



# The Impact of China's Wine Tariffs on the South Australian Wine Industry

Dess Pearson\*

Torrens University of Australia, Australia

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\*Corresponding author: Dess Pearson, Torrens University of Australia, Australia

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**Abbreviations:** AD: Anti-Dumping; CVD: Countervailing Duty; ABS: Australian Bureau of Statistics; TWE: Treasury Wine Estates; CHAFTA: China-Australia Free Trade Agreement

## Introduction

In response to the imposition of a 200% tariff by the People's Republic of China on Australian wine imports, this paper investigates the ensuing repercussions for South Australia, the principal wine-producing region of Australia. South Australia accounts for over half of the nation's wine production and has traditionally relied on wine exports as a cornerstone of its economy. Prior to the introduction of these punitive duties, China was the most significant export market for South Australian wine, in both volume and value terms, with substantial revenue growth driven by this demand. The Chinese tariff inflicted severe economic consequences on the South Australian wine industry, especially affecting trade-exposed wineries. The impact was most pronounced among those enterprises whose business models were heavily dependent on Chinese exports. This study looks at the immediate and long-term effects of the tariff on South Australia's wine sector, exploring the broader implications for the industry and broader international trade relations, more generally.

In 2020, China introduced a range of tariffs and other trade measures on Australian imports, including wine, beef, lobster, timber and barley due to its displeasure with the Australian government's call for an international inquiry into the causes of the covid-19 pandemic. With respect to wine, the official reason given for the imposition of duties was that Australia was dumping product on the market since under international trading rules, countries need to justify imposing trade restricting measures. However, there was little evidence that Australian wine makers were dumping their product, so it appears China's tariffs on

exporters was more to do with the state of diplomatic relations between the two countries (Rubenstein, 2020). So, on 26 March 2021, China's Ministry of Commerce (MofCom) announced final determinations of its anti-dumping (AD) and countervailing duty (CVD) investigations into bottled wine imported from Australia. MofCom determined that Australia had been dumping wine into the Chinese market and would apply AD duties ranging from 116.2% to 218.4%, depending on the exporting company, for a period of 5 years from 28 March 2021. The final AD/CVD duties increased import prices of Australian wine in China two- to three-fold, which in effect are prohibitive tariffs, putting the China market out of reach for Australian exporters [1]. This paper briefly profiles the South Australian wine industry, its exports, international competitiveness in China, and how these have changed since the imposition of China's wine tariffs. It will home in on two wine producers, a large producer and exporter as well as a smaller one, to gain insights at the micro level of some of the underlying impacts. Further to this, the impact of the AD duties on the South Australian wine industry, including its main producing regions, and impact on its trade, will be discussed.

## Research Methodology

This paper used a mix of quantitative and qualitative research methods. For the quantitative analysis, data relating to the production and exports of all categories of wine was analyzed with the sources being Wine Australia, an Australian Government statutory corporation that promotes and regulates the Australian wine industry and the Australian Bureau of Statistics (ABS) [2],

the Australian government's statistical agency. For qualitative analysis, the author surveyed two wine producers, a large one, Jacob's Creek based in the Barossa Valley of South Australia and a smaller one, Taylors Wines, based in the Clare Valley in the northern part of the State. Though a larger sample would have produced more insightful results, time and resource constraints meant that a larger survey was not possible for this paper. Nevertheless, a smaller sample can produce some meaningful results. The same questionnaire was used to survey both wineries.

### Australian and South Australian Wine Industry Structure and Trade

Australia is the sixth-largest wine producer in the world, with wine grape vineyards located in every state of Australia, with South Australia being the biggest (47% of the total). The industry makes a significant economic contribution through economic activities associated with wine grape growing and wine making. The wine industry is Australia's fifth-largest agricultural export industry, making it an important earner of agricultural export revenue, and for South Australia, the wine industry is even more significant – second largest agricultural export earner. Australia also ranks fifth among wine exporting countries, with around 60% of wine production exported to markets around the world [3]. The Australian domestic market accounts for around 40% of Australian wine production, with the remaining 60% exported. Wine grape production occurs in many areas across Australia and in all states and territories, but production is concentrated in a few key areas as depicted in (Map 1). The three statistical areas (SA4 regions) shown in the map account for around 65% of the gross value of Australia's total wine grape production. Most of South Australia's wine grape production is in the South Australia–South-East region. The other regions depicted are the Victoria–North-West region, which takes in producers concentrated in the southern Murray Darling Basin areas, including along the Murray River; and the Riverina region, which includes the wine grape growers in the Murrumbidgee River region of New South Wales, and the South-East of South Australia. The Australian wine industry is characterised by a few large companies and many mediums to small producers, many of which are family businesses. The industry is made up of wine grape producers, wineries, traders and exporters. There are some businesses that own vineyard and winery assets, others that do not own vineyards, some that are vineyards only, and others that buy wine grapes and contract out the processing and packaging.

Australia's four largest wine companies – Accolade Wines, Casella Wines Pty Ltd, Pernod Ricard Winemakers and Treasury Wine Estates (TWE) – produce many brands and account for about 28% of the industry's revenue. Pernod Ricard and TWE trade under the names of Jacob's Creek and Penfolds respectively and are South Australian based wineries. Production from the top four wineries is down from nearly 40% a decade ago, indicating strong growth in the number of smaller wine producers. The four major companies are largely vertically integrated, controlling all aspects

of their value chain, from growing wine grapes to winemaking to distribution and export. They also source wine grapes from other growers, and thus employ some degree of horizontal integration. The combination of vertical integration and outside sourcing allow these large companies to manage both marketing and distribution risk, and input supply risk [4]. Australia's total wine production has averaged around 1.2 billion liters each year, changing little for most of the past decade. In years when red wine production declined, white wine production often increased, and vice versa, seemingly indicating changes in popularity of varieties. However, a sharp increase in red wine production over the two years 2014–15 to 2016–17 resulted in a 15% increase in total wine production to 1.37 billion liters (Figure 1) [5], in total wine production declined by 6% back to 1.2 billion liters. A 3% increase in red wine production to 684 billion liters (from 663 billion liters in 2017–18) was more than offset by a 16% decline in white wine production to 514 billion liters (from 611 billion liters), reflecting trends in market demand (ABARES 2021).

