

Wine and Trade Disputes: From Protectionism to Tool of Political Coercion

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Outline

- Shifting of Wine and Spirits Involvement in trade disputes
 - technocratic,
 - economic retaliation
 - political goals
- Impact on consumers and Producers-stylized Facts
- Potential developments ahead and further research

How has wine been involved in trade disputes?

Three motivations

- technocratic disputes over trade rules - roughly consistent with adoption of rules in other sectors.
 - Wine tariffs and trade rulings aimed to change balance of power for wine.
- Wine and spirits tariffs as retaliation for other trade disputes. used mostly by US, but also China
- Wine tariffs/bans driven by political goals – coinciding with political conflict or other coercive policies (used mostly by China and Russia, but potentially increasingly also G7)

Phase 1: Wine Disputes for Wine Competition

- Trade liberalization and coincident quality improvement in increased countries of wine production and competition.
- As new wine producers entered markets, some sought to protect new industries and others used trade tools to open new markets.
- WTO cases brought by countries on national treatment grounds. Generally brought by higher volume producers in new world
 - cases brought against Japan, South Korea, Ukraine and Chile to reduce divergence between tax on locally produced spirits vs imports.
 - Later against Canada (more restrictive subnational regulators) for protecting local production/preferential marketing.
- These disputes were linked directly to wine and spirits and rulings took place despite alcohol as more protected industry. Some activities underground.
- WTO channel of Trade disputes suspended due to lack of judges
- Winners: Consumers (on price and choice), players at scale, limited protection for new industries and required them to move up value chain.

Selected Wine and Spirits Related Trade Disputes at WTO

Respondent	Complainant and other supporters	Issue	Resolution or current stage
Canada (DS 531), 2017	United States Argentina; Australia; EU, New Zealand, Chile; China; India; Israel; Korea, Mexico; Russian Federation; South Africa; Chinese Taipei	Rules governing the sales of wine in grocery stores in British Columbia	Panel approved (2018), but not selected. Case on hold.
Canada (DS 537), 2018	Australia, Argentina, Chile, the European Union, New Zealand and the United States	Supportive measures maintained by the Canadian Government and the Canadian provinces of British Columbia, Ontario, Quebec, and Nova Scotia governing the sale of wine.	Panel convened and report slated to be issued by mid 2020
Chile (DS 87 and 110), 1997	EU: other interested parties: Canada; Peru; United States; Mexico	Chile's Special Sales Tax on spirits, which allegedly imposed a higher tax on imported spirits than on Pisco, a locally brewed spirit	DSB ruled against Chile requiring it to normalize tax rates by 2001. Chile gradually reduced tax rates to equalize those on local and foreign spirits
Japan (DS 8, 10, 11), 1995	EU, Canada, United States	higher tax on imported spirits than local shochu	DSB ruled against Japan, who appealed. Eventually adjustments were made to taxes
Korea (DS 75, 84), 1997	EU, United States	higher tax on imported spirits than local soju	DSB ruled against Korea, who appealed. Eventually adjustments were made to taxation
Philippines (DS 396), 2009	EU, Australia; China; India; Mexico; Thailand; Chinese Taipei; United States	Higher tax on imported spirits vs local production.	Philippines lost case, then appealed. It changed its excise tax system in 2012.
Ukraine (DS423), 2009	Moldova: China; Colombia; European Union; Chinese Taipei; U.S.	Higher tax on select imported spirits vs local production.	Panel deferred, on hold.

Phase 2: Wine Tariffs as Retaliation for Other Trade Disputes

- 2019 - European wine (and spirits) subject to tariffs as retaliation for deemed losses in airplane sector.
- WTO rulings had allowed US to impose tariffs on goods of up to 7.5 billion in exchange for subsidies on Airbus.
- Wine from EU (especially France, Spain, Germany and UK) made up 17% of total goods subject to tariffs.
- Separately, China had included Bourbon on list of additional tariffs.
- Wine chosen due to a) distributional costs b) aim to avoid costs to essential manufacturing.

Estimated Impact

- Various research has quantified results
- Zhang et al (2021) theoretical work estimates a total loss to suppliers of over 100 million, with overall demand for imported wine dropping.
- Ridley et al (2022) Actual losses likely bigger – closer to \$200 million to EU producers. US consumers faced higher prices.
- Coincidence of tariffs with pandemic likely added to oversupply in some jurisdictions and made trade diversion more difficult
- Consumer loses, producer loses (either via absorbing cost or less demand) and market loses as it's a sign of trade rules not working.

3. Wine Tariffs or import bans for political causes

- Russia and China have intermittently used trade justifications such as sanitary measures to cut imports of wine or spirits from select countries or impose tariffs.
 - In 2020, China imposed tariffs of over 200% of Australian wine on claims of dumping. Coincided with more hawkish Australian language. Approach similar to cuts to canola exports (Canada) salmon (Norway) when bilateral ties worsened. Estimated cost over \$150m adding to other costs. Economic and political justification?
 - Russia cut imports from Moldova, Georgia (2006) as bilateral ties weakened. Given dominance of Russia and catering to Russian (sweeter tastes), harder to develop other supply chains.
- Western countries now using wine as part of coercive tools including cuts to Vodka and Russian spirits exports. This was done at subnational and then Federal level.

Impact

- hard to assess impact as use of such tools is usually combined with other coercive tools including cuts to investment and borrowing, military action and possibly cuts to non-wine products.
- Some countries (Australia) more able to find alternative markets or shift value of wine supplied. FSU less able to establish new supply chains immediately. Moving up value chain and establishing new markets has been successful.
- In some cases (Russian vodka) action is much more symbolic given limited trade and small role in bilateral trade.
- These tools likely to be used more as many governments focus on whole-of-government approach to coercive action.

Issues for future

- Impact of trade and financial sanctions on wine and shifting demand
- With focus on setting standards not market access will wine producers be willing to trade quotas?
- Disentangling impact of pandemic impact on demand
- Possible additional role of anti-trust policies on wine, beer and spirits and how that might effect protectionist policies
- Climate related policies and protection/incentives.