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ON THE IMPACT OF THE CANADA-UNITED STATES FREE TRADE AGREEMENT ON U.S. WINE EXPORTS

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In their article on the impact of the Canada-United States Free Trade Agreement (CUSFTA) on United States wine exports, Heien and Sims (1999) note that the volume of US wine exports to Canada doubled and its value more than trebled between 1988 and 1994 as CUSFTA was progressively implemented. They attribute the remarkable growth in the quantity and quality of that bilateral wine trade somewhat to the preferential removal of the import tariff on U.S. wine but mostly to the removal of some key nontariff import barriers. The latter included discriminatory listing practices (only a small subset of importable wines were listed by the monopolized liquor stores (control boards) in each Canadian province), discriminatory pricing policies (those boards marked up imported wine much more than domestic labels), discriminatory distribution practices (imported wine attracted a higher distribution service charge), and local content rules (domestic labels in British Columbia had to contain at least 80 per cent B.C. wine so as to be eligible for the discriminatory treatment favoring local wines).

Useful though their analysis is, Heien and Sims leave unanswered may questions about that bilateral trade growth. First, did the U.S. *share* of Canada's total wine imports grow? Second, did Canada's share of *U.S.* wine exports grow (since total U.S. wine exports grew rapidly in the 1990s)? Third, did U.S. wine sales in Canada grow faster than those of other 'New World' wine-exporting countries? In particular, did the U.S. penetration of Canada's wine market grow less rapidly relative to that of other foreign suppliers after 1995 when CUSFTA implementation had ended and implementation of the multilateral Uruguay Round Agreement on Agriculture began (given that NAFTA added no further liberalization of Canada-U.S. wine trade)? And fourth, to what extent was the quality upgrading of Canada's wine imports confined to U.S. wines? These questions are addressed in turn before drawing out some implications from this single-industry study of the role of bilateral/regional integration agreements as stepping stones to freer global trade.

If all that CUSFTA introduced was a drop in barriers to U.S. wine exports to Canada, the U.S. share of Canada's wine imports would have grown progressively during the 7-year period (1989 to 1995) over which CUSFTA was implemented -- and beyond, if there were delayed responses to promotion of U.S. wines. Table 1 shows that the U.S. share grew in 1989 from 7.5 to 9.0 per cent, but it fell slightly in 1990 when Canadian imports from Southern Hemisphere wine exporters surged. True, the U.S share grew again during 1991-93, but thereafter it plateaued in the 15-17 per cent range.

What about Canada's share of U.S. wine exports? That share jumped from 22 to 26 per cent in 1989. But it rose only a little more after that first year, peaking at 28 per cent in 1993 before falling steadily to 17 per cent by 1997 (column 6 of Table 1) -- well below the U.S. share of Canada's imports of non-wine merchandise, which was 22 per cent in 1997. During that decade Canada's share of *world* wine trade rose significantly only in 1989 too, thereafter falling back to average in the 1990s barely above its 1988 share of 3.2 per cent (final column of Table 1). And even in that first year of CUSFTA, exports from the U.S. accounted for less than one-seventh of the growth in the total value of Canadian wine imports.

As it happens, this was a period of rapid expansion of wine exports from both the United States and several other 'New World' suppliers not just to Canada but generally (Anderson and Berger 1999). As a consequence, global exports of wine almost doubled during the decade to 1997, and the shares of 'New World' suppliers in international wine trade rose rapidly from a low base -- at the expense of Western European suppliers. Column 2 of Table 2 shows that the U.S. share trebled. To what extent, then, can the growth in U.S. wine sales to Canada be accounted for simply by the growth in the contribution of U.S. exports to world trade in wine?

One way to net out the impact of the latter is to calculate the index of intensity of wine trade between the U.S and Canada. That index is the share of the exporting country's wine exports going to Canada divided by Canada's share of world wine imports or, equivalently, the exporting country's share of Canada's wine imports (from Table 1) divided by that exporting country's share of world wine exports (from Table 2). The numbers so calculated are summarized in Table 3. They show that in 1988 the intensity of U.S. wine exports to Canada was already extremely high: the U.S. share of Canadian imports was 6.7 times larger than the U.S. share of global wine exports. That intensity index *fell* slightly, rather than increased, in 1989 and 1990 as CUSFTA began to be implemented. It then rose slightly during the next two years, but it has fallen steadily since 1992 and was below 5.1 by 1997. Meanwhile, the index of intensity of other 'New World' wine export trade to Canada rose considerably more, in proportionate terms, than that for the U.S. from the late 1980s to the early 1990s (from 2.0 to around 2.7), and the relatively low index of intensity of European wine sales to Canada deteriorated further.

