Title: Wine REUL IA **IA No:** AFC/039/R **RPC Reference No:** **Lead department or agency:** DEFRA **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 28/09/2023 **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary Legislation **Contact for enquiries:** Phillip Munday

Summary: Intervention and Options

RPC Opinion: GREEN

Cost of Preferred (or more likely) Option (in 2019 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
£189.7m	£189.7m	-£22.0m	-110.2

What is the problem under consideration? Why is government action or intervention necessary?

Following the United Kingdom (UK)'s exit from the European Union (EU), the United Kingdom incorporated the existing EU legal framework into UK domestic law.

Leaving the EU gives us a unique opportunity to review our retained EU wine law to ensure it better suits our domestic needs and to support greater global marketing opportunities. These reforms will address a number of issues that our wine businesses face. It will remove barriers, support innovation and simplify regulations to help support growth in our wine trade and production industry, giving them the freedom to meet new and evolving demands, while also maintaining the high standards that consumers have come to expect.

The current regulations impose restrictions on the types of grapes that are permitted to make certain Geographic Indication (GI) wine, restrictions on blending or the use of by-products, restrictions on how sparkling wine can be marketed. Furthermore, businesses will face unnecessary costs if Government doesn't intervene with provisions on importer labelling.

Removing these burdens will support the UK Government's policy objectives to encourage sustainable growth, enhance consumer confidence, minimise environmental impact and achieve frictionless trade. Regulatory reform could allow practices that reduce carbon emissions, decrease production costs, and enhance consumer choice in the wine market. The proposed reforms form part of the Government Smarter Regulation Programme which reviews and reforms regulation following EU exit with the objective of supporting economic growth and to reduce the cost of living.

The UK wine market was worth over £10 billion in 2022 off-trade and on-trade sales[1], and the UK's developing domestic production sector has attracted significant global investment. Reforming our retained EU laws give us the opportunity to boost growth and development in our domestic industry and give it the capacity to tackle future environmental and economic challenges.

[1] WSTA Market Report April 2023

What are the policy objectives of the action or intervention and the intended effects?

The overarching policy objectives driving the legislative changes, listed below, have been developed in collaboration with industry and consumers putting them at the centre of policy amendments.

1. **Frictionless trade**. Increasing the sector's export capability by removing regulatory barriers to trade.
2. **Consumer confidence**. Ensuring labelling and marketing rules continue to give consumers confidence that the products they are buying are safe, legitimate, and meet their quality expectations.
3. **Sustainable growth**. Ensuring our regulatory framework promotes long-term investment and growth in the sector.
4. **Environmental impact**. Introducing regulatory changes that promote sustainable industry practices and are in line with the government's net zero ambitions.
5. **Removing burdens**. Reducing red tape and costs for businesses.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: 'Do nothing' counterfactual

This IA is looking into a set of diverse reforms in the wine sector, specifically addressing changes introduced by The Wine (Revocation and Consequential Provision) Regulations 2023. As the counterfactual could look different for each reform, we will be presenting it separately in the IA.

Option 1 (preferred): Revoke regulations that hinder business and restrict innovation via The Wine (Revocation and Consequential Provision) Regulations 2023. This reform forms part of the Smarter Regulation programme of regulatory reform announcements, that has followed the publication of Smarter Regulation to Grow the Economy. This sets out action the government is taking to reduce the burdens on business, reduce the cost of living, deliver choice to consumers and drive innovation. Full details appear in the Evidence Base section.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year				
Is this measure likely to impact on international trade and investment?		Yes / No		
Are any of these organisations in scope?	**Micro** Yes/No	**Small** Yes/No	**Medium** Yes/No	**Large** Yes/No
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)		**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Mark Spencer Date: 25/10/2023

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	**PV Base Year** 2020	**Time Period Years** 10	**Net Benefit (Present Value (PV)) (£m)**		
			Low: Optional	**High:** Optional	**Best Estimate:** 189.7

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	Optional		Optional	**Optional**
High	Optional		Optional	**Optional**
Best Estimate	0.0		0.0	**0.0**

Description and scale of key monetised costs by 'main affected groups'

The main costs arising from the proposed reforms will be familiarisation costs as people working in the wine sector will need to understand the change to regulations, estimated to be £0.049m

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	Optional		Optional	**54.3**
High	Optional		Optional	**325.3**
Best Estimate	0.0		22.0	**189.7**

Description and scale of key monetised benefits by 'main affected groups'

Presented as the present value over the 10-year period: The largest monetised benefits are expressed as avoided costs and are related to the requirement of re-labelling bottles to show an "imported" or "imported by" before the address of the business responsible for importing that wine to GB, estimated to be £209.7m. Other benefits include the projected profit from the sales of piquette, estimated at £0.019m, and the cost saving of not using foil wraps, estimated to be £0.55m. Lastly, costs avoided from the wine certification scheme application, estimated at £0.023m.

Other key non-monetised benefits by 'main affected groups'

Permitting the use of non-*vitis* vinifera species and hybrid varieties in Protected Designation Origin (PDO) wines can bring significant benefits to both the industry and the environment. Hybrid varieties often exhibit higher disease resistance compared to traditional *vitis* vinifera varieties. Similarly, producing piquette could lead to reduced waste and environmental benefits. Permitting blended wines could lead into more stable supply, consumer choice and environmental benefits as bulk shipping emits lower emissions.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5%

a) There is uncertainty around the uptake from businesses for certain permissive reforms (hybrid varieties, piquette, foil wraps & mushroom stoppers and blending of wine), making overall impact difficult to estimate.
b) For the importer labelling reform, the analysis relies on estimates of benefits per container that we obtained from the Wine and Spirits Trade Association (WSTA) as well as the consultation response. We have done sensitivity analysis around these benefits, but the actual figure could vary dramatically between individual businesses.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			**Score for Business Impact Target (qualifying provisions only) £m:**
Costs: 0.0	**Benefits:** 22.0	**Net:** -22.0	

Contents

Evidence Base

1. The UK is a global hub for wine. It is home to a diverse and dynamic wine sector and is the second largest importer of wine in the world by value[1]. In 2022, off-trade sales of still, sparkling, and fortified wine via supermarkets, convenience stores, and specialist off-licences in the UK were worth around £7.6 billion, while on-trade sales through hospitality outlets were worth an estimated £3.5 billion.[2]

2. The UK wine industry is made up of a variety of different business types, from vineyards, bottling plants, and importers of regular and fine wines, operating across a range of scales. Large volumes of wine are imported, bottled and re-exported across the world. The UK is currently the 12th largest exporter of wine globally (by value)[3]. The domestic winemaking sector in England and Wales is by comparison very small, but rapidly growing and developing a global reputation for quality. Production reports for 2022 show a 36% increase in production. There has been a 74% growth in hectarage of vines between 2017 and 2022 (from 2257ha to 3928 ha). The UK is also the historical hub for the global trade in fine and rare wines, and London boasts a major wine futures market for such investments. Vine planting is projected to reach 7,600ha by 2032[4]

3. Following the UK's departure from the European Union, the UK incorporated existing EU wine law into domestic law becoming retained EU Law (REUL). Although REUL applies in GB, EU law continues to apply in Northern Ireland with the Windsor Framework agreement permitting UK standards to apply to goods moved from Great Britain to Northern Ireland. REUL on wine is complex and the legislative framework contains a significant number of restrictions on how wine can be produced and marketed. Defra and the wine industry have identified several areas where REUL introduces unnecessary bureaucracy or direct barriers to growth and competitiveness in the wine sector and have worked closely to identify the changes that need to be made to address these.

4. We have considered relevant World Trade Organization (WTO) and free trade agreement (FTA) obligations in proposing these changes.

[1] Dats source Comrade and ITC(2022)
[2] WSTA Market Report April 2023
[3] Data source: Comrade and ITC (2022)
[4] WineGB-Industry-Report-2022-23-FINAL-4.pdf

Overview of the wine sector in the UK

The United Kingdom has a significant wine market, both in terms of consumption, trade and production. While the UK climate isn't conducive to large-scale wine production, it is a major consumer and importer of wines from around the world. The UK's wine industry is characterized by a combination of domestic wine production, imports, retail, distribution, and consumption.

Key Players**:**

Retailers: Large supermarket chains have a significant presence in the UK wine market. These retailers offer a wide range of wines from various regions and price points, catering to different consumer preferences.

Wine Merchants: Independent wine merchants play a vital role in the UK wine sector, trading wines, often on the fine wine market.

Importers and Distributors: Several companies specialise in importing and distributing wines to various points of sale across the country. These companies work closely with producers from wine-producing countries to bring a diverse range of wines to the UK market.

Online Retailers: With the growth of e-commerce, online wine retailers have gained prominence, offering consumers the convenience of shopping for wines online and having them delivered to their doorstep.

Wine Producers: While the UK climate limits large-scale wine production, there are domestic vineyards producing wine. English sparkling wine, in particular, has gained recognition for its quality and has been compared to Champagne.

Table 1: Wine Reform: Summary of proposed reforms

Proposed Reforms	**Summary**	**Intended effects**
Importer Labelling	To remove the requirement that wine must show the prefix ‘importer’ or ‘imported by’ before the business address, making the address become that of the Food Business Operator (FBO).	This measure is designed to avoid the cost associated with holding separate stock lines, but there will be a small cost associated with labelling the FBO address.
Hybrid grape varieties	Allow wines with a Protected Designation of Origin (PDO) to be produced from any permitted grape variety or hybrid variety rather than just from the species ‘*vitis vinifera*’.	Long term benefits to the industry and environment, eg. hybrid grape varieties are more disease and climate resistant meaning potential to reduce pesticide use and greater crop consistency in poor climatic years.
Piquette	Allow UK producers scope to produce and sell Piquette, which is made from the by-products of winemaking.	We anticipate this will become an interesting value-added opportunity for our wine producers. Reduced alcohol ‘cooler’ type products are becoming increasingly

		popular with consumers given the trend towards lower alcohol consumption.
Blending of wine	Allow for the coupage (blending) of wine that is imported to GB.	Allowing the blending of imported wine in GB is expected to give rise to better consistency, less waste and support more innovation in the industry.
Foil wraps and mushroom stoppers	Remove mandatory requirements for foil caps and mushroom shaped stoppers to be used in the marketing of certain sparkling wine.	Requested by some UK wine producers to make the production of sparkling wine more competitive, and to make recycling of sparkling wine bottles easier. Also, to allow innovative stoppers to be used that retain fizz in sparkling wine, which could support moderate consumption of alcohol and reduce waste.
Wine certifications scheme	Removal of the certification arrangements which permit non-GI wine to show a variety and/or vintage.	Removes an additional cost and admin burden to producers who simply want to tell a consumer what it is they are buying.
Sunset Reg 2019/935	This regulation provides for a specific method of analysis for a wine production practice that we understand is no longer commercially used. This will also address an unavoidable legal conflict in REUL bought about by the process of making REUL law operable in GB.	Removes an obsolete provision and also a potentially confusing piece of EU law.
Removing EU rules concerning reservation of certain bottle shapes for certain EU wines.	Removal of rules that define the characteristics of certain types of bottle that must be used for marketing certain EU wines.	Operability change to remove a provision that only applies to EU wine production.