Wine enterprises operate in all states of Australia. The total wine grape crush for 2020 was estimated at 1.52 million tonnes (Wine Australia 2020). South Australia crushed 47% of wine grapes produced, New South Wales accounted for 32% and Victoria, Western Australia, Tasmania and Queensland accounted for 17%, 2%, 1% and less than 1%, respectively (Figure 2). Turning to exports, in 2020, Australia exported 763 million liters of wine, valued at \$2.95 billion. This is equivalent to 6% of Australia's total agricultural export value. Australia has access to all major wine markets, and in 2020 exported wine to 112 countries worldwide. Canada, China, Hong Kong, United Kingdom and United States accounted for around 75% of Australia's wine exports by volume and 77% by value in 2020 (ABS 2021). Exports to China, Australia's largest market in value terms, accounted for 33% of Australia's total wine export revenue in 2020. In volume terms, China was the third-largest export market after the United Kingdom and the United States and accounted for 13% of Australia's total wine export volume (ABS 2021). The average unit value of Australian wine exports is higher to China than to the United States, because of the larger proportion of higher-value or premium Australian wines exported there [1].

Bottled wine exports dominate Australia's wine exports to the world, accounting for 77% of the total export value in 2020. Unpackaged or bulk wine (in containers greater than 2 liters) accounted for around 19% of the total export value, while other wine (mainly sparkling wine) accounted for the remaining 4%. The value of Australia's bottled wine exports grew steadily between 2014 and 2019, at an average of 10% per year (Figure 3). China, the United States and the United Kingdom were the largest export markets for Australia's bottled wine by volume in the 3 years to 2020 (Figure 4). Averaged over the same period, the markets recording the highest average unit value for Australian bottled wine were China, Hong Kong, Malaysia, Singapore and the United Arab Emirates, though volumes in the latter three markets

were small, whilst China was big on both counts. Bottled wines have also dominated Australia’s wine exports to China (Figure 5). In value terms Australia’s exports of bottled wine to China as a share of Australia’s total bottled wine exports grew from 8% to 20% between 2010 and 2015, whilst in volume terms they grew

from 8% to 18%. Both value and volume shares increased between 2015 and 2020 to 40% and 24%, respectively, as tariffs on wine under the China-Australia Free Trade Agreement (ChAFTA) phased to zero.

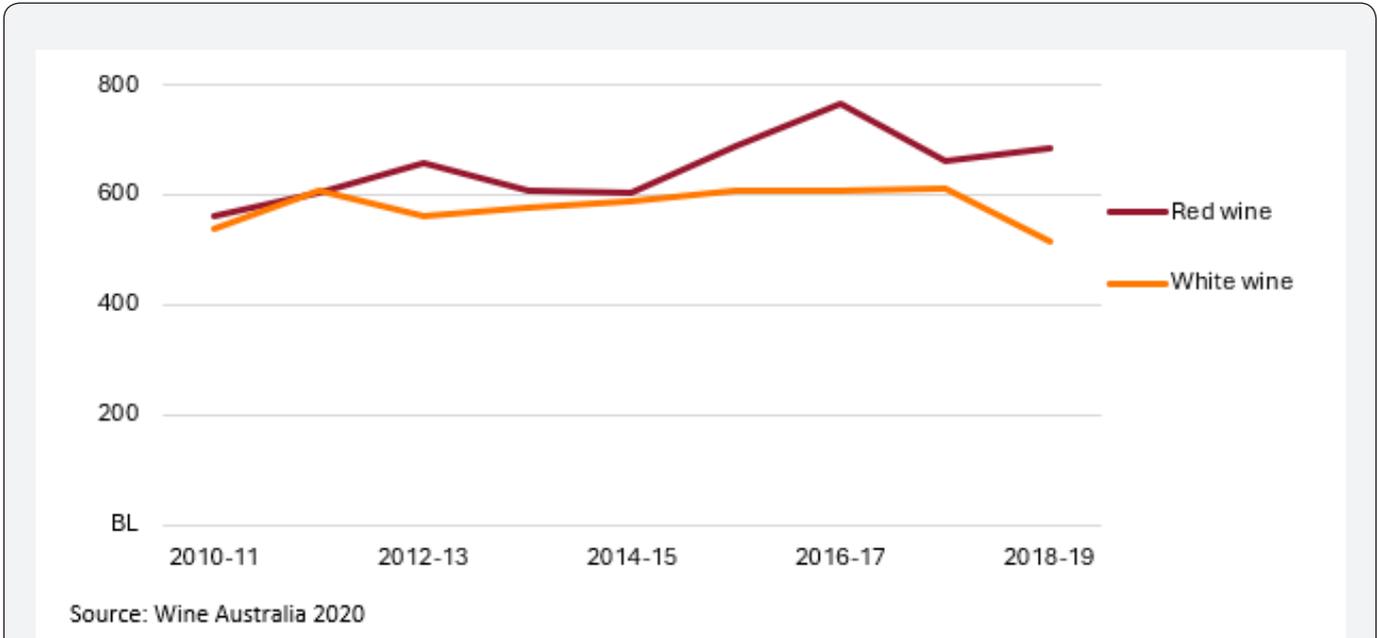


Figure 1: Red and White Wine Production – Australia.

