Weaponizing Wine and Spirits Trade: Assessing the Impact of Sanctions.

I want to submit an abstract for: Conference Presentation

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Research Question
How has the use of trade and financial sanctions on wine and spirits evolved in the context of the China-West Trade Tensions and Russia’s full-scale invasion of Ukraine?

Methods
Analysis of trade data, interviews and policy assessment

Results
The economic and trade restrictions contributed towards the reduction in wine trade volumes. Other factors including a broader shift in consumption patterns (China) and financial restrictions amplified these trends.

Abstract
This paper looks at two recent cases where wine and spirits trade has been weaponized as part of a broader national security priority - the China/Australia dispute and the sanctions that followed Russia’s full-scale invasion of Ukraine. In both cases, wine and spirits were among the targets chosen by foreign powers to try to coerce a policy change in an area unrelated to alcohol production. In both cases, wine and spirits restrictions were accompanied by restrictions on other areas as part of a broader economic pressure campaign aimed at driving policy change.

This work builds on analysis by the author on trade disputes involving wine and spirits, some of which was presented at the 2022 AAWE meeting. Ziemba 2022 mapped the extensive legacy of trade disputes on wine and spirits, from national treatment WTO trade cases to the increasing use of wine as a retaliatory product in trade disputes involving other sectors (Auto, Aerospace). It also draws on her broader work on economic coercion, sanctions and trade policy as applied to other resource, agricultural and manufacturing sectors. With wine and spirits seen as a luxury good, the political costs of targeting them may be lower than other agricultural products.

The paper begins with some context around the weaponization of wine and spirits trade and then moves quickly into the case studies. These include an assessment of the tools employed the coping mechanisms adopted by the target and the impact. The analysis deploys a time series of wine and spirits trade both from the countries in question and other unaffected trading partners. It also assesses other economic and financial drivers that may complement or undermine the alcohol trade including the macro and financial environment that shapes consumer choices and path to market in this period, to better assess other non-sanctions drivers of demand shift. Interview
and news analysis from the period about the way producers and market actors adjusted provides additional context.

This paper is unique as it focuses on two case studies, and builds on a longer history of work on trade disputes relating to wine and spirits. Its cases capture the restrictions placed on trade from both developed and emerging economies, market-led and less market-driven economies, both of which are utilizing trade and financial restrictions to meet goals not directly related to wine/spirit sector. In that way we can draw lessons from the impact of wine and spirits restrictions in the context of other coincident policy changes.

Case 1: China/Australia: Chinese officials imposed tariffs on wine following the Australian government proposed inquiry on the origins of Covid-19 and other derisking. While the tariffs were not directly referenced as retaliation, the timing was too close to be a coincidence. Wine was only one product targeted by tariffs, but was one where China had more options to shift suppliers or reduce demand. Wine exports to China plunged, as the trade sanctions exacerbated an ongoing structural decline in wine consumption and imports in China detailed by Kym Anderson (2023), itself in part a function of the anti-corruption crackdown. It was also exacerbated by wine surplus during the pandemic. Overall the trade restriction increased the impact of China's shifting demand and concentrated it on the Australian producers, while global surplus wine production and rising transport costs made it harder for producers to find a replacement. The case will conclude with prospects for the future including potential adjustments of these tariffs and other cases.

Case 2: Russia has long used wine import bans as a retaliatory measure for security choices of neighbors (eg Armenia, Georgia). In 2022, following the full-scale invasion of Ukraine, one of the prominent early policies was the banning of Russian vodka and other spirits from US, Canadian and some European markets via import bans and other restrictions. Some of these policies were more symbolic, as volumes were low and consumer boycotts extended also to Russian sounding but European owned products, it did have an impact on trade. At the same time the EU also restricted exports of super-premium wines to Russia, as part of a policy to target oligarchs. The analysis shows that European exports to Russia of alcohol products fell, but that this likely reflected overall payment issues and the freezing of assets rather than the sanctions on their own. The case study considers the interplay of these policies and assesses this trade in context of the broader macro environment.

The paper concludes with an assessment of the lessons learned from these cases and past ones, and some considerations of developing cases including the recent Chinese anti-dumping investigation of European Brandy. Overall, targeting of spirits and wine to meet other foreign policy and trade policy goals is likely to continue. With ample supplies and changing demand patterns, it may only add to the pain for producers.

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