Please see below a more detailed explanation of the proposed reforms

Importer Labelling

1. The wine industry has asked for wine law to be aligned with general food law so the requirement for the prefix 'importer' or 'imported by' can be dropped. The proposed removal of the prefix will mean that the address of the wine importing business will automatically become the Food Business Operator (FBO) responsible for the food information on the bottle as provided for in Article 9 of Regulation 1169/2011. This change establishes clarity between EU and GB labelling arrangements following the view the EU took that wines showing two addresses prefixed by the term "importer" on the label is potentially confusing. This change should allow both an EU and GB address on the same label, preventing the need for two separate labels. This reform could reduce costs for marketing wines both in the EU, NI and GB markets with the same label and provide an economic benefit to GB importers and exporters of wine. It will also improve the link between the wine and the business responsible for marketing that wine, especially in the case of multiple retailer outlets. This is a sector request: Multiple retailers and large merchants sell a significant amount of wine to consumers marketed as "own label" brands. This change will allow them to take ownership of the wine rather than having to use wording such as "imported for *x retailer* by y".

Hybrid grape varieties

2. The restrictions under retained EU law placed on Protected Designation of Origin (PDO) wines produced from grapes from the species *vitis* vinifera come from the alignment of historical European wine appellation-based quality rules with the revised EU PDO and Protected Geographical Indication (PGI) quality arrangements. These rules place provenance of production and raw materials at the heart of quality. Placing an artificial barrier on the type of grapes that can be used for PDO verses the broader list of varietals that can be used in PGI wine production is inconsistent with the core PDO and PGI scheme principles.
3. The government is proposing to allow PDO wines to be produced from species other than just grapes of the variety *vitis* vinifera. This will include other permitted species of *vitis* and hybrid grape varieties. These grapes are more climate and disease resilient than vines of the species *vitis* vinifera[5][6][7]. They therefore offer the potential for less pesticide use and can survive more erratic weather, yet still produce excellent award-winning wine. This reform will align the rules on which grapes can be used for all wine production in GB. It will potentially encourage producers into the PDO scheme who were previously not able to apply because of the grapes they produce. It will give existing PDOs scope to consider whether other species of *vitis* or hybrids should be permitted in new or existing scheme PDO specifications. It will also help support the future sustainability of our domestic production industry.

Piquette

4. The ban on piquette originates from an era when there was a significant overproduction of wine in the EU and financial support was given to the wine sector based on wine production amounts. The ban on production of products very similar to wine was introduced to reduce the potential for fraud.

[5] eip-agri_fg_diseases_and_pests_in_viticulture_final_report_2019_en.pdf (europa.eu)

[6] Phenological diversity in wild and hybrid grapes (Vitis) from the USDA-ARS cold-hardy grape collection | Scientific Reports (nature.com) ..

[7] B1-ADAPTING-VITICULTURE-TO-CLIMATE-Guidance-manual.pdf (adviclim.eu)

5. The proposed removal of the ban will allow wine producers scope to monetise what would otherwise be a waste product from the wine production process. It could allow vineyards and wineries scope to improve their profitability and offer consumers greater choice.

Blending wines

6. The blending (coupage) of wine is both a historical practice and commonplace globally, offering scope for producers to create new blends of wine that appeal to consumers. Under retained EU law, the blending of imported wine is banned. The EU continues to permit the blending of EU wines of different EU origins, but takes the view that wines produced elsewhere should not be blended with its wine, nor does it permit non-EU wines to be blended in the EU.
7. The proposal to remove this ban will allow the blending (coupage) of any wine in GB. This will allow for improvements to be made to wine through a blending process. It could allow bottlers scope to achieve greater consistency in their products and could allow for new products to be created to suit specific consumer tastes. Permitting blending could also present scope for business development and jobs in creating and facilitating blending operations in GB.

Foil wraps and mushroom stoppers

8. Historically certain types of sparkling wine have had to be presented in glass bottles sealed with a mushroom shaped stopper, which is secured with a cap and wire cage. This and the neck of the bottle are then covered in a foil sheath. The basis for this is decorative and historically it disguised irregular fill levels in hand produced traditional method sparkling wine.
9. The intended changes remove a historical requirement that hinders innovation in the development and uptake of reusable stoppers that help sparkling wine retain fizz for longer. It could remove what is seen by some producers to be an unnecessary cost in the production and marketing of certain sparkling wines. It could also support simpler recycling of sparkling wine bottles.

Removing the wine certification arrangements

10. The basis that non-GI wine has to be certified in order to show a varietal and vintage has its basis in the establishment of the PDO and PGI arrangements for wine. Certain EU wine appellations asked for this regulatory safeguard as they were unhappy with non-GI producers having unrestricted access to varietal and vintage, historically their preserve, without suitable controls.
11. We consider the certification arrangements at present an unnecessary barrier to marketing wine with a vintage or varietal (or both), but which do not, or cannot enter the PDO or PGI schemes. We consider the veracity and frequency of checks on GB wine production by Food Standards Agency (FSA) inspectors, and the relatively small size of the domestic production industry reduces any risks of falsification. If revoked, this will allow producers to be able to use vintage and variety on labels without having to go through the certification arrangements and will improve these producers' ability to compete in the industry.

Removing EU rules concerning reservation of certain bottle shapes for certain EU wines.

12. The proposed change ensures that our legal framework is fully operative by removing restrictions regarding the shapes of bottles that only apply to wine produced in the EU.
13. As GB has no protected bottle shapes, there is no reason for retaining this provision in our law. If in future the domestic wine industry sought to protect a unique bottle shape they

would need to investigate whether that could be achieved through other means e.g. trademark etc.

Revoking retained Regulation (EC) 2019/935 setting out GB methods of analysis and controls on enrichment

14. The revocation of retained regulation (EC) 2019/935 removes a redundant method of analysis for a wine production practice that is obsolete. It will also allow us to remove a provision concerning the arrangements that apply to Ministers in England, Scotland and Wales agreeing to an increase in the natural alcoholic strength of a wine where there have been exceptionally unfavourable weather conditions. Currently, the provisions set out in Article 3 of Regulation 2019/935 duplicate almost identical provisions contained in EU Regulation 1308/2013 (Annex 8 Part 1 (A) (3)) and the government proposes to retain the latter provisions. This revocation of duplicate provisions will remove any potential legal uncertainty.

Table 2: Policy objectives

Policy Objectives	*Intended outcomes*
Frictionless trade	Increasing the sectors export capability by removing regulatory barriers to trade.
Consumer confidence	Ensuring labelling and marketing rules continue to give consumers confidence that the products they are buying are safe, legitimate, and meet their quality expectations.
Sustainable growth	Ensuring our regulatory framework promotes long-term investment and growth in the sector.
Environmental impact	Introducing regulatory changes that promote sustainable industry practices and are in line with the government's net zero ambitions.
Removing burdens	Reducing red tape and costs for businesses.

15. The objectives of this policy are to move towards frictionless trade by increasing the sector's export capability by removing regulatory barriers to trade. If successful this will benefit the value of food and drink exports, and thereby the agri-food sector contribution to national Gross Value Added, and the UK trade balance. The proposed changes also aim to improve consumer confidence by ensuring labelling and marketing rules continue to give consumers confidence that the products they are buying are safe, authentic, and meet their quality expectations, without being overly complicated compared to alternatives.

16. The proposed changes will help to ensure our regulatory framework promotes long-term investment and growth in the sector. It will support entry into the sector and lend support to businesses of all levels. The reforms will encourage diversity, which benefits consumer

choice. By reducing red tape and costs for businesses our aim is to promote innovation and encourage competition to improve price and quality for consumers. Increasing innovation will encourage a variety of approaches which will make the market more resilient to supply-side impacts and can lead to more sustainable, efficient, and/or more cost effective supply chains.

17. To align with the Government's climate objectives, the proposed reforms will introduce regulatory changes that promote sustainable industry practices and are in line with the government's net zero ambitions. The new legal framework will bring environmental benefits by encouraging more bulk movements of wine to GB for bottling. It will support our glass recycling targets and help producers to squeeze every drop of value from their harvests. This will lessen the environmental impacts of the domestic alcoholic drinks market.

Problem under consideration and rationale for intervention

18. The intervention aims to correct unnecessary barriers and support the UK Government and Defra's wider strategic objectives around shaping the market to drive productivity and sustainable economic growth. It supports the government Smarter Regulation programme of regulatory reform which aims to reduce the burdens on business, reduce the cost of living, deliver choice to consumers and drive innovation.

19. Following European Union exit, the UK incorporated the existing framework of EU law into UK domestic law. Leaving the EU gives us the opportunity to review the UK's regulatory framework for food and drink. The current rulebook for wine is overly complex and bureaucratic with significant restrictions to how wine can be produced and marketed. Many of these rules have been established over decades and were designed around the needs of EU wine producing nations. Some rules are directly linked to a time when the European wine industry was coming under significant commercial pressure from mass produced wines from Australia, USA and South America. The existing regulations are impediments to innovation and growth in the UK wine sector, which is predominantly involved with the import trade. Regulatory reform could help reduce carbon emissions on wine shipments from across the globe, reduce production costs and increase consumer choice in the wine sector.

20. As legislative change is needed to address the identified issues, Government intervention is required as the reform could not be achieved through market mechanisms. The reforms also form part of the Government Smarter Regulation Programme, which is a programme for Britain to review and reform REUL, with the objective of supporting economic growth.

21. The rationale for intervention for importer labelling reform is to remove the requirement for the prefix 'importer' or 'imported by', meaning horizontal food labelling law (Reg 1169/20) automatically apply and avoid cost burden for business. This will require a wine label to show a Food Business Operator (FBO) which, given the EU view that two importers on a wine label would be confusing, will avoid costs associated with maintaining separate stock lines and relabelling costs where a wine is marketed in the UK and EU. We recognise there will be a small cost associated with labelling the FBO address but envisage that following the removal of restrictive regulations, firms will take the opportunity to produce, process and package wine and wine products in a more efficient manner, which will increase productivity and economic growth.

22. For the other reforms ('hybrid grape varieties' and piquette) the rationale for intervention is to reduce the regulatory burden on businesses and therefore promote international competitiveness, encourage more sustainable practices, and increase consumer choice.

