quantity of the shipment (which can be in separate consignments) is less than 100 litres
- your personal property if you're moving to the UK
- in the personal luggage of travellers, up to a maximum of 30 litres
- sent in consignments from one person to another, up to a maximum of 30 litres per consignment
- for trade fairs if the wine is in labelled containers of up to 2 litres with a single use stopper
- imported for the purpose of scientific and technical experiments up to a maximum of 100 litres
- held in stores on board ships and airplanes operating in international transport
- originating from and bottled in the UK, exported and then returned to the UK to be sold
- originating from and bottled in the EU, exported and then returned to the EU to be sold
- traded for diplomatic purposes in accordance with the Vienna Convention or the New York Convention

You'll still be able to use the simplified VI-1 for importing wines from Australia and Chile. Wines from the United States can continue to use a simplified VI-1 and US wineries can continue to self-certify their VI-1s.

Brexit Impact on Wine Summary

On 1st January 2021 the UK's transition period with the EU will end and the UK will begin operating under Government controls for movement of goods.

As such, the Government have provided guidance on goods will be imported and exported between the UK and the EU. The Government guidance does not yet provide the level of detail required to finalise all cross-border processes.

A summary of considerations and their impact follow:

Tariffs

There would be additional tariffs on imported wine from the EU adding an extra £.10-.15 per litre for wine and / or £.29 per litre for sparkling. Currently the UK consumer pays £2.97 per litre plus 20% VAT on top of the duty and £3.81 per litre for sparkling plus VAT, so this won't be material, but unhelpful in a low margin industry.

VAT

VAT will need to be paid in full at the port of entry to the UK before trucks can be released. This will cause significant cash flow pressure to the trade. HMRC provided for a temporary reprieve during the last Brexit cliff-edge and we hope this would apply to this transition.

Customer Decelerations

Starting January 1, 2021, EU suppliers will no longer use the web-based EMCS system for wine shipments to the UK, and will have to go to their local customs office and complete a full export declaration which they then need to send to the UK importer/customs agent before the goods arrive. This is slower, more expensive and reliant on local resources. Each truck and container must physically go to customs to be checked and sealed before leaving. When this shipment arrives in the UK, the cargo would also need to be physically checked, something that does not happen currently adding transit time to all shipments.

Labelling

Wines will have to be labelled with the full address of the UK importer, no matter the quantity purchased, which is not the case on wines shipped within the EU. Any winery selling to multiple importers will require a different back label for each distributor.

VI1 Documents

These documents are required for any wines imported into the UK outside of the EU and will be required by all EU wines after the transition period. The VI1 is a two-part document a) an analysis which has to be done by an official lab b) a food safety verification which needs to be completed by a government inspector.

This will be required for every batch of wine on every delivery into the UK. This will increase the cost (lab analysis) and increase the time required to prepare and ship wine. The WSTA estimates an annual increase of 600,000 forms costing the wine trade an additional £70M. This impact will disproportionately fall on smaller producers who may decide the burden of shipping into the UK is not worth the sale reducing overall consumer choice.

The WSTA has led the fight to change the process and the House of Lords has agreed to take up the debate via an amendment, tabled by Lord Holmes of Richmond, who has also written a blog piece on the subject. Read Here

Preferential Origin Certificates

Even with a trade deal, administrative costs and delays will still be greater than the current frictionless trade. Under a Free Trade deal with the EU, every imported wine will need to have a certificate of preferential origin to prove the product meets the minimum requirements to receive preferential trade status.

Each supplier requires proof for each and every ingredient of the wine as to the country of origin, and only EU origin will qualify for getting tariff-free trade. This means providing details for each sub-ingredient for every sku such as labels (glue, paper, ink, varnish, foil), cartons (paper, ink, glue), screw-caps (aluminium, ink, PVC, foil), bottles (sand, soda etc.), grapes, enzymes, yeast, etc.

This paperwork requires review by local customs authorities.

E&C Brexit Continuity Plan

The business has experience already preparing for three previous cliff-edge Brexit. The concluding Brexit is complicated by Covid and must be considered together.

1. Ensure adequate liquidity for market volatility or incremental inventory build.

- Enotria has secured an additional £6M of available liquidity from shareholders and the bank to deal with potential secondary lock-down and inventory build.
- Banking covenants have been waived and cleared through the next six months.
- FX has been locked up to mitigate risk of £GBP volatility.
- Costs have been reduced to reflect lower activity in the medium term.