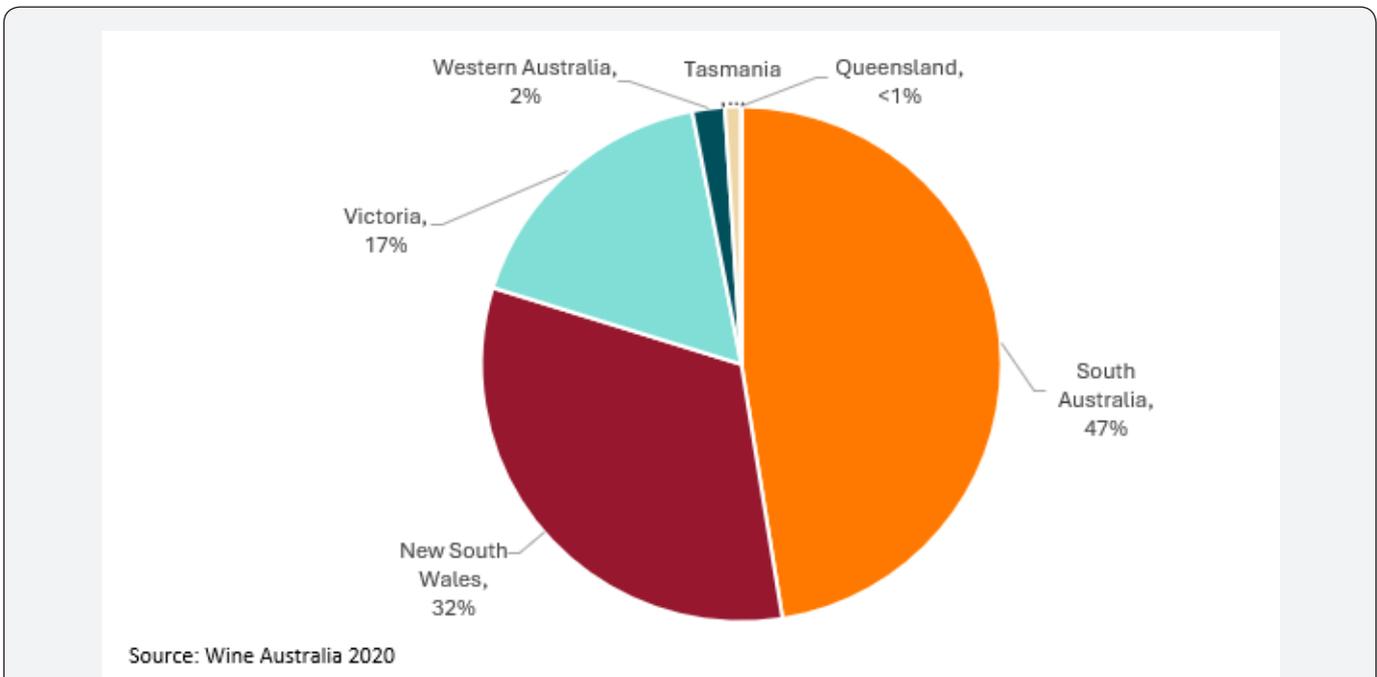


Figure 2: Australian wine grape crush - mainly South Australia and New South Wales.

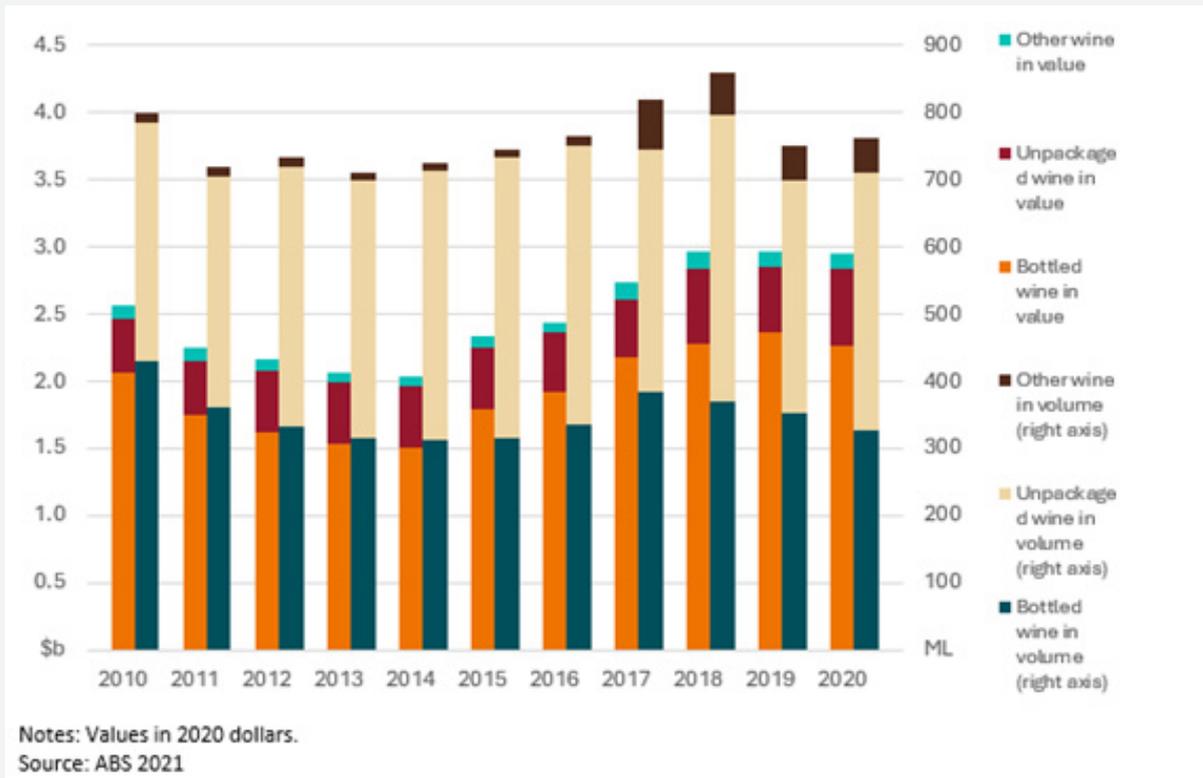


Figure 3: Value and volume of Australia's wine exports, 2010 to 2020.