- Rules that will allow hybrid and species of grape variety other than *vitis* vinifera to be used for wine with a Protected Designation of Origin (PDO). This will allow producers scope to use or incorporate varietals that have greater climatic resilience and more disease resistance than currently permitted varieties. This will lead to long term benefits to continuity of production while also reducing the impact on the environment.
- Permitting the production and marketing of piquette will give producers the freedom to innovate and market this low alcohol product within a growing low alcohol beverage market. It will allow them to offer more product lines and profit from a product made from the by-products of the wine making process.
- Permitting coupage (blending of wine) will benefit producers and consumers through the enhancement of wine through better consistency, less waste, and more innovation in the sector.
- Removing the mandatory requirements for foil wraps and mushroom stoppers in certain sparkling wines will help environmental sustainability through easier recycling.
- The removal of the wine certification, which will allow certain wines to show a variety and/ or vintage, removes an additional cost and administrative burden to producers. Removing this arrangement benefits producers.
- The removal of Sunset Reg 2019/935 removes an obsolete provision and unnecessary piece of EU law which could introduce legal uncertainty and be confusing to producers. Removing this legislation removes a barrier to production and innovation.
- Removing the regulations that dictate bottle characteristics removes a provision which only applies to EU wine production, and therefore removes a provision which is not operable in REUL.

Rationale and evidence to justify the level of analysis used in the IA (proportionality approach)

23. Many of the provisions we intend to remove represent a significant change in a wine policy that has taken decades to evolve. Many of the restrictions date to a time when the European wine sector was in crisis, facing threats from overproduction, poor quality and rising competition from wine producers in 'new' producing regions such as Australia and the USA who capitalised on the UK as a new emerging consumer nation.

24. Considering the permissive nature of the proposed reforms, we believe that our analysis is proportionate to the problem under consideration.

25. Due to the predominantly deregulatory nature and novelty of the proposed reforms, the process of collecting evidence has presented challenges. Some of the key issues we have faced was lack of pre-existing impact examples to draw upon as well as uncertainty around the uptake from businesses for certain reforms (hybrid varieties, piquette, foil wraps & mushroom stoppers and blending of wine).

26. We have tried to mitigate this uncertainty and filling in separate evidence gaps by collecting evidence through our consultation and separate stakeholder meetings with key players of

the UK wine market (trade associations, independent producers, and bottlers). The insights gleaned from these interactions have significantly informed the overall approach of this Impact Assessment. We have also used sensitivity analysis where possible to account for the uncertainty around monetising the costs and benefits associated with the proposed reforms.

Description of options considered

27. As mentioned in the summary section, the "do nothing" counterfactual (Option 0) differs for each reform, reflecting the distinct circumstances of each reform area. Directly comparing Option 0 with our preferred option (Option 1) allows us to get a better understanding of the potential impact.

<u>Importer Labelling</u>

Option 0: 'Do nothing' counterfactual (revert to the outlines of the EU Withdrawal Act for importer labelling)

28. This option acts as the 'do nothing' option against which changes are assessed. This would allow a current EU Exit related easement to lapse on 31 December 2023, requiring all wine marketed in GB on 1 January 2024 to show a GB based 'importer' on the label. The European Commission has indicated that it considers wine labelled with more than one importer could be confusing to the public, so dual labelling of wine with importers in GB and EU would not be possible. Instead, separately labelled wines showing either an EU or a GB importer would have to be maintained, which is something industry has been keen to avoid due to increased costs in maintaining additional Stock Keeping Units (SKUs).

Option 1: Review and reform regulatory framework (preferred option)

29. The government is proposing to amend retained EU law to remove the requirement that imported wine needs to show the prefix 'importer' or 'imported by' before the address of the business responsible for importing that wine to Great Britain. Under retained EU law (Regulation 1308/2013, Article 119(1)(f) and Regulation 2019/33, Article 46) imported wine is required to use the prefix 'importer' or 'imported by' before the address of the importer.

30. This law requires the import, bottling, and re-export trade to add a SKU (Stock Keeping Unit) line to wine destined for the EU market. The wine industry has asked for wine law to be aligned with general food law so the requirement for the prefix 'importer' or 'imported by' can be dropped. The proposed removal of the prefix will mean that the address of the wine shown on the label will be the Food Business Operator (FBO). They are legally responsible for the placing of the product on the market, as provided for in Regulation 1169/2011 Article 9. This will be the FBO under whose name the product is marketed in cases where they are established in the UK, e.g. retailers in the case of retailer own-brand wines. This change establishes clarity and a distinction between EU and UK labelling arrangements for wine which should allow both EU and UK addresses on the same label, rather than requiring a different label for each market. This reform could reduce costs for marketing wines both on the EU, NI and GB markets with the same label and will provide an economic benefit to GB importers and exporters of wine.

<u>Hybrid grape varieties</u>

Option 0: 'Do nothing' counterfactual (Maintain limitations on growing hybrid grape varieties)

31. The Government considered alternative approaches here but in practical terms adopting a do-nothing approach was not a viable option. The UK pressed for change in the EU and subsequently the EU has rolled back on this restriction. Maintaining unjustifiable limitation on producers who grow or would like to grow hybrid other or grape varieties in the future impacts on their competitiveness. It would also put our policy at loggerheads with broader Defra aims to boost the financial and environmental sustainability of our food and drink businesses.

Option 1: Review and reform regulatory framework (preferred option)

32. The restrictions under retained EU law placed on PDO wines produced from grapes from the species *vitis* vinifera come from the alignment of historical European wine appellation- based quality rules with the revised EU PDO and PGI quality arrangements. These schemes place the provenance of production and raw materials used at the core of quality policy. It is therefore not appropriate to limit arrangements for producing a PDO wine to only certain species of grapevine given this underlying basis. The government is proposing to allow applications to register PDO, or amend existing PDO specifications for wines that are to be made from other species of *vitis* and hybrid grape varieties, as well as from *vitis* vinifera varieties, because these grapes are more climatically resilient and disease resistant than vines from the species *vitis* vinifera. They offer the potential for less pesticide use, can survive more erratic weather and can still produce excellent award-winning wine.

Piquette

Option 0: 'Do nothing' counterfactual (Maintain the ban on piquette)

33. The option of doing nothing would in effect perpetuate a restriction that has links to the past. There has never been a rational justification for not allowing the production of piquette in the UK, as we have never been in receipt of the subsidies that other EU Members received. However, the ban limits the scope wine producers have to innovate and add value to their our wine businesses, something the UK is keen to stimulate.

Option 1: Review and reform regulatory framework (preferred option)

34. The ban on piquette originates from an era when there was a significant overproduction of wine in the EU and financial support given to the wine sector was based simply on wine production amounts. The ban prevented unscrupulous EU producers from making a product that could easily be disguised as wine to claim structural support.

35. The proposed removal of the ban will allow wine producers scope to monetise what would otherwise be a waste product from the wine production process. It could allow vineyards and wineries to improve their profitability by offering consumers greater choice of products.

36. There are health and social considerations to make when introducing a new alcoholic beverage to the market, however we expect this to remain a niche product. Its lower alcohol content could be a positive factor for people who switched from full strength wine, but overall, we anticipate piquette will have no impact on UK alcohol consumption habits.

Blending wines

Option 0: 'Do nothing' counterfactual (Maintain the current regulation of preventing imported wine being blended with other wines)

37. The option of doing nothing would maintain this regulation preventing imported wine being blended with other wines. This limits our wine sector business' scope to innovate, improve quality, and increase consistency all of which would benefit consumers and the economics

of wine businesses. This disadvantage would also be amplified as since our departure, UK is no longer able to blend EU wines of differing origins. To maintain this regulation would also prevent there being any increased and diversified economic activity in the UK that would have been brought about by removing regulations on blending wine.

Option 1: Review and reform regulatory framework (preferred option)

38. The EU continues to permit the blending of EU wines of different EU member state origins, but takes the view that wines produced elsewhere should not be blended with its wine, nor does it permit non-EU wines to be blended in the EU. The proposal to remove this ban will allow the blending (coupage) of any wine in GB. This will allow for improvements to be made to wine through a blending process. It could allow bottlers scope to achieve greater consistency in their products and could allow for completely new products to be created to suit specific consumer tastes.

Foil wraps and mushroom stoppers

Option 0: 'Do nothing' counterfactual (Maintain requirement for mushroom stoppers and foil wraps)

39. The 'do nothing' approach would maintain the regulation 2019/33 which is grounded in tradition and prevents innovation in wine stoppers – preventing what could be developments of stoppers and sheaths which support recycling and may be more suited to consumer preferences. The current requirement for foil wraps and mushroom stoppers is unsustainable and costly for producers, as there is a global shortage of foil producers,[8] with the largest European supplier being based in France and already receiving orders for 2024. Maintaining this requirement therefore has implications for UK imports and could create supply-side shortages.

Option 1: Review and reform regulatory framework (preferred option)

40. The intended changes remove a requirement that hinders innovation in the development and uptake of reusable stoppers that help sparkling wine retain fizz for longer and support moderate consumption of alcohol. It could remove what is seen by some of our producers to be an unnecessary cost in the production and marketing of certain sparkling wines. It could also support simpler recycling of sparkling wine bottles.

Removing the wine certification arrangements

Option 0: 'Do nothing' counterfactual (retaining wine certification arrangements)

41. The alternative option of 'doing nothing' would retain the wine certification arrangements which are complex and limited in practical purpose. Certification arrangements were introduced by the EU Commission at the behest of certain EU GIs who were concerned that varietal and vintage would be used unscrupulously by producers. The UK did not support that view then and does not now. This restriction is a barrier to producer's ability to convey messages to consumers about their products.

Option 1: Review and reform regulatory framework (preferred option)

42. The government's proposal to remove the wine certification arrangements could reduce unnecessary and unjustified red tape and increase producer competitiveness. We consider the certification arrangements to present an unnecessary barrier to marketing wine with a vintage or varietal (or both), but which do not, or cannot enter the PDO or PGI schemes. We consider the veracity and frequency of checks on GB wine production by FSA inspectors, and the relatively small size of the domestic production industry reduces any risks of falsification.

[8] Aluminum Foil Shortage Causes Concern - Industry News - News (gneeppgi.com)

Removing EU rules concerning reservation of certain bottle shapes for certain EU wines

Option 0: 'Do nothing' counterfactual (maintaining laws that do not apply in the UK)

43. If a 'do nothing' approach was taken, our legislation would contain laws that do not apply in the UK as these protected bottle shapes are not available to our producers. The wine regime provides a basis to protect wine GIs and terms used on certain wines. It does not provide a basis for protecting bottles or container shapes. Therefore, the rules providing this protection must stem from other intellectual property law such as trademark law.

Option 1: Review and reform regulatory framework (preferred option)

44. The proposed change effectively tidies up our legal framework by removing restrictions that only apply to EU wine production. As GB had no protected bottle shapes there is no reason for retaining this provision in our law. If in future the domestic wine industry sought to protect a unique bottle shape or design that had become synonymous with a certain type of wine, we would advise protection should be sought under other rules which is more appropriate and enforceable than a provision in wine law.

Revoking retained regulation (EU) 2019/935 setting out GB methods of analysis and controls on enrichment

Option 0: 'Do nothing' counterfactual (maintaining an oenological process that is no longer used)

45. Doing nothing would involve maintaining retained regulation (EU) 2019/935 which sets out the methods of analysis for an oenological process (paraffin disc impregnated with allyl isothiocyanate) that is no longer used. This regulation also provide a basis by which Defra and Ministers in Wales and Scotland can decide whether to approve an increase in the natural alcoholic strength of a wine where there have been exceptionally unfavourable weather conditions. Under a 'do nothing' we would retain a provision that is virtually identical to legal provisions contained in retained EU regulation 1308/2013 (Annex 8 Part 1 (A(3)) potentially causing legal uncertainty.