2. Secure employee continuity.

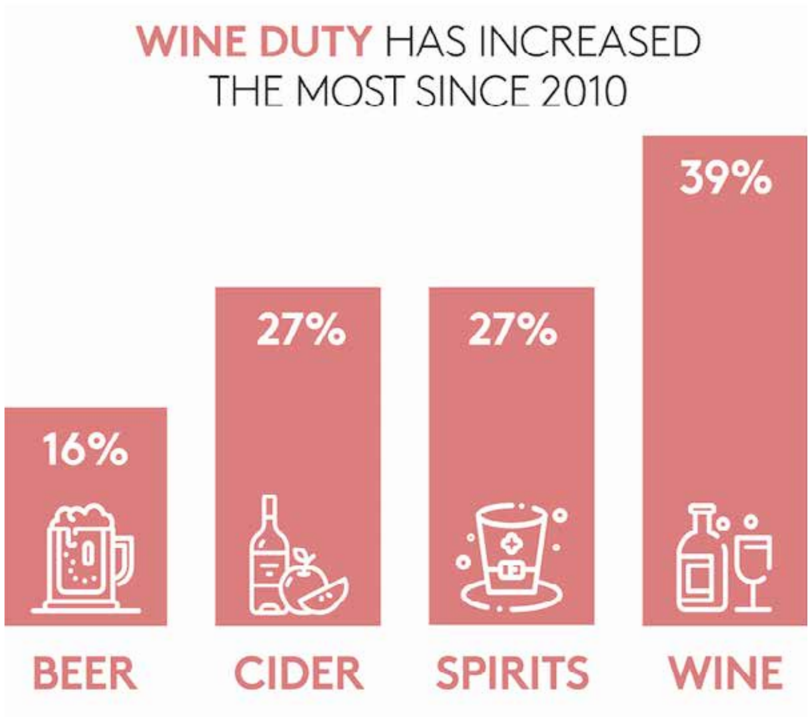
- The business is working with its employees to ensure all European residents have applied and been granted settled status.

3. Manage customs tariffs, duty increases and processing charges.

- Tariffs are likely to be imposed on the first day of 2021. As soon as this is finalized, we will communicate and pass these charges along.
- Duty may increase due to budget or taxation review. Enotria will communicate HMRC changes and pass these costs along when imposed. We are working with our Trade Association to lobby the government to delay any increases until the end of the first quarter in 2021.
- Freight forwarders have indicated they will pass along cost increases associated with Brexit. E&C will work to reduce any impact as much as possible and work to pass any costs along netting any impact of the new vintage in the first quarter 2021. We will do our best to coordinate timing with the increase in duty if it occurs at the end of Q1, 2021.

4. Increased Transit Time.

- E&C will bring in additional stock in December to prevent impact of any shipping delays. The Cabinet office is estimating there could be an additional two day delay due to trucks queuing to cross the border.
- E&C will work with European suppliers to ensure our supply chain is prepared to complete the required documentation (e.g. VI1 forms). The Government has indicated that October 15 is a key date for EU negotiations, so we will wait until then to take direction on how to proceed.



HMRC Review of Alcohol Tax

Under pressure from the powerful Spirits Lobby, the Chancellor announced a review of the UK's duty regime.

There are historic anomalies that create significant differences in taxation for drinks at the same level of alcohol that do warrant correction. However, this consultation could dramatically shift tax and profit between alcohol categories. The fact this is still ongoing despite Brexit and Covid demonstrates the pressure being applied at #11 Downing. E&C distributes every category of beverage alcohol and are accordingly agnostic. We also believe the industry is stronger when working together and the entire category is already overtaxed.

Unfortunately, the review creates an environment where each category is pitted against the other, with each arguing for a higher tax burden to be placed elsewhere.

Not only is it divisive, but also provides HMRC and The Department of Health plentiful ammunition for future increases. For this reason, E&C is proud to be one of the founding members of Wine Drinkers UK to help speak out for wine which does not have the political power of Beer and Spirits.

Its primary message to ministers and consumers remind everyone about the positive economic impact wine has to the country and its essential role in the hospitality trade (which has been under severe duress due to Covid).

Brexit Warning: Italy on "Red Alert"

If the EU and UK leave without a deal, there is some risk towards protected naming conventions.

As a member of the WSTA, Wine and Spirits Trade Association, we are working to prevent this from happening. However, a number of European trade associations are sounding the alarms there is a risk that their protected brands may not be protected in case of "no deal". Theoretically, an Australian "Prosecco", could be sold into the UK under the name of "Prosecco".

As the UK exports to Europe a similar value of spirits that it imports in wine from Europe, we believe this is a small risk.

Trade Association Announcement Excerpt

Coldiretti (National Farmers Confederation) has warned the absence of a trade deal between the UK and EU could see a surge in "fake" products passed off as Italian - even if they are not.

The association told the Wine News website in Italy: "With the latest threat from the British Prime Minister Boris Johnson, Great Britain risks becoming the free port of the fake 'Made in Italy' in Europe due to the lack of legal protection of the brands of Italian food products with geographical and quality indications (PDO/PGI), which represent 30 percent of the total overseas agri-food exports."

Coldiretti, led by its President Ettore Prandini, warned any 'Made in Italy' products would not have European protection and would be subject to unfair competition from imitation products made elsewhere overseas. As the Prime Minister is setting out today, there needs to be an agreement by the time of the European Council on October 15 if it is going to be in force by the end of the year.