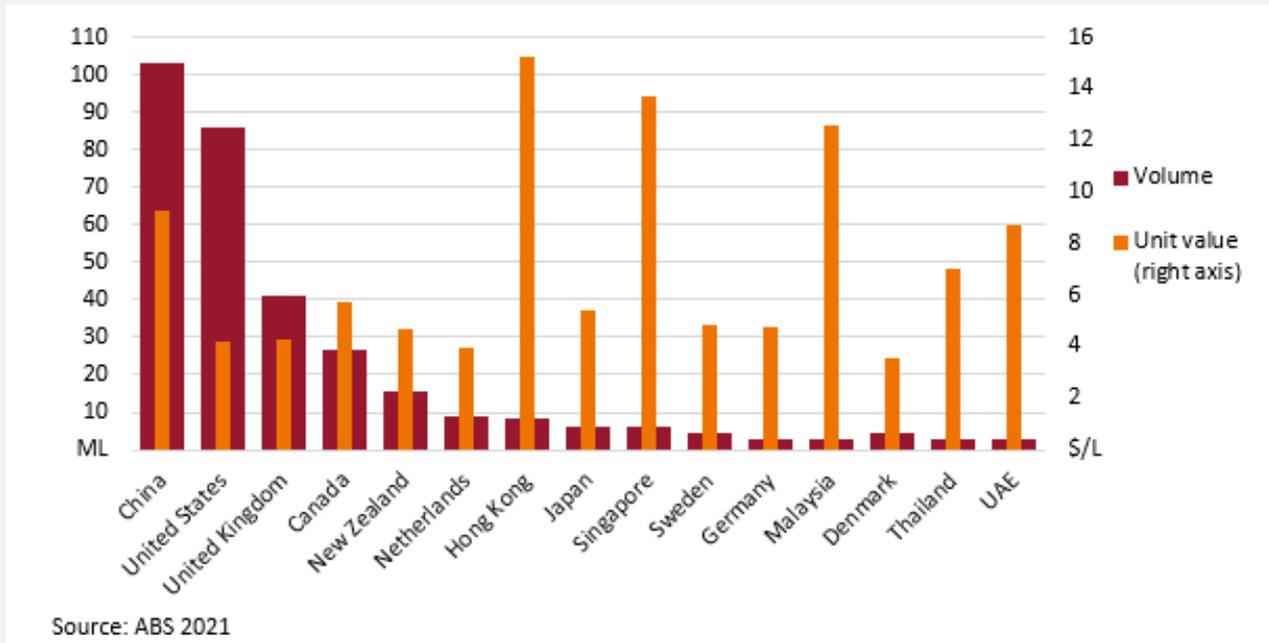


Figure 4: Australia's bottled wine exports, 3-year average from 2018 to 2020.

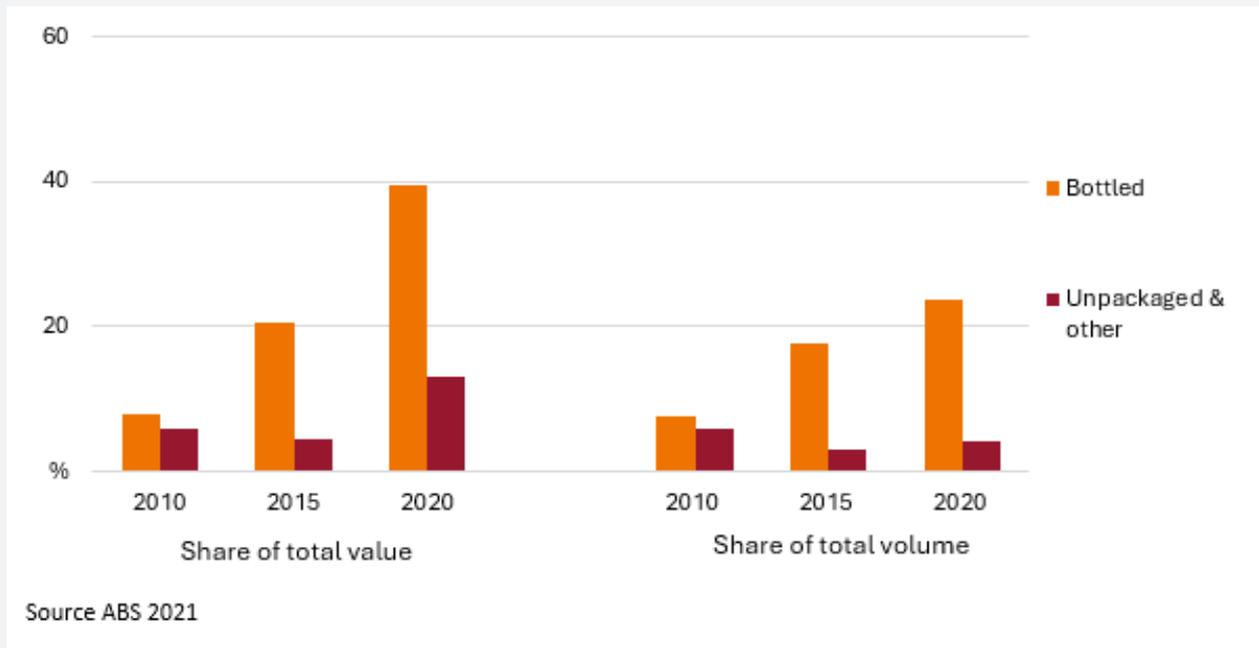


Figure 5: Share of Australian wine exports destined for China in 2010, 2015 and 2020.