Option 1: Review and reform regulatory framework (preferred option)

46. The government is intending to revoke retained Regulation (EC) 2019/935 and remove a redundant method of analysis for a wine production practice that is not used by our wine industry, nor is it intended to be used in the future[9]. It will also allow us to remove a provision concerning the arrangements that Defra Ministers can apply, with the agreement of the relevant authorities in Wales, to allow an increase in the natural alcoholic strength of a wine where there have been exceptionally unfavourable weather conditions. Currently, the provisions set out in Article 3 of Regulation 2019/935 duplicate almost identical provisions contained in EU Regulation 1308/2013 (Annex 8 Part 1 (A) (3)) and the government proposes to retain the latter provisions.

Summary and preferred option with description of implementation plan

47. This statutory instrument will revoke specified secondary retained EU law relating to the production, marketing, and analysis of wine and wine related products, and the disposal of the by-products of winemaking in England. This instrument will use primary powers granted by the Retained EU Law (Revocation and Reform) Act 2023 (REUL Act).

48. Our preferred option would enable our policy objectives to be achieved and address the issues present in the wine industry following EU exit through simplifying rules applicable to

[9] From discussions with stakeholders and trade associations

the wine industry. These arrangements will come into effect on 1 January 2024. This will ensure continuity in labelling rules for wine following the end of the easement that allowed an EU importer to be shown on wine, but also other benefits of reform can be introduced as quickly as possible using appropriate REUL Act Powers.

49. The Food Standards Agency, supported by Trading standards and HMRC will continue to enforce wine law in England. We do not intend to introduce any transitional arrangements. The Internal Market Act 2020 and the Windsor Framework will allow for products produced in England under reformed wine rules to be sold in Scotland, Wales and Northern Ireland. DEFRA has published a response to the findings from this consultation to outline timings and delivery mechanisms.

Size of wine sector in the UK

50. The UK wine market is one of the largest in the world, with a total value of £11.1 billion in 2022 (£7.6bn off-trade and £3.5bn on-trade), according to the Wine and Spirit Trade Association (WSTA)[10]. Wine consumption in the UK has been steady over the years, with an average per capita consumption of 32.3 bottles per year in 2021[11].Most of the wine consumed in the UK is imported, with the top five countries of origin being France, Italy, Spain, Australia and New Zealand[12] Growing domestic production accounts for around 0.5%[13] of total UK consumption by volume.

51. According to HMRC, the UK's wine trade in 2022 was as follows:

Table 3: UK wine trade in thousands of pounds (Source: HMRC trade data)

	EU trade (£000s)	Non-EU Trade (£000s)	Total (£000s)
Imports	2,925,985	1,152,784	4,078,433
Exports	182,462	370,322	552,784

52. The UK imports a lot more wine than it exports. In addition, almost all of these exports are re-exports, primarily wine imported in bulk, bottled and then sold in other markets.

53. In 2021, the UK produced approximately 8.95 million bottles of wine, an increase of 1.7% from the previous year[14]. In 2021, the UK produced approximately 8.95 million bottles of wine, an increase of 1.7% from the previous year.[15]

54. Domestic wine production: We estimate that there are approximately 1,040 vineyards and 230 wine producers in GB[16].

[10] WSTA Market Report April 2023, found at: https://resources.wsta.co.uk/publications/index
[11] https://www.oiv.int/what-we-do/country-report?oiv
[12] https://oec.world/en/profile/bilateral-product/wine/reporter/gbr
[13] HMRC Alcohol Bulletin table
[14] The UK's Love of Wine Becomes Homegrown – Fera Makes it More Sustainable
[15] https://winegb.co.uk/wp-content/uploads/2022/09/WGB_Industry-Report_2021-2022FINAL.pdf
[16] WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

55. Imported wine market: As discussed above, almost all the wine consumed in the UK is imported. We are aware of 4 major businesses who specialise in importing wine in bulk, bottling and distributing wines to various points of sale across the country. These companies work closely with producers from wine-producing countries to bring a diverse range of wines to the UK market.

56. According to HMRC, there are 1,659 wine importers in the UK[17]. This includes businesses specialising in bottling wine. Bottling companies play a crucial role in the wine sector, especially for imported wines. These companies package wines in bottles suitable for retail and distribution. The bottling sector includes a small number of large-scale bottlers (4-5 in the UK) and smaller independent operations.

Monetised and non-monetised costs and benefits of each option (including administrative burden)

57. For every measure described above, we have only monetised the preferred option (Option 1). In each case, Option 0 (do nothing) acts as the counterfactual against which the changes are assessed.

58. In line with Green Book guidance[18], a 10-year assessment period was chosen for which to estimate the costs and benefits of each measure. We have also used a 3.5% discount rate in line with the same guidance.

59. Also, in line with Green Book guidance, all figures have been presented in 2019 prices. Where they have not, we have specified the year. The expected annual net direct cost to business uses 2020 as its base year.

60. From the RPC guidance: Regulatory changes are permissive in nature where they allow, but do not force, businesses to do something. We consider the following reforms to be permissive in nature:

    - Hybrid grape varieties,
    - Piquette,
    - Blending wine,
    - Foil wraps and mushroom stoppers

61. For the rest of the reforms (importer labelling, wine certification scheme, sunset Reg 2019/935, bottle shapes), take-up from the sector is not voluntary.

62. What this means is that the changes to legislation proposed will permit businesses to do something they were previously prevented from doing. Therefore, there is uncertainty around take-up of the new opportunities making overall impact difficult to estimate. As such, due to proportionality and following RPC methodology on permissive legislation, benefits have not always been monetised for the relevant reforms (see paragraph 60).

63. Where we have monetised costs and benefits and where there is significant uncertainty, we undertook sensitivity analysis to capture the range of possible impacts that are likely to result from the proposed changes. In addition, throughout the impact analysis we have used a cautious approach by leaning towards conservative estimates of the expected

[17] 2204 - Search traders - UK Trade Info
[18] https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-governent/the-green-book-2020

benefits of the proposed changes. This ensure that we do not overstate the expected benefits or underestimate the costs.

64. Given the uncertainty around the length of the final government document and how this is going to be presented to the sector, we have been conservative when estimating familiarisation costs to business. We have used 10 minutes per measure as our central assumption for most of the reforms. For importer labelling and blending, we have used 30 minutes as our central assumption as we consider those reforms are more slightly more complex.

65. For comparison, we have used Business Impact Target[19] guidance to calculate familiarisation time: we believe that the Explanatory Memorandum (EM) will be about 2-3 pages long which is around 1200 words at most. The BIT guidance gives a 50-100 word per minute reading speed for technical text. We believe that the sector is very familiar with the proposed reforms (through the trade associations and consultation). As such we believe that the 100 per minute word speed is more appropriate and that gives us around 12 minutes per business to familiarise with the proposed changes.

[19] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/609201/business-impact-target-guidance-appraisal.pdf

Importer labelling

Option 1 (preferred): 'Do nothing' counterfactual (revert to the outlines of the EU Withdrawal Act for importer labelling)

66. We expect the monetised and non-monetised costs and benefits for the proposed changes to importer labelling to look as follows:

Table 4: Importer Labelling Benefits & Costs

Benefits	**Costs**
Monetised benefits to business Costs avoided from labelling requirements, incl.: • Sticker cost avoided (direct) • Labour cost avoided (direct) • Storage cost avoided (direct)	Monetised cost to business Familiarisation Cost (direct cost to business)
Non-Monetised None	Non-Monetised None

67. It is important to recognise that the impacts described in this section are assessed against the counterfactual of reverting to the outlines of the EU Withdrawal Act for importer labelling. Thus, we are assessing against a counterfactual that would occur after the EU Exit related easement ends, not the counterfactual of the current operating model of industry. Therefore, the industry will experience little change and the costs and benefits would not directly be felt by the industry but would accrue in terms of costs and benefits avoided.

Monetised Direct Benefits to business

68. The benefits resulting from the implementation of the importer labelling changes would accrue directly to businesses importing bulk wine and bottling that wine for distribution for the UK and EU markets. These businesses would avoid costs related to the requirement to re-labelling bottles to show an 'importer' or 'imported by' before the address of the business responsible for importing that wine to GB. Removal of the prefix will mean that the wine importers will automatically fall back to being a Food Business Operator (FBO) as defined in horizontal food law (Reg 1169/11). This change will reduce costs associated with the marketing wines on the UK and EU market with the same label.

69. The costs of stickering would fall only on wines of non-EU origin that are imported to the UK and subsequently exported to the EU. By volume, based on discussions with the industry body, we estimate that 10% of imported wines would incur the benefit. That is approximately 50% of the wine imported in the UK originates in the EU and 50% from third countries. Of the 50% imported from non-EU countries, approximately 20% are re-exported to the EU (10% of total).[20]

[20] This is according to the WSTA. By value, more than 50% of wine is imported from the EU. This reflects low-cost, bulk imports from the Southern Hemisphere.

70. Approximately 1.31bn litres of wine were imported into the UK in the 12-month leading up to December 2022.[21] That is the equivalent of 1.75 billion bottles of wine. Accounting for the sales of wine produced in the UK of approximately 8.8 million bottles[22] and the proportion of wine sold in containers greater (and smaller) than 750ml, we believe that approximately 1.6 billion containers would incur additional costs. As such, we estimate that the benefits accrue to approximately 160 million bottles.

71. We estimate that on average the costs avoided amount to of 5p-30p (17.5p best estimate) per bottle in 2023 prices.[23] In 2019 prices that's 4.35p-26.1p (15.2p best estimate).

72. Therefore, our best estimate is that the measure will lead to nominal benefits in the form of avoided costs of £24,366,930 in 2019 prices each year for 10 years.

Table 5: Nominal benefits presented as avoided costs

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Total Benefits	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930
Total Cost	21,843		-	-	-	-	-	-	-	-
Benefits - Cost	24,345,087	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930	24,366,930

73. The best estimate for the present value of monetised benefits is £159,902,763.

Table 6: Present value estimates for importer labelling

	Low NPV Scenario (£s)	Central NPV Scenario (£s)	High NPV Scenario (£s)
PV Benefits	57,900,039	202,650,136	347,400,233
PV Costs	10,552	21,104	42,208
Net Present Value	57,889,487	202,629,032	347,358,025
Equivalent Annual Net Direct Cost to Business	5,788,949	20,262,903	34,735,803

Costs to business

74. The only costs associated with the proposed measure are **one-off** familiarisation costs.

75. We estimate that approximately 1,659 importing and bottling businesses in the UK[24] will be affected by the changes and we estimate that it will take a manager approximately 30 minutes to get familiar with the new regulatory regime (15 mins – 1 hour sensitivity).[25] The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[26] In 2019 prices and applying a 22%[27] non-wage cost uplift, the hourly costs to the

[21] https://www.statista.com/statistics/316403/wine-import-volume-in-the-united-kingdom-uk/#:~:text=This%20statistic%20shows%20the%20volume,at%20approximately%201.31%20billion%20liters.

