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Title
The Role of Wine in Trade Disputes

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Conference Presentation

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Keywords
international trade, investment restrictions, wine. international political Economy

Research Question
Why did wine became a key tariff target in international trade disputes after 2000?

Methods
Assessment of stylized facts around wine trade. We built a data set of wine-related trade disputes brought to the WTO and regional dispute settlement.

Results
We find that developed economy wine producing nations dominate disputes. As a perceived luxury good, wine and spirits may have a symbolic role in trade disputes that exceed export revenues.

Abstract
Wine and spirits have played a critical role in trade disputes of late as measured by number of disputes and their place on compensatory trade disputes. This paper assesses whether this perception is accurate and asks why. We build data sets to survey the economic contribution of wine exports to better understand the potential protectionist impulse, map the outcomes of wine-related trade disputes, past and pending. We find that developed economy wine producing nations dominate disputes, though middle-income countries are beginning to take a larger role in bringing cases. We find that wine plays a political role exceeding its export revenue. As a perceived luxury good, wine and spirits may have a symbolic role in trade disputes that make it an attractive target. We conclude with some evidence that wine trade disputes may be entering a new phase linked to US-led trade policy.
Wine and Global Trade liberalization

Our analysis illuminates the role of wine in international trade disputes since the formation of the WTO, a period which corresponded with the entrance of many new countries into the wine industry and a general increase in quality. These countries, which either began or sharply increased production and export of wine, set in motion a shift in wine industry fundamentals – supply growth outstripping demand.

The wine industry followed the broader trend in global trade – first countries reduced tariffs, opening up markets to foreign competition, and then future liberalization focused on removing non-tariff barriers, including local regulations, some of which sprung up to respond to the dropping of other barriers. Wine’s status as a protected good, with public safety regulations subjected it to more barriers than other agricultural products. The authority

granted to sub-national entities complicate the policy environment as federal authorities have delegated to them key elements concerning sales of alcohol and restricted products. More recently policies have become more subtle to identify and counter.

Scaling the Wine Export Market: How Important are Wine Exports?

In this section the paper scales wine exports as part of total national trade and assesses the economic costs and benefits of broadening market access. Countries that export a greater share of wine are more likely to want to use trade rules to grow their markets. Those with large domestic production and consumption are likely to want to protect them. Although Wine's contribution to local economies including employment and ancillary industries is much higher, nonetheless, these trends suggest that wine is an important but relatively small commodity.

We also map consumer markets, helping to explain what countries are most important for producers. It highlights for example the relative importance of Canada- which is the 5th largest import market for wine - and growing importance of China. Overall, developed countries have been more focused on defending and growing their market share, while major wine producers such as South Africa, Argentina and Chile are increasingly active in opening markets. These trends become more important in the face of demand shocks due to the pandemic and supply challenges due to climate change.
Assessing WTO and Regional Cases Involving Wine

The next phase of the paper dives into the international trade law cases concerning wine at the WTO and regional/bilateral dispute settlement mechanisms. We summarize past and pending cases brought to the WTO dispute settlement board concerning wine. We have added a series of cases from the 1990s on spirits since these reflect disputes on overall alcohol tariffs, including wine. It also includes more recent cases brought against Canada privileging local producers and proposed tariffs on wine even if these court cases did not wend their way through the legal process.

We identify four distinct phases of wine disputes since 2000.

1) Liberalization and enforcement of national treatment (1990s/mid 2000s) In this period, which coincides with broad trade liberalization, several cases focused on ensuring national treatment was extended across all jurisdictions. This phase reduced tariffs and non-tariff barriers (NTBs) to allow additional trade in wine and spirts. In this period producers increased quality and volume to meet additional demand globally. There was general enforcement of these rulings as the cost of compliance was not too high.

2) Targeted tariffs/disputes due to wine-related protectionism (2005-2017): Rise of new non-tariff barriers especially a focus on protecting location-based naming and support for local industry. Compared to the first phase these non-tariff barriers included more nuanced measures that resulted from partial privatization of controlled liquor sales that provided more intractable to implement. These selective implementations led to long standing legal battles.

3) Wine as retaliatory target in broader trade war (2017-2020): Wine and spirits became key targets in retaliatory tariffs relating to disputes in other industries, especially in tit-for-tat trade wars between the US and other developed economies. These tariffs were unilaterally applied and did not wait for a WTO/regional ruling. Overall these trends shifted bilateral trade particularly between the US and EU and amplified some of the demand impacts of the pandemic on the wine industry.

4) Nascent shift - Rise of quota systems, export reductions and anti-trust (2021+?). A shift in trade policy during the pandemic suspended many of the retaliatory trade measures relevant to wine especially those between developed economies. In the early days of the Biden administration, a shift towards G10 cohesion led to temporary agreements on the underlying disputes. These measures reflected the Biden administration focus on building a coalition to counter China and willingness to engage in quotas that restricted imports, especially in higher carbon intensive sectors. There are early signs that trade disputes remained targeted towards the industry rather than retaliation for other trade issues. Another potential regulatory challenge involves the potential use of anti-trust policies to break up monopolies.

The deadlocked WTO dispute system, has already slowed down proceedings, suggesting that bilateral agreements will be the main venues to address these disputes. Throughout all cases countries comply when it costs them less to do so.

The rise of wine and spirit retaliatory tariffs from 2018-20

As a perceived luxury good, policymakers saw a symbolic political benefit from wine and spirit tariffs. Still, there is little evidence that the use of wine and spirits tariffs brings additional leverage in talks on other industries due to the relatively small size of markets . Still, political gains reflect restricting the import of a perceived higher cost foreign product. Examples include the inclusion of French and Italian wine on the 2019 U.S. list of compensatory tariffs following the WTO Airbus judgement provides an example, while French wine was also mentioned as a potential target in case of the digital tax. Previously in 2017 and 2018, Chinese and EU officials included bourbon in their lists of potential retaliatory tariffs pointed to the US. These lists targeted products aimed to add electoral pressure to President Trump.

Wine and alcohol products are exposed to local political crackdowns. Xi Jinping's anti-corruption push had the net result of reducing demand for wine and other alcohol products in China. Under the Biden administration, there has been a decline in tit-for-tat retaliation and early signs of sectoral bilateral and mini-lateral agreements, while other regulatory tools including anti-trust may be more attractive for meeting economic aims.