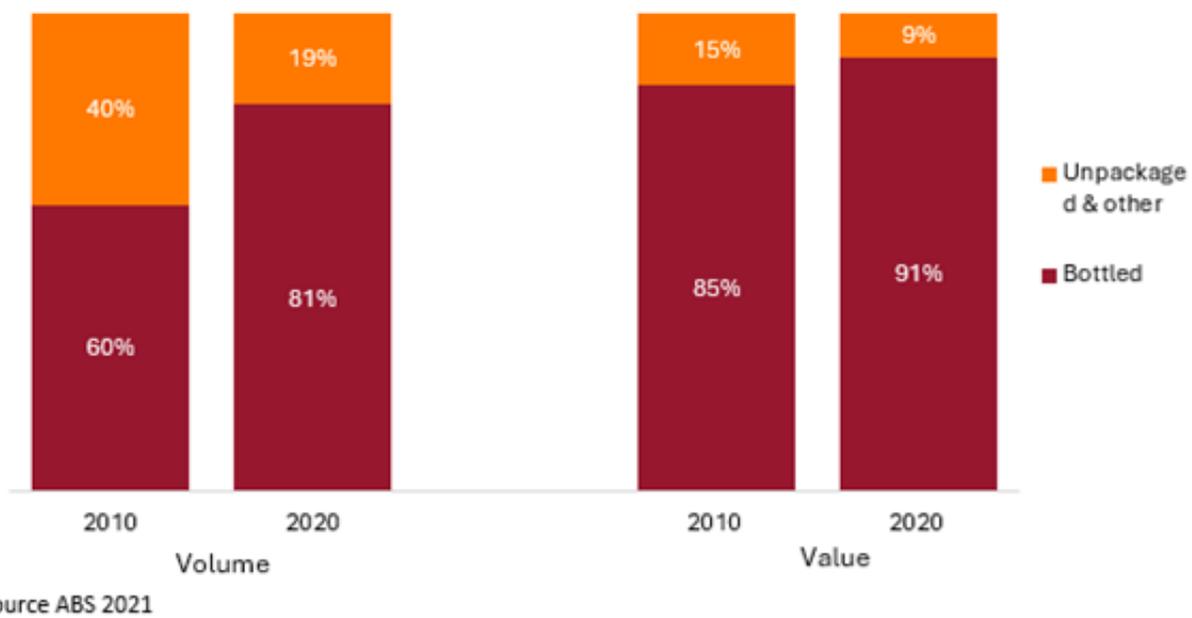


Figure 6: Shares of bottled and unpackaged wine exports to China, 2010 and 2020.

The major shift over the past decade from bulk to bottled wines destined for China is depicted in (Figure 6). Exports of bottled wine as a share of all Australian wine exported to China increased from 60% by volume in 2010 to 81% in 2020. The shift

was not so great in value terms. Bottled wine increased from 85% of export value to China in 2010 to 91% in 2020. This more moderate shift in value terms is evidence of the increasing share of bottled wines at lower price points being exported. Not only

was there a shift in exports to China from bulk to bottled wine, but there was also a shift to China out of other export markets as exporters responded to the very real price incentives. Between 2010 and 2020, the volume of bottled wine exports to China increased by 45 million liters and the volume exported to the next three largest markets declined by around 129 million liters

(United States by 64 million liters, United Kingdom by 56 million liters and Canada by 9 million liters) (Figure 7). In value terms the real decline (in 2020 dollars) in these three markets amounted to \$546 million, which was more than offset by the increase to China at \$734 million, clearly reflecting the large value gains that were made over the decade [1].

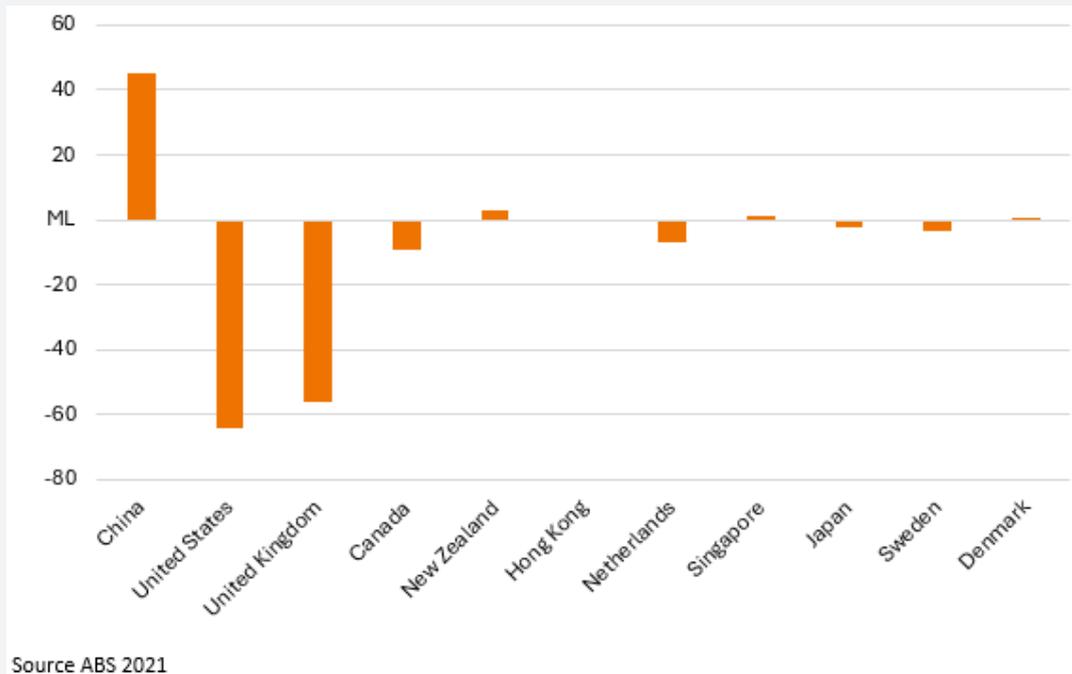


Figure 7: Changes in bottled wine export volume to top 10 markets between 2010 and 2020.