[22] https://winegb.co.uk/wp-content/uploads/2023/06/WineGB-Industry-Report-2022-23-FINAL-4.pdf

[23] This was estimated after consultation with members of the industry, the WSTA and from responses to the consultation.

[24] Based on number of members of the WSTA and ONS Nomis 2022 – see paragraph **56**

25 We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

[26] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

[27] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827926/RPC_short_guidance_note_-_Implementation_costs__August_2019.pdf

business of a ‘production manager or director in manufacturing’ is £26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 7: Familiarisation costs estimates

	Familiarisation Cost					
	Low		Central		High	
Familiarisation hours		0.25		0.5		1
Manager hourly pay	£	21.58	£	21.58	£	21.58
Uplift	£	1.22	£	1.22	£	1.22
Total wage cost	£	26.33	£	26.33	£	26.33
Nr of businesses		1,659		1,659		1,659
Familiarisation total	£	10,921	£	21,843	£	43,685

Wider impacts

76. We do not expect the proposed measure to have any wider impacts, considering that, in practice, it protects the current status quo.

Trade impacts

77. This measure is expected to support the ease of trade insofar that it avoids industry incurring a large regulatory cost introducing labelling with a UK ‘importer’, as the current EU exit related easement lapses on 31 December 2023. The introduction of the FBO address in lieu of the importer address supports the marketing of wine in the UK and the EU with the same label, given the decision of the EU that wine with 2 ‘Importer’ addresses on the label would be confusing. As such, the impact on trade of the measure is beneficial compared to the counterfactual used in the analysis while being neutral considering an easement currently already exists.

Risks and assumptions

78. Removing the ‘importer’ requirement offers major retailers / outlets scope to take responsibility for the wine they sell, especially own brand wines given that they will be the Food Business Operator (FBO) . The second benefit is that this will address the risk that once the EU Exit easement lapses wines showing a UK importer (the default) together with the EU importer would not be allowed to be marketed in the EU.

79. As discussed in the benefits and costs sections, the analysis relies on estimates of benefits per container that we obtained from the WSTA as well as the consultation response. We have done sensitivity analysis around these benefits, but the actual figure could vary quite dramatically between individual businesses depending on the individual circumstances of their operations.

80. We are also assuming that the industry can adopt the required labelling changes in their regular yearly labelling process. This means that the estimated cost savings are the

result of not having to hold separate stocks and warehouses for bottles destined to be exported to the EU or destined for domestic consumption.

81. There is also a risk around the portrayal of the estimated benefits, considering that we assess against a counterfactual of a reversion to the outlines of the EU Withdrawal Act for importer labelling, not against the current circumstances that businesses are actually operating in.

82. Another area of the uncertainty in the analysis is that the benefits in the long-term of the proposed change could be overstated. In the absence of intervention, businesses would presumably have adapted to the additional costs regardless of government intervention. Therefore, our assumption that the avoided costs remain stable over the entire assessment period might be an overestimate. We considered accounting for this with a 5% adoption factor in the nominal benefits over the assessment period, but in the end decided against it because we do not have any specific evidence that goes beyond theory to support this assumption.

Hybrid grape varieties

83. We expect the monetised and non-monetised costs and benefits for the proposed changes for hybrid grape varieties to look as follows:

Table 8: Hybrid grape varieties benefits & costs.

Benefits	Costs
Monetised Not monetised	Monetised cost to business Familiarisation (direct)
Non-Monetised Share of hybrid grape wines will increase: • Disease resistance (indirect benefit) • Resilience to changing climate conditions (indirect benefit to business) • Fewer pesticides (indirect benefit to business) • Supply chain resilience (indirect benefit to business)	Non-Monetised

84. We have attempted to gather evidence for this section by engaging with stakeholders and through the consultation, but they were unable to provide any quantitative evidence.

85. This reform is permissive in nature. This means that take-up from the sector is voluntary. Businesses are not required to do anything in response to this legislation and would choose

to act only if they believe the benefits at least outweigh the costs. Considering the novelty of this reform and uncertainty on the take up from the sector it wasn't deemed proportionate to quantify economic impacts in this instance[28].

Indirect non-monetised benefits

86. Permitting the use of non-*vitis vinifera* species and hybrid varieties in PDO wines can bring significant benefits to both the industry and the environment. Hybrid varieties often exhibit higher disease resistance compared to traditional *vitis vinifera* varieties. The use of hybrid grape varieties can contribute to greater crop consistency and thus, supply chain resilience. These hybrid grapes are often bred to withstand various climatic conditions and soil types, leading to more predictable yields. This predictability can mitigate the impacts of climate-related fluctuations and contribute to a stable supply of grapes, supporting both producers and consumers.

87. Non-traditional grape species and hybrid varieties can be more resilient to changing climatic conditions. As the wine industry faces challenges from shifting weather patterns, allowing a broader range of grape types in PDO wines can help ensure the longevity and viability of wine production in regions that might otherwise struggle with the changing environment.

Direct non-monetised benefits

88. Hybrid varieties can lead to a decreased reliance on pesticides, promoting more sustainable and environmentally friendly vineyard management practices, a direct benefit to businesses, and potentially lead to positive environmental externalities. Reduced chemical usage not only benefits environmental quality but also enhances the overall quality of the product, aligning with evolving consumer preferences for cleaner and more natural products. Reduced chemical use will lead reduced variable costs for producers.

Direct monetised costs:

89. The only costs associated with the proposed measure are one-off familiarisation costs. There are currently approximately 230 wineries in the UK[29] that would be able to take advantage of the proposed measure. We estimate that it will take a manager approximately 10 minutes[30] to get familiar with the new regulatory regime (5 mins – 20 mins sensitivity). The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[31] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the business of a 'production manager or director in manufacturing' is £26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 9: Hybrid grape varieties best estimate of monetised costs

[28] Permissive legislation - February 2020.pdf (publishing.service.gov.uk)

[29] WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

[30] We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

[31] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

	2019 prices (nominal)
Low (5 minutes)	£ 505
Central (10 minutes)	£ 1,009
High (20 minutes)	£ 2,019

90. The present value of the best estimate of monetised costs of the proposed changes for hybrid grape varieties is £975.

Wider impacts

Environmental impacts

91. It is clear from the 'non-monetised benefit' section that adoption of non-*vitis vinifer*a grape varieties could lead to positive environmental outcomes through a) decreased reliance on pesticides and b) more sustainable vineyard management practises that support biodiversity health.

Trade impacts

92. This is a long term change in policy direction and the trade impacts are difficult to quantify. This change will be subject to producer decisions and very small size of our domestic production industry which is heavily orientated towards the production of 'traditional method' sparkling wine. This is an area steeped in tradition, and as Champagne can only be produced from certain varietals, all of which are *vitis* vinifera, we don't see many in that business changing quickly.

93. Similarly producers who currently produce wine or sparkling wine from hybrid or other varietals on their own or in blend with *vitis* vinifera, are probably already successfully marketing that wine. Their ability to produce a PDO as opposed to a PGI is unlikely to make a significant difference to the market.

Risks and assumptions

94. The changes introduced here do not introduce significant risks. Some comments received in the consultation suggest that the quality of wine will reduce. We assume here they mean that there could be reputational damage to English, Welsh and the other PDO wines approved in the UK, as wines made using hybrid varietals have won many national and international awards.

95. Importantly it will remain the decision of the PDO applicant / producer to decide whether their specification should be changed to permit a broader range of varietals, and we understand that WineGB is currently discussing this as a potential future opportunity / risk with members. We consider this change permits options to wine producers / PDO owners and applicants to consider long term potential for improving products and potentially supporting better continuity from a more reliable and resilient crop. Finally, it should be noted that the EU has made an identical change to its legislation.

Piquette

96. Considering the measure is proposing allowing a practice that was thus far banned, the change represents permissive legislation. Businesses are not required to do anything in response to the legislation and would choose to act only if they believe the benefits at least outweigh the costs.

97. Nevertheless, we have, where possible, sought to quantify the impact the relaxation of the ban is likely to have.

98. We expect the monetised and non-monetised costs and benefits for the proposed measure to remove the ban on the production of piquette to look as follows:

Table 10: Piquette benefits & costs

Benefits	Costs
Monetised benefit to business Projected profit made from sales of piquette (direct benefit to business)	Monetised cost to business Familiarisation Cost (direct cost to business)
Non-Monetised Reduced waste/environmental benefits (direct benefit to business) Potential health benefits – lower alcohol content (indirect consumer benefit)	Non-Monetised Potential health risk of increased alcohol consumption (if piquette is consumed as well as wine rather than as a substitute for it)

Benefits

Direct monetised benefits to business

99. The main benefits from removing the ban on the production of piquette would accrue to producers who decide to start producing piquette from the pomace obtained during the fermentation of wine. Since this involves taking what is in essence a waste product and re-fermenting it, the input costs to produce piquette are comparatively low. In addition, the production of piquette largely uses the same equipment used during the production of wine and wine producers would face no capital costs in setting up this new operation.

100. Currently, while its production is forbidden, the sale of piquette is permitted in the UK. Bottles (750ml) regularly retail between £10 and £15. This is higher than the average cost of wine and is probably more due to it being a specialty product that is hard to obtain, rather than it being a product of particularly high quality.

101. We expect that piquette will remain a niche product even following the proposed removal of the ban on production. Even in the US, where the production of piquette is allowed, and where the production and consumption piquette has recently received renewed interest, the amount of piquette produced remains infinitesimal compared to the production of wine. Although hard data are not available, since piquette is not considered a distinct product

category, we estimate that the yearly production of piquette in the US does not surpass 3000 cases (27,000 litres).[32] That represents a negligible 0.0007% of US wine production.

102. Applying this to UK domestic production, the UK would produce about 46 litres (~61 bottles) of piquette each year. We are aware of some domestic producers who are interested in producing piquette and believe that estimating such a small production for the UK would likely underestimate the actual pick-up of the reform. A single medium-sized producer could produce a couple hundred bottles if they decided to. As such, we estimate that the production of piquette might reach 500 bottles (300-700 bottles sensitivity) in year 3 of the assessment period.

103. Since the production of piquette will be newly permitted, we believe that it will take producers some time to pick this up, but that the most likely producers will have reached a reasonable amount of production in three years time. Therefore, we have applied a factor of 0.5 in the first year, rising by 0.25 each year to 2.75 at the end of the appraisal period, to reflect this likely increase in piquette production during the appraisal period.

104. Finally, we have applied an estimated profit margin of 27%[33] on the sale of piquette. This is equivalent to the margin on wine retailing approximately £10, the price range we expect to see for piquette. It could be argued that due to the low input costs, the margin on piquette should be higher, but since any production would lack economies of scale and in the absence of evidence to the contrary, we think that 27% is a reasonable estimate. The profit from piquette sold at £12 would therefore amount to approximately £3.