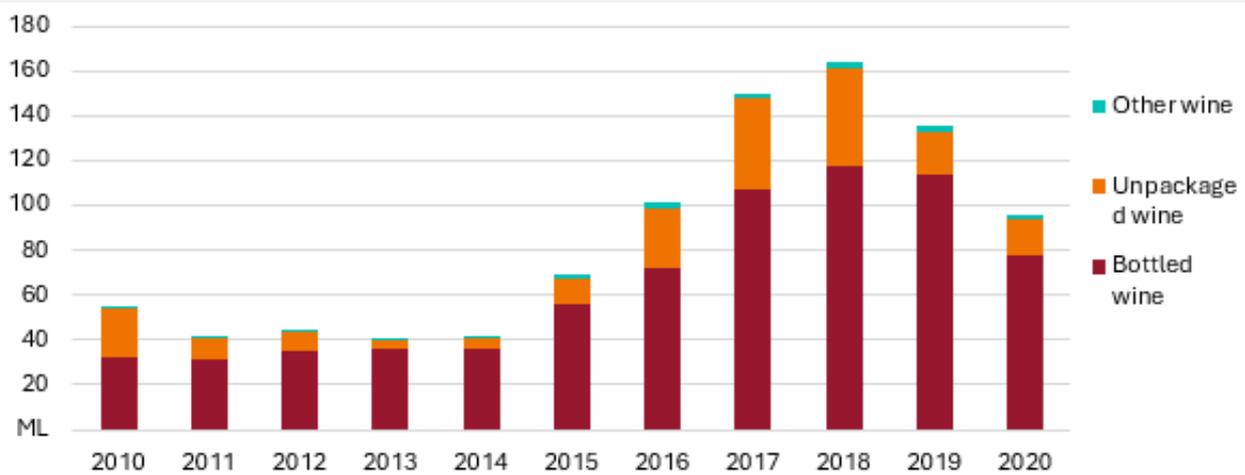


Figure 8: Volume of Australia's wine exports to China, 2010 to 2020.

Strong demand in China for Australian bottled wine resulted in exports to China increasing 37% between 2015 and 2020, from 56.3 million liters to 77.4 million liters (Figure 8). Bottled wine exports to China peaked in 2018 at 117.5 million liters, before falling slightly in 2019 and more sharply in 2020 as measures to control COVID-19 resulted in reduced demand for wine for business events and restaurants (ABARES 2021). China is a high-value market where Australian wine receives premium prices compared with Australia's other export markets. In 2020 the unit value of Australian bottled wine to China of \$11.59 per litre was second highest only to Hong Kong at \$19.26 per liter (Figure 9). Looking at the Chinese market for wine, in 2020 China imported 312 million liters of bottled wine, down 32% from the 456 million liters imported in 2019. Imports in 2020 were valued at \$2.4 billion, down 24% from \$3.2 billion in 2019. Much of the significant fall in imports in 2020 will have been related to the COVID-19 pandemic and corresponding containment measures in China and in supplying countries. Since the introduction of the import duties on bottled Australian wine (of 2 liters or less), Australian wine

exports to mainland China have fallen dramatically, to just \$10 million and 1.4 million liters in the 12 months ended December 2023. So, the fall has been from \$1.3 billion to just \$10 mil. This is massive. The top five supplying countries account for around 90% of China's imports (both in value and volume). Australia was the largest supplier of bottled wine to China in value terms in 2020 (41%), followed by France (27%), Chile (11%), Italy (6%) and Spain (5%) (Figure 10). In volume terms, France was the largest source of imported wine (28%), followed by Australia (27%), Chile (16%), Spain (11%) and Italy (7%). Australia's increases in market share in 2019 and 2020 came at the expense of France, whose volumes fell faster (down 21% in 2019 and 34% in 2020) than Australia's (up 3% in 2019 and down 29% in 2020). Turning to the State of South Australia, mirroring the trends for Australia as a whole, the State's export earnings increased steadily from 2011 to 2020 before dropping sharply in the post-China tariff period to 2023 to a little over \$700 mil (from over \$1.2 billion in 2020), a 42% drop. South Australian exports picked up once again in 2024 following China's removal of the punitive tariff (Figure 11).

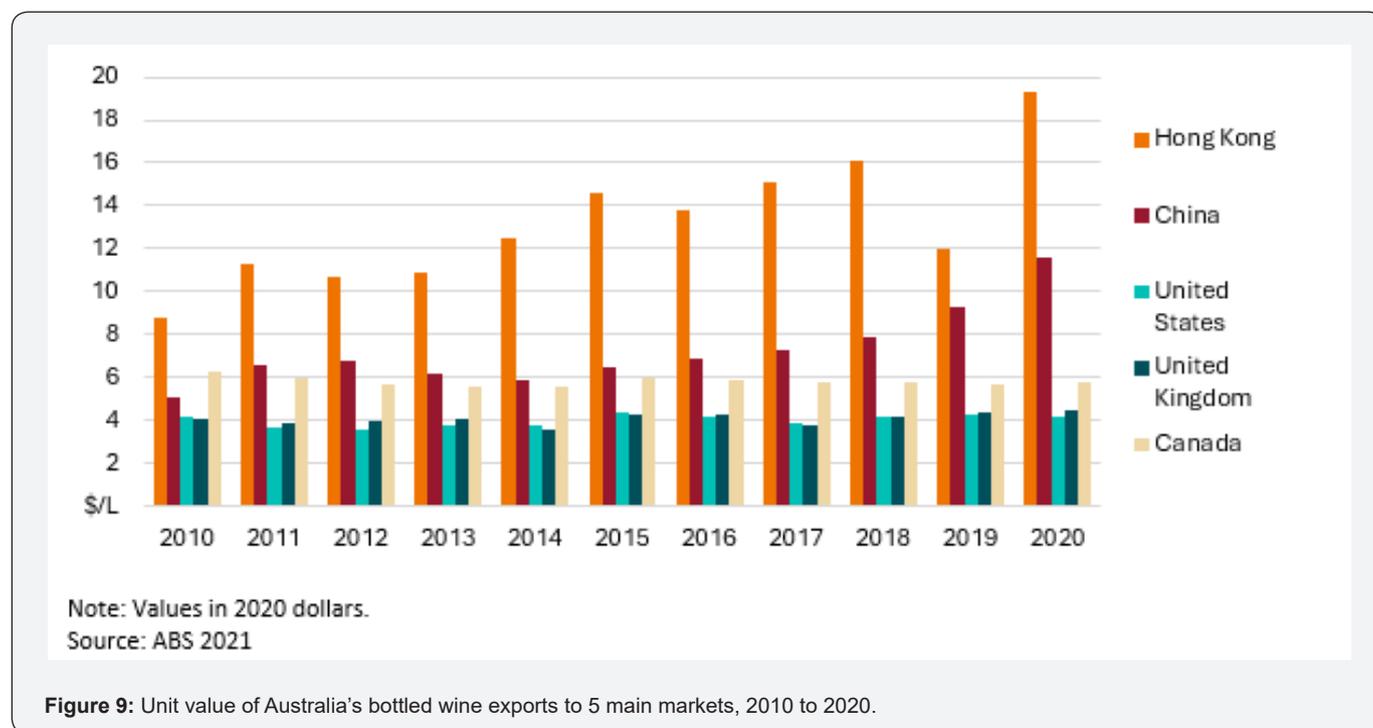
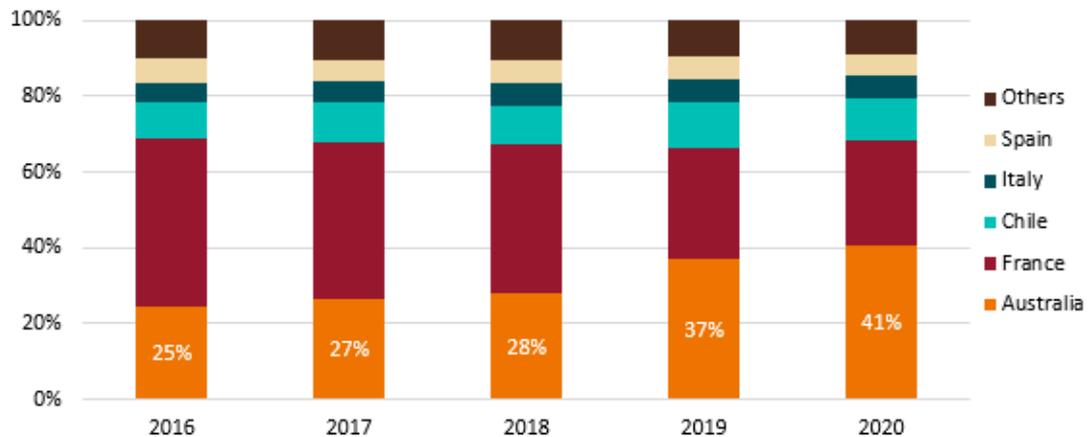


Figure 9: Unit value of Australia's bottled wine exports to 5 main markets, 2010 to 2020.

South Australian wine exports to China peaked in 2019-20, accounting for 37% of the State's total wine exports. As noted earlier, China was a premium wine market. South Australian wine exported to China received \$8.89/L on average, substantially higher than \$3.90/L average overall. So, the loss was not just in export shipments but in overall earnings. As was the case nationally, the overall fall in the State's export revenue was pronounced following the China tariff. South Australian production trends were also like the country, which was not surprising as the State accounts for nearly a half of Australian grape crush and overall wine production (Figure 12). Production includes all wine varieties. The numbers

1 to 10 on the horizontal axis of (Figure 12), represent years 2015 to 2024 inclusive. As was the case nationally, an increase in red wine production over the two years 2015 to 2017 resulted in a steady increase in total wine production to over 1 billion liters (Figure 12). From 2018 to 2020, total wine production declined to around 700 million liters. There was an increase in 2021 to over 1 billion liters and then a steady decline in the post-China tariff period, again reflecting trends in market demand. Based on survey data and subsequent qualitative analysis, the effects on the industry as well as the longer-term impacts of the China tariff will be examined below.



Source: ABARES 2021

Figure 10: Value share of China's bottled wine import market, by source, 2016 to 2020.



Source: Wine Australia (2024)

Figure 11: South Australian Wine Exports.

### Effects of the China Tariff on the South Australian Wine Industry

To assess the direct impacts of the China tariff on the South Australian industry, the author surveyed two wineries – one large, Jacob's Creek and one small-to-medium, Taylors Wines. Jacob's Creek is in the Barossa Valley wine region of SA, while Taylors Wines is in the Clare Valley grape growing region. Jacob's Creek

is one of the most well-known and respected wine brands in Australia, producing over 20 million cases of wine annually, much of which is exported. On the other hand, with about 600 hectares of vineyards, Taylors Wines produces around 800,000 cases of wine a year. This is exported to all major markets. Taylors cannot sell wine under its own name anywhere except Australia and New Zealand, because of trademark issues with the Portuguese port

of the same name. Hence, wine drinkers in other countries know Taylors as Wakefield Wines. The wines are the same; only the label is different. The China tariff had differing impacts on different wine producers. The larger ones, and where they exported to

many markets were more able to weather the storm compared to ones that were smaller and more exposed to the China market. This was the case with Jacob's Creek and Taylors Wines [6].