Table 11: Piquette best estimate of monetised benefits

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
(Best) estimated UK piquette production (bottles)	250	375	500	625	750	875	1,000	1,125	1,250	1,375
Estimated profit in 2019 prices	£ 699	£ 1,049	£ 1,399.	£ 1,749	£ 2,099	£ 2,448	£ 2,798	£ 3,148	£ 3,498	£ 3,848

105. The present value of the best estimate of monetised benefits of allowing the production of piquette is £18,087.

Direct non-monetised benefits to business:

106. Piquette is made from the waste product of wine production and using that waste for productive purposes reduces the overall waste that wine production generates. It allows wine producers to squeeze extra value from waste from wine production with that residue still able to be sold as animal feed. Producing piquette, though, will reduce the overall environmental impact of the production of wine.

Indirect non-monetised benefits to consumers

[32] Based, on tangential evidence obtained from the online US piquette marketplace, in conjunction with indicative evidence obtained from: https://daily.sevenfifty.com/getting-to-know-piquette-a-wine-adjacent-spritzer/#:~:text=So%20far%2C%20piquette%20production%20is,first%20release%20was%20300%20cases. We have submitted this to sensitivity analysis.

[33] https://www.bibendum-wine.co.uk/news-stories/articles/wine/uk-wine-duty-explained-vinonomics/

107. Piquette is a low alcohol content drink (< 8%) and can act as a substitute for wine. As such, there could be some health benefits to consumers drinking piquette instead of wine. There are of course health and social considerations to make when introducing a new alcoholic beverage to the market, however we do not expect this to become any more than a niche product. Overall, we anticipate piquette will have no significant impact on UK alcohol consumption habits.

Direct Costs to business[34]:

108. The only costs associated with the proposed measure are one-off familiarisation costs. There are currently approximately 230 wineries in the UK[35] that would be able to take advantage of the proposed measure. We estimate that it will take a manager approximately 10 minutes[36] to get familiar with the new regulatory regime (5 mins – 20 mins sensitivity). The median hourly wage for ‘production managers and directors in manufacturing’ was £22.87 in 2021.[37] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the business of a ‘production manager or director in manufacturing’ is £26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 12: Piquette best estimate of monetised costs

	2019 prices (nominal)
Low (5 minutes)	£ 505
Central (10 minutes)	£ 1,009
High (20 minutes)	£ 2,019

109. The present value of the best estimate of monetised costs of allowing the production of piquette is £975.

Net Present Value:

110. The net present value for our **best estimate** for allowing the production of piquette is **£17,112** (equivalent annual £1,711).

Table 13: Piquette net present value (NPV)

	Low NPV Scenario (£s)	Central NPV Scenario (£s)	High NPV Scenario (£s)
PV Benefits	10,852	18,087	25,322
PV Costs	1,951	975	488
Net Present Value	8,902	17,112	24,835
Equivalent Annual Net Direct Cost to Business	890	1,711	2,483

[34] There is no additional capital and the machines that they are using are not being used anyway after the production is over. Therefore, there is no opportunity cost.

[35] WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

[36] We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

[37] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

Wider impacts

111. We do not expect further wider environmental benefits other than those mentioned in the non-monetised section above.

Trade impacts

112. This will be a niche product for our domestic industry we anticipate that any production will be focused on the local market. We do not anticipate any international trade within the assessment period.

Risks and assumptions

113. Due to the limited amount of evidence from other countries, we have only been able to estimate the potential production of piquette with tangential evidence obtained from US websites. This means that the monetised benefits should be caveated accordingly. Similarly however, because the product is expected to be extremely niche, the production of piquette and its associated benefits are almost certainly very small and we believe that our estimate is in accordance with what we have heard from potential UK producers.

114. Introducing a new low-strength alcoholic product can have two contrasting effects. Either the new product will be used as a substitute for wines that have a higher alcoholic content, in which case the health benefits associated with the new product would be positive, or, the new product could lead to people who previously would not have consumed alcohol trying an alcoholic product because of its low strength. Either way, because we estimate the ultimate production of piquette to be very low, these risks will be negligible.

Blending wine

115. The proposal to remove the ban on blending (coupage) of wine that is imported to GB is expected to have the following benefits and costs:

Table 14: Blending wine benefits & costs

Benefits	Costs
Monetised Not monetised	Monetised Familiarisation cost (direct)
Non-Monetised • Innovation/product development (direct benefit to business) • Stable supply (direct benefit to business) • More consumer choice (direct benefit to consumers) • Consumer benefits stemming from improving quality of wine (indirect benefit to consumers)	Non-Monetised

• Environmental benefits: bulk shipping emits lower emissions	

116. This reform is permissive in nature. This means that take-up from the sector is voluntary. Businesses are not required to do anything in response to this legislation and would choose to act only if they believe the benefits at least outweigh the costs. Considering the novelty of this reform and uncertainty on the take-up from the sector it wasn't deemed proportionate to quantify economic impacts in this instance.

117. Wine blending is an old winemaking method that has been practiced for hundreds of years. Blends create variety and can produce flavours that aren't otherwise achievable. The blending of GB wines is also currently permitted, as is the blending of wines of EU origin in the EU, showing that the practice retains its place in modern wine production.

Non-monetised benefits:

Direct benefits to business

118. Allowing the blending of any wine in GB would enable businesses (primarily bottlers) in GB to blend different varieties of wine from the same or various origins to achieve greater consistency in their products and to create entirely new products that suit consumer tastes. By combining wines from different vintages, the resulting product could achieve a more consistent quality and flavour profile. This, in turn, might enhance consumer satisfaction and contribute to increased demand. Additionally, blending could mitigate the risks associated with variable climate conditions and ensure a stable supply of wine, potentially benefiting both producers and consumers.

119. Approximately 40% of the wine imported into the UK are imported in bulk[38] from the southern hemisphere and otherwise far overseas, so it spends significant time at sea during which changes can occur to the wine. The quality of the wine might be lower coming off the boat, than it was going on, so blending could return wines to their former quality.

120. As such, a significant proportion of the benefits will accrue to exporters in the southern hemisphere and otherwise far overseas whose ability to guarantee the quality of their wine improves.

121. Permitting blending could also present scope for business development and jobs in creating and facilitating blending operations in GB. Wineries and blending facilities would need workers for tasks such as blending different grape varieties, quality control and packaging. Expanding the wine industry would increase the demand for transportation, distribution and logistics services and could lead to job creation in these sectors.

Indirect benefits to consumers

122. Allowing blending enables producers to optimise their wines by mixing different grape varieties or vintages. This flexibility can result in more balanced wines, ultimately

[38] https://www.meiningers-international.com/wine/power-lists/spotlight-uk-leading-highly-challenging-market

enhancing the overall quality of the wine available in the market. That could mean that consumers would have access to a wider range of options that could potentially suit better their personal preferences, increasing consumer satisfaction. The potentially improved price-to quality ratio of blended wines could lead to increases in consumer utility.

Direct Costs to business:

123. The only costs associated with the proposed measure are one-off familiarisation costs. There are currently approximately 230 wineries[39] in the UK, as well as 1,659 importers[40] that would be able to take advantage of the proposed measure (importers includes all bottlers). That is a total of 1,889 businesses that will incur familiarisation costs. We estimate that it will take a manager approximately 30 minutes to get familiar with the new regulatory regime (15 mins – 1 hour sensitivity).[41] The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[42] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the business of a 'production manager or director in manufacturing' is £.26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 15: Blending wine familiarisation cost estimates

	Familiarisation Cost		
	Low	Central	High
Familiarisation hours	0.25	0.50	1.00
Manager hourly pay	£ 21.58	£ 21.58	£ 21.58
Uplift	£ 1.22	£ 1.22	£ 1.22
Total wage cost per business	£ 26.33	£ 26.33	£ 26.33
No of businesses	1,659	1,659	1,659
Familiarisation total	£ 10,921	£ 21,843	£ 43,685

124. The present value of the best estimate of monetised costs of allowing the blending of wine is £21,843.

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Wider impacts

Environmental benefit of importing in bulk:

125. Importing wine in bulk rather than in bottles can offer environmental benefits. Bulk wine is transported in large containers so removes the need to also transport glass bottles over potentially large distances by sea or road. It means the same amount of wine can be transported using less shipping/ transport space and with less weight, improving efficiency and potentially reducing carbon emissions. However, it is important to note that those

39 WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

40 2204 - Search traders - UK Trade Info

41 We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

42 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

benefits may vary depending on factors such as the distance the wine is transported and by which method, and the environmental impact of the local bottling process.

Innovation

126. The freedom to blend wines fosters innovation in winemaking techniques. Producers may discover new and improved ways to create high-quality blends at competitive prices, providing consumers with more value for their money.

Competition impacts:

127. The proposed reform of permitting blending is going to allow mostly established businesses scope to develop and innovate on the product range they can offer, which will contribute to the broad range of wine products already available to consumers. Blending can improve the quality of wines, especially those wines that are imported in bulk on ships with long travel times.

128. Currently, the sector is comprised of a small number of large-scale bottlers and importers who are likely to take up the opportunity to integrate blending in their operations. From discussions with the industry and our market research we expect blended wine to compete with low to medium priced wines which is predominantly where bulk imported wines are currently marketed.

129. Although the UK has a growing wine production industry with several hundreds of essentially small vineyards and wineries across the country, we do not anticipate significant interest from them in blending imported wine with domestic production, but we will monitor interest in this.

130. UK wines are predominantly in the quality sparkling sector and appear in the upper end of the market.[43] Our still wine producers are still increasing market share in an already saturated and highly dynamic market. We do not see that an increase in competition in the blended 'commodity wine' sector will have any significant impact on their profitability.

Risks

131. From the consultation and from speaking to domestic producers we have heard concerns that the blending of domestically produced wine with imported wine could lead to distortions in the market, especially if the marketing of such a product could lead to consumers being confused around the origin of a wine. Currently, wines produced in the UK from grapes grown here attract a premium when compared to most wines imported from overseas. This premium stems from the niche appeal that domestic wines continue to command, but also a solid reputation that has been established based on quality.

132. There is a potential that a product which is predominantly made from imported wine could gain a distorted marketing advantage by blending it with a very small amount of domestic wine, allowing it to reference the blend being of UK provenance on the label. We do not consider this will happen given the nature and scale of the bulk wine industry vs the

[43] Prices collected from leading wine retailers website on 05/09/2023 suggest that wines produced domestically attract a higher average price than average imported wines

relatively small scale of domestic production. However, given the enviable reputation our industry has carved out, it is something we plan to monitor for some time after the introduction of these rules. If we decide that practices are being used that are not in the best interest of our industry, we will consider what further steps might need to be taken to minimise that risk.

Trade impacts

133. Permitting the blending of wine is likely to strengthen our wine import industry. The ability to ensure consistency between blends, vintages or vineyards and to correct issues that have occurred to wines that have travelled over long distances is likely to boost the profitability of our importer bottlers. It will allow them scope to ensure those wines continue to meet retailer and market demands, maintaining profitability of businesses involved. It will also allow them scope to produce innovative new blends, including using wines of multiple origins.

134. The reliance of the UK on imported wines from outside Europe and increasing pressure to reduce climate impact from shipping is likely to mean the movement of wine in bulk is going to increase. Bulk shipment of wines also increases the risk to the integrity of the wine, increasing the risk of spoilage.

135. The EU rules permit the import of blended wine. Our proposed reforms on blending are consistent with our obligations under the TCA.

Foil wraps and mushroom stoppers

136. Removing the mandatory requirement for sparkling wine bottles to have mushroom stoppers and foil wraps is expected to have the following benefits and costs:

Table 16: Foil wraps and mushroom stoppers benefits & costs

Benefits	Costs
Monetised Cost saving of not using foil wraps (direct benefit to business)	Monetised Familiarisation cost (direct)
Non-Monetised Benefits of using alternatives to mushroom stoppers (direct benefits to business): • Potentially cheaper • More reliable • Reusable	Non-Monetised None

Stable supply – particularly during aluminium foil shortage (direct benefit to business) Innovation/product development Environmental benefits – less waste	

137. This reform is 'permissive' in nature. This means that take up from the sector is voluntary. Businesses are not required to do anything in response to this legislation and would choose to act only if they believe the benefits at least outweigh the costs.

138. From discussions with members of the industry, and the relevant consultation responses we can see likely uptake of the changes and appreciation to have flexibility of choice for different products. English sparkling wine is generally marketed to the higher end of the sparkling wine market and producers believe that the experience of using mushroom stoppers and foil wraps is important to the marketing of the product.

139. Currently, sparkling wine bottles sold in the UK market require mushroom stoppers. Possible alternatives for mushroom stoppers could be regular wine stoppers (in some instances) or other reusable stoppers like zork stoppers[44]. The benefits of zork stoppers compared to traditional mushroom ones are that wine can be resealed (better for storing wine once opened) and is easier to handle. Foil wraps can equally be replaced with either paper wraps or even completely removed.

140. In the section below, we have tried to calculate potential cost savings related to discontinuing the use of foil wraps for sparkling wines by using information supplied by stakeholders. However, we haven't attempted to quantify the impact from using alternatives to mushroom stoppers. This is because, the current alternatives suitable to sparkling wine (zork stoppers) are currently a more expensive option for wine producers and from discussions with the industry we anticipate the take-up to be at the discretion of every producer.

Benefits:

Direct monetised benefits

141. We have estimated the benefits that could accrue to wine producers by not using foil wraps on sparkling wine bottles. Current production of sparkling wine in the UK is approximately 7.1 million bottles in 2023.[45] By WineGB estimates, this production could reach 13.6 million bottles by 2033. As this is only an estimate, we use this growth estimate as the ceiling for our sensitivity analysis and a no-growth scenario as the floor. Our best estimate is in the middle of the two. The approximate unit price of foil wrap for sparkling wine bottles is 6.6p.[46] As discussed in paragraph 138 discussions with members from the industry suggest that most producers will continue using foil wraps as they form part of the marketing of sparkling wine.

44 Zork caps – TeePee Cider

45 https://winegb.co.uk/wp-content/uploads/2023/06/WineGB-Industry-Report-2022-23-FINAL-4.pdf - Calculated as 69% of total estimated UK wine production in 2023.

46 This is based on our estimates after consultation with members of the industry who provided us these details on condition of anonymity.

142. However, based on industry discussions, we estimate that over time up to 20% of bottles (10%-30% sensitivity) will be sold without foil wraps by the end of the assessment period. We also expect that this will increase from a small percentage at first to 20 percentage over time and have assumed that the increase will be linear.[47]

Table 17: Best estimated savings from not using foil wraps in sparkling wine bottles

Year	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Estimated Sparkling wine production in bottles	7,612,368	7,664,687	8,057,077	8,449,467	8,763,379	9,077,291	9,391,203	9,705,115	10,019,027	10,388,902
Assumed Proportion of bottles removing foil wraps	2%	4%	6%	8%	10%	12%	14%	16%	18%	20%
Unit price of foil wraps (£s)	0.066	0.066	0.066	0.066	0.066	0.066	0.066	0.066	0.066	0.066
Total (£S)	10,057	20,253	31,935	44,654	57,891	71,958	86,854	102,579	119,134	137,258

143. The present value of the best estimate of monetised benefits of removing the requirement for sparkling wine bottles to have foil wraps is £534,504.

Indirect non- monetised benefits

144. The removal of the requirement of foil wraps reduces the reliance of the sector on international supply chains of aluminium and tin. As a result of the supply chain instability of recent years, aluminium and tin prices have been very volatile leading to shortages in the supply of foil wraps. Giving businesses the option of omitting foil wraps in the production of sparkling wines removes their reliance on these supplies.

Costs:

145. The only costs associated with the proposed measure are one-off familiarisation costs. There are currently approximately 230 wineries in the UK[48] that would be able to take advantage of the proposed measure. We estimate that it will take a manager approximately 10 minutes[49] to get familiar with the new regulatory regime (5 mins – 20 mins sensitivity). The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[50] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the

[47] In order to account for the gradual removal of foil on bottles we assume that each year an additional 2% of bottles will not use foil wraps, thus growing from 2% in the first year to 20% in the last year of the assessment period (proportionally for the 10% and 30% sensitivity scenarios).

[48] WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

[49] We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

[50] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

business of a ‘production manager or director in manufacturing’ is £26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 18: Removal of requirement for foil wraps and mushroom stoppers familiarisation cost estimates

	2019 prices
Low (5 minutes)	£ 505
Central (10 minutes)	£ 1,009
High (20 minutes)	£ 2,019

Table 19: Foil wraps and mushroom stoppers Net Present Value (NPV).

	Low NPV Scenario (£s)	Central NPV Scenario (£s)	High NPV Scenario (£s)
PV Benefits	£350,040	£534,504	£991,723
PV Costs	£1,951	£975	£487
Net Present Value	£348,090	£533,529	£991,235
Equivalent Annual Net Direct Cost to Business	£34,809	£53,353	£99,124

Wider impacts

Environmental benefits

139.The removal of the requirement to use foil wraps for sparkling wine has some environmental benefits. Foil wraps generate non-recyclable waste when removed from bottles. These non-biodegradable materials can contribute to landfill waste and environmental pollution. Therefore, removing foil wraps reduces the amount of non-recyclable waste generated by the wine industry.

Innovation

140. The adoption of alternative closures can drive innovation in packaging design and technology. Businesses may invest in research and development to create unique and effective closure solutions that set them apart from competitors.

141. By removing the requirements to stick to mushroom stoppers and foil wraps, we also expect producers and bottlers to start trying different alternatives and innovate on what a sparkling wine bottle should look like.

Trade impacts

142. We expect this will have minimal impact on trade. Based on current rules, this means that this reform will only apply to our domestic sparkling wine exports. Our domestic exports are small and predominantly consist of traditional method sparkling (as used by Champagne) and are hence in the high-end category.

143. This is an area where the UK has built a reputation for outstanding quality. We sense that producers are probably likely to wish to continue to convey that 'quality message' by retaining traditional practices of sealing with a mushroom cork covered in a foil. However, increasing pressure on environmental sustainability could mean that some feel the need to embrace these new arrangements for export. Initially however, we expect this to remain very small indeed.

Risks and assumptions

144. This change was requested by a number of our top sparkling wine producers who see it as an outdated requirement on high end sparkling wine, let alone the lower priced products. They see sustainability as being the emerging focus for wine consumers and issues such as unnecessary packaging purely for presentational value are a potential risk to other sustainability messages producers wish to add to wine labels. WineGB has produced its own sustainability accreditation scheme.

145. Many producers will continue to use foils and mushroom stoppers but given that some already seek to remove this others may start to follow. It is also possible that producers of imported wine may see this as an opportunity to reduce costs, especially in the low middle priced sparkling wine market, where competition is at its keenest.

Wine certification scheme

146. We expect the monetised and non-monetised costs and benefits for abandoning the Wine Certification Scheme to look as follows:

Table 20: Wine certification scheme benefits & costs

Benefits	Costs
Monetised Costs avoided from wine certification scheme application (direct benefit to business)	Monetised Familiarisation Cost
Non-Monetised Reducing red tape	Non-Monetised None

Benefits (direct):

147. The Certification[51] is currently overseen by WineGB and enforced by Wine Standards, Food Standards Agency as part of a control plan for Varietal Wine production and who work closely with WineGB on enforcement.

148. The current cost of the application process is £15 (plus VAT) per wine, payable to WineGB to cover its administrative costs. Therefore, by abandoning the scheme, the relevant wine producers are avoiding the above process fee.

149. Over the last 4 years on average, WineGB has received £2,027 (2019 prices) in application fees for the certification of 155 wines per year. That translates to a fee of £13.05 per certification in 2019 prices.[52] The number of applications per year has also been stable over that time period. We have no reason to believe that the number would substantially change over the assessment period. As such, we estimate that producers will avoid fees of £2,027 each year over the assessment period. However, we have done sensitivity analysis around the number of applications. For the low estimate, we assessed the benefits if applications were only 104 on average, for the high estimate we assessed the benefits if applications were 233 on average.

150. In addition, producers will benefit from not having to spend time filling in the Wine Certification Scheme forms. We estimate that it takes a manager approximately 10 minutes to complete the forms per wine certified (5-20 minutes sensitivity). The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[53] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the business of a 'production manager or director in manufacturing' is £.26.33. Therefore, businesses will save about £4.39 per application (2019 prices). Overall, the estimated benefits of abandoning the Wine Certification Scheme look as follows:

Table 21: Wine certification scheme estimated benefits

	2019 prices
Low	£228
Central	£680
High	£2,045

151. The present value of the best estimate of monetised benefits of abandoning the Wine Certification Scheme is £22,512.

Costs:

[51] Varietal Wine Scheme Application - WineGB

[52] Information provided by WineGB directly

[53] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

152. The only costs associated with the proposed measure are one-off familiarisation costs. There are currently approximately 230 wineries in the UK[54] that would be able to take advantage of the proposed measure. We estimate that it will take a manager approximately 10 minutes[55] to get familiar with the new regulatory regime (5 mins – 20 mins sensitivity). The median hourly wage for 'production managers and directors in manufacturing' was £22.87 in 2021.[56] In 2019 prices and applying a 22% non-wage cost uplift, the hourly costs to the business of a 'production manager or director in manufacturing' is £26.33. Thus, we estimate the familiarisation costs to look as follows:

Table 22: Wine certification scheme familiarisation costs

	2019 prices
Low (5 minutes)	£ 505
Central (10 minutes)	£ 1,009
High (20 minutes)	£ 2,019

153. The present value of the best estimate of monetised costs of abandoning the Wine Certification Scheme is £975.

Net Present Value:

154. The net present value for our **best estimate** for abandoning the Wine Certification Scheme is **£21,536** (equivalent annual £2,154).