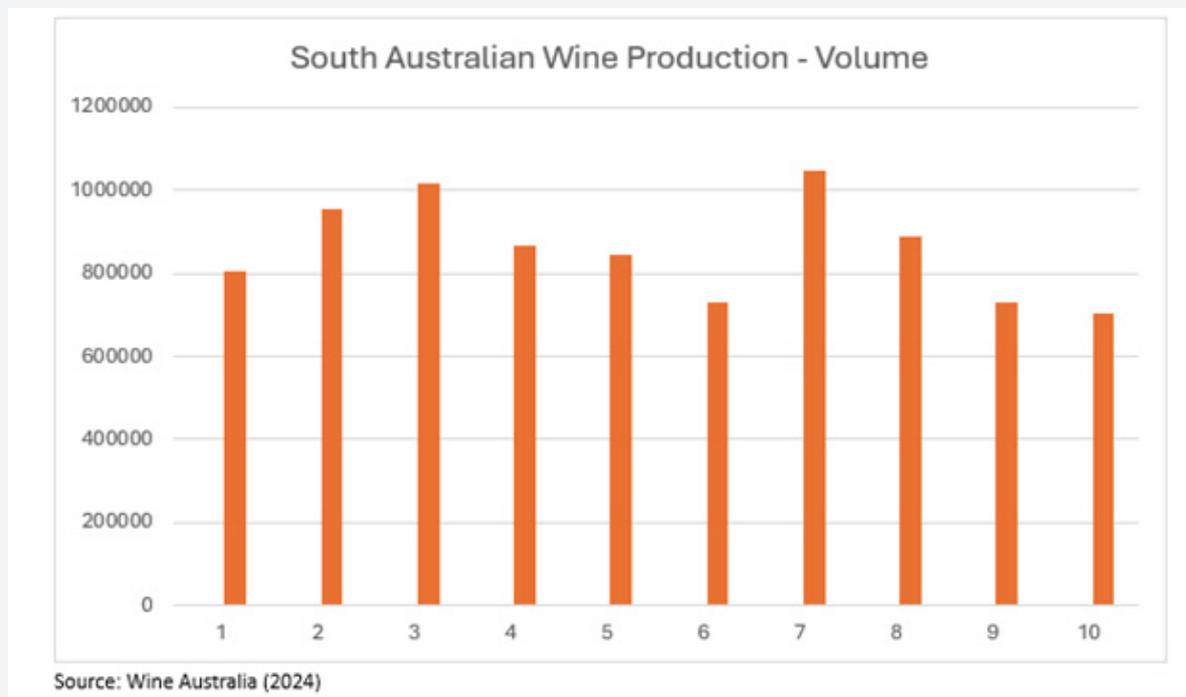


Figure 12: South Australian Wine Production (tonnes).

According to the survey, Jacob's Creek exported a wide range of products across its reds and whites to many markets. They exported to 53 countries in 2015 before the covid pandemic. This included China. Indeed, over 80% of our total production was exported with the remaining 20% sold locally. Jacob's Creek relies heavily on overseas markets for revenue and profits, but the risk is spread over many countries. Because Jacob's Creek has such a wide range of export markets, they were less affected by the Chinese tariff removal than other wine producers that were more exposed to China. Post-China tariff, the three biggest growth export markets were the United States, India and Vietnam. Jacob's Creek was fortunate insofar as that India and Vietnam were, to some extent, able to make up for lost sales to China. Globally, the top three export markets for Jacob's Creek are the UK, USA and UAE. Even at the peak of its sales to China, China was never in its 3-5 top markets. Jacob's Creek exported close to 10% of its total exports to China, lower than the national average [7].

Clearly, the company was able to weather the China tariff storm well, as it found alternative markets. The situation at Taylors Wines was markedly different to Jacob's Creek. China was by far Taylors' biggest export market prior to the tariff; the 200% duty

was a big blow to the company and its operations and profitability. Like other producers in Australia, Taylors sold premium wines into China – Cabernet Sauvignon and Shiraz and since the imposition of the punitive tariff in China, sales dropped sharply. So, this loss was significant to the company. According to Taylors, premium markets are hard to acquire and develop and require much support from government agencies like Austrade (the Australian Government's trade promotion agency) and the South Australian Department of State Development, which recently appointed a dedicated wine export adviser based in Shanghai.

### Longer term Impacts of the China Tariff

As noted, the impacts of the China tariff were different, based on the size of the operation and more importantly, the degree of its trade exposure to the Chinese market. As the Jacob's Creek survey suggests, the impacts were little if they had a large, diversified export market base. The China tariff had little, if any effect, as they have a diversified range of export markets. Therefore, for example, when making planting decisions, these are not based on events in particular markets, but rather on the state of existing vines and supply factors like future prices, farming and vineyard technology,

production conditions, input costs and government policy (state and national). Jacob's Creek's policy of having a large, diversified export base held it in good stead when China announced its wine tariff in 2020.

The company had already been present in the India market for many years and had established itself as the leading imported wine brand in India. According to the survey, its focus remains on building for the long term by expanding its portfolio and delivering education to build wine knowledge and engagement among the emerging consumer base, particularly female drinkers who have been increasingly embracing wine as their beverage of choice. So, it appears that continued marketing efforts, together with working in close cooperation with government trade promotion agencies is also an effective way to deal with unexpected demand shocks like facing tariff hikes in trading partner countries. But, diversifying one's markets is the key and not relying too heavily on one export market [8].

That only increases export risk. This has implications for smaller, more single-market trade exposed companies like Taylors Wines, where China was by far its biggest export market. The supply response, according to the survey was swift; Taylors looked to scale back on its plantings and replace fewer older vines that were removed from production. This would have been replicated by many other smaller wineries that had a larger exposure to China [9]. This is consistent with the data shown in Table 12 which shows South Australian wine production falling in the aftermath of the China tariff. Even with the help of government trade promotion agencies, it takes much time and effort to build new export markets. But this is an investment that wineries, especially the smaller ones, need to make to enhance their futures.

### Concluding Remarks

As shown above, the 200% tariff by the People's Republic

of China on Australian wine imports, affected the Australian wine industry, but more so the South Australian wine sector. This is because wine as a proportion of total exports is bigger for the State than for Australia as a whole. As seen, following the Chinese tariff, export revenues in South Australia fell by a massive 42%, from \$1.2 billion on 2020 to around \$700 million in 2023. And following the removal of the tariff in China, export revenues picked up again in 2024. As shown by the survey, the smaller producers and exporters were harder hit by the tariff, and especially those that were significantly exposed to the China market. Not surprisingly, these producers were forced to make supply side adjustments both in grape growing and subsequent wine production. But, by far, all is not lost. These producers, which make up the bulk of South Australia's wine production, will need to be extra-innovative in their marketing efforts, diversify their export markets and where possible, use the resources of the State and Federal (Australian) government trade promotion agencies to promote their products in a wide variety of export markets.

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