Table 23: Wine certification scheme monetised costs

	Low NPV Scenario (£s)	Central NPV Scenario (£s)	High NPV Scenario (£s)
PV Benefits	£13,134	£22,512	£42,290
PV Costs	£1,951	£975	£488
Net Present Value	£11,184	£21,536	£41,803
Equivalent Annual Net Direct Cost to Business	£1,118	£2,154	£4,180

Non monetised Benefits

155. Removing the requirement for non PDO / PGI wine bearing a varietal and / or vintage removes a key element of red tape from producers.

Wider impacts

[54] WineGB-Industry-Report-2022-23-FINAL.pdf – WineGB represents approximately 91% of UK producers.

[55] The proposed changes are permissive and do not involve any complicated new regulations. We anticipate that the time it takes for businesses to get familiar with the proposed changes will be minimal. There are two reasons for this: a) Defra has engaged with industry throughout the process through stakeholder meetings and consultation and b) concepts are relatively straightforward for the industry and permit something that was previously not allowed.

[56] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/earningsandhoursworkedallemployeesashetable14 - Table 14.5a

156. We do not expect the proposed measure to have any wider impacts.

Trade impacts

157. We do not expect the proposed measure to have any trade impacts.

Risks and assumptions

158. The basis for the wine certification schemes introduction was to provide for verification of the use of a varietal and vintage on the label of non-GI wine. Everything concerning the production of wine can be adequately monitored through our existing robust enforcement arrangements.

Sunsetting Retained Regulation (EC) 2019/935 setting out GB methods of analysis and controls on enrichment.

Table 24: Sunsetting retained regulation (EC) 2019/935 benefits &costs

Benefits	Costs
Monetised None	Monetised None
Non-Monetised Improved clarity due to the simpler legal framework	Non-Monetised None

Costs

159. We estimate that there are no costs associated with the proposed measure. The measure removes obsolete regulations to provide a simpler legal framework and removes a potential area of ambiguity in relation to the process to be adopted to notify the various authorities in the UK of an increase in the natural alcoholic strength of wines produced in the UK. There are currently two provisions that in effect say the same thing regarding the process for notification. Removing one of the provisions will not have any material impact on businesses or wider society.

160. The basis for this change is to remove a method of analysis for an oenological practice that is no longer used commercially, and to remove an incident of duplicate regulation, we expect familiarisation costs to be 0.

Wider impacts

161. We do not consider there to be any wider impacts from this reform.

Trade impacts

161. We do not consider there to be any trade impacts from this reform.

Removing EU rules concerning reservation of certain bottle shapes for certain EU wines

162. We expect the monetised and non-monetised costs and benefits for removing rules on bottle shapes to look as follows:

Table 25: Removing rules on bottle shapes benefits & costs

Benefits	Costs
Monetised • Not monetised	Monetised • None
Non-Monetised • None	Non-Monetised • None

163. We estimate there is no cost associated with this measure. This measure removes obsolete legislative provisions in REUL that do not operate in the UK. It will remove a restriction on the use of certain bottle shapes that can only be used when marketing certain respective EU wine products. None of those products is of UK origin so this law does not function in the UK.

Wider impacts

164. We do not consider there to be any wider impacts from this reform.

Trade impacts

165. We do not consider there to be any trade impacts from this reform. We do not expect that the use of protected EU bottle shapes in the UK is likely to happen. Firstly approximately 70% of domestic production is sparkling and these are still wine bottles. Sourcing bottles and transporting them is unlikely to make them an attractive proposition for our still wine producers. In terms of packaging bulk imports, significant amounts of this is destined for the EU so it would seem contradictory that they would wish to use a bottle in breach of EU rules.

Impact on small and micro businesses

166. The proposed reforms within the wine sector aim to streamline regulations and promote deregulations. These changes are expected to foster competitiveness, growth, and innovation in the industry. Broadly, we do not anticipate small and medium businesses to be disproportionately burdened by these reforms.

Size of SMBs in the UK wine sector

167. It is difficult to estimate the number of SMBs in the wine sector. Data from ONS suggest that in 2022 there were 40 wine production (manufacture of wine from grape) companies registered for VAT. Of this number, 25 were micro businesses, 20 were small businesses and 5 were large businesses. We think that those figures underestimate the number of SMBs. We estimate that there are approximately 1,040 vineyards and 230 wine producers in GB[57]. We think of those, a large proportion are SMBs who are not picked up by the ONS data because of the VAT threshold (£85,000 in 2023). Similarly, it is difficult to determine the size/scope of SMBs in the import wine segment of the sector, but we would expect a significant proportion of businesses to be SMBs.

Impact on SMBs from proposed reforms:

- Importer Labelling/Hybrid grapes/ Piquette/Removal of bottle shapes/Foil wraps and mushroom stoppers Removing Wine certification scheme arrangements/ Sunsetting Retained Regulation (EC) 2019/935 setting out GB methods of analysis and controls on enrichment.

168. We do not think that SMBs will be disproportionately affected by the above reforms. Consultation responses broadly showed that businesses welcome the removal of unnecessary burdens and allowing greater flexibility. Support for changes to allow production and marketing of 'piquette', came mostly from micro-businesses. We also believe that the removal of wine certification arrangements will have a positive net impact as it removes the fixed cost of certifying a wine.

169. This benefit represents a higher share of turnover and profit for smaller businesses. The reforms are permissive in nature and do not require businesses to do anything in response to this legislation. They would only generally act if they believe the benefits to outweigh the costs. Overall, these reforms are designed to enable innovation, improve flexibility for businesses and remove unnecessary burdens and we do not anticipate SMBs to be disproportionately impacted.

- Blending wines

170. The proposed reform of allowing the blending of wine that is imported to GB is unlikely to disproportionately impact on SMBs. Blending will provide certain new opportunities on the domestic wine market, but we anticipate this will very much focus on other equivalent products on the market. Product evolution and marketing churn to keep UK consumers engaged is a tactic that has been employed by major importers to the UK market for some time. With an estimated 80% of wine sales being via multiple retail outlets, the commodity wine (ie sub £9) market is already an extremely competitive area.

171. While blending may offer some real benefits as already discussed, we do not anticipate that it is going to have a significant impact on commodity wine which will remain dominated by that is mostly owned by larger importers of wine who import in bulk and bottle in the UK. Large bottlers already have significant financial resources, economies of scale and established networks that permit them to take advantage of this reform more easily. The challenges that SMBs face in competing against their larger competitors already exist and these reforms do not improve nor make that situation worse in our opinion both in terms of marketing their products and because they will face higher relative production costs.

[57] WineGB-Industry-Report-2022-23-FINAL.pdf – Wine GB represents approximately 91% of UK producers.

172. For now, domestic wine production is predominantly aimed at the higher end of the wine market[58] and attracts a premium compared to the average price of imported wine. The erratic nature of our climate and relatively low yield of grapes harvested in the UK makes the net cost of producing wine in the UK considerably higher than in many larger, climatically better suited producer countries. For this reason, we do not feel that competing in the highly competitive commodity end of the market would be profitable. As discussed in paragraphs 131 and 132 there are risks to the reputation of wines produced in the UK from its use in blends of wine from other origins.

173. For example, blending a small amount of UK wine with a significantly larger quantity of another wine could impact on its marketability due to the reputation that wine produced in the UK has gained. We are aware of this risk and while we do not feel it is the intention of the major importers to use UK origin wines in their blends, we intend to monitor this area closely and if necessary, come forward with further proposals.

Monitoring and Evaluation

174. The impact will be monitored through an impact evaluation. This will cover all three separate SIs covered by the wine reforms.

- The Wine (Revocation and Consequential Provision) Regulations 2023, will come into force on 1 January 2024

- The Wine (Amendment) (England) Regulations 2024 will come into force on 15 July 2024. It will make changes to oenological practices and processes approved to make wine and introduce a basis to enforce the production arrangements applicable to products marketed as ice wine

- The Wine Regulations 2024 (working title) will come into force at the end of 2024 or in 2025. This will introduce further reforms to the wine regime, including production of low and no alcohol wine and transforming wine sector products in GB. It will also consolidate REUL and thus incorporate all previous REUL reforms in a new wine rulebook.

175. This will be carried out internally by Defra and will comprise of three different methodologies: a consumer survey, industry survey and internal analysis of secondary market research data.

176. It will also include the development of a Theory of Change model, with the outcome themes aligned to the policy objectives outlined above.

177. The main external factor that will impact the success of the changes is take up by the sector.

[58] Prices collected from leading wine retailers website on 05/09/2023 suggest that wines produced domestically attract a higher average price than average imported wines

Table 26: Monitoring and evaluation

	Consumer survey	**Industry interview/survey**	**Analysis of secondary data**
Rationale	Short online consumer survey to assess consumer confidence in wine and changes which directly affect the consumer.	Industry interviews/survey to assess if the reforms achieved the objectives. This will cover UK and international businesses.	Analysis of pre-existing (secondary) data.
Reform level covered	The survey will cover the individual reforms that are relevant to the consumer and assess consumer confidence.	The survey/interviews will cover the individual reforms which are relevant to the business and assess if the delivery themes relevant to industry have been achieved.	Secondary data is likely to cover some individual reforms, however the not all reforms will have relevant secondary data.
Timescales	Three waves of consumer survey's: • baseline before the changes have been brought in – before December 2023 • after all changes have been brought in – early 2025 • after changes have been implemented by businesses early 26/27.	Three waves on industry interviews/survey's: • baseline before the changes have been brought in – before December 2023 (potentially using consultation responses – tbc) • after all changes have been brought in – early 2025 • after changes have been implemented by businesses early 26/27.	Existing data reviewed before changes implemented (December 2023). Ongoing monitoring of existing data till beginning of 2026.

178. A final report will cover all the consumer and industry surveys and secondary data analysis. This will be published.

179. The consumer survey, industry survey and analysis of secondary data will be measured against the relevant objectives of the reforms (frictionless trade, consumer confidence,

sustainable growth and environmental impact). The industry survey will capture views on blended wine and the possible risks associated the blending of domestically produced wine with imported wine. The consumer survey will explore understanding of blended wine labels.

180. The baseline consumer and industry surveys will be used to understand the current regulations and follow up surveys will evaluate the regulation changes.

181. Pre-existing secondary data will be used as a baseline and monitored to evaluate the regulation changes. New data will be collected through the consumer and industry surveys to assess the impact of the reforms.

182. These proposals reform established laws on wine, which underpin an economically important area of UK trade in addition to supporting our flourishing domestic industry. The Government holds regular meetings with key industry and producer stakeholders and we intend to monitor their views on how these reforms are operating on an ongoing basis. This will be in addition to the statutory review clauses in UK legislation. Where problems are encountered, we will consider these issues and take any steps necessary to address them, either through official or if appropriate, regulatory means.