Heien and Sims also point to the quality upgrading of U.S. wine exports to Canada as CUSFTA was being implemented. To what extent was that confined to imports from just the U.S.? The final row of Table 4 shows the average price of world wine exports to all markets in 1997 was 20 per cent above the 1988-90 average in current U.S. dollar terms, whereas that for wine exports just to Canada was 37 per cent higher. The price of U.S. exports to Canada, however, rose 126 per cent over those ten years, or three times more than the average for Canada's wine imports. The average price for Southern Hemisphere exports to Canada, by comparison, was only two-thirds greater in 1997 than in the late 1980s. Thus the quality upgrading of U.S.-Canada wine trade referred to by Heien and Sims was not only substantial in absolute terms but also relative to the quality upgrading of Canada's imports from other countries, including other 'New World' suppliers, and to the upgrading of global wine trade.

Apart from this quality feature, however, the above data suggest (a) that Canada has not opened up its wine market any more rapidly than other wine importers over the decade examined and (b) in so far as Canada has expanded its wine imports in absolute terms, the growth of U.S. sales in that market has not been outstanding relative to sales growth by Southern Hemisphere wine exporters, including during the CUSFTA implementation period.

Two implications follow from these data. First, when a bilateral free-trade agreement mainly involves the removal of non-tariff barriers including trade-inhibiting domestic practices, it is possible for third-country exporters to enjoy much of the benefit of that liberalization. In that sense a bilateral or regional free trade agreement can indeed be a stepping stone to freer global trade. But second, that benefit to exporters may not be large. In particular, if the removal of one series of trade-inhibiting measures is accompanied by the introduction of other anti-trade measures, as Heien and Sims document was the case in Canada, the growth in that country's imports can be dampened. Certainly the decline in Canada's self-sufficiency ratio from 22 to 18 per cent during the 1988-97 period (Berger, Spahni and Anderson 1999, Table 8) is in the right direction for a country with a strong and increasing comparative disadvantage in wine production, but that is simply a continuation of past trends.[1] It and the lack of growth in Canada's share of global wine imports during the 1990s together suggest (a) CUSFTA has had only a modest impact and (b) there may be

[1] Domestic wine production as a percentage of consumption in Canada was two-thirds in the early 1960s, one-half in the early 1970s, and one-third in the early 1980s, compared with about one-sixth now (Berger, Anderson and Stringer 1998, Table 12).

considerable scope still for further wine market liberalization in Canada.

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Table 1: Value and sources of Canada's wine imports and their shares of U.S. and world wine exports

(current U.S. $ million and per cent by value)

	Value of Canada's Wine Imports (US $ million)	Percentage of Canada's imports from:					*Canada's imports as a % of:*	
		United States	Australia	Other 'New World'[a]	Western Europe	Rest of world	*U.S. exports*	*World exports*
1988	*206*	7.5	2.7	1.6	86.4	1.8	*21.5*	*3.2*
1989	*276*	9.0	3.0	2.0	84.0	2.0	*26.0*	*4.1*
1990	*295*	8.4	4.3	3.2	82.7	1.4	*23.1*	*3.6*
1991	*281*	11.7	4.3	4.5	77.9	1.6	*26.4*	*3.4*
1992	*295*	14.2	4.6	7.0	72.2	2.0	*26.4*	*3.4*
1993	*283*	15.6	5.1	7.6	70.0	1.7	*28.2*	*3.7*
1994	*305*	15.8	5.5	7.4	70.2	1.5	*25.5*	*3.5*
1995	*324*	15.1	4.7	8.5	70.1	1.6	*20.6*	*3.2*
1996	*377*	17.0	5.6	10.3	65.0	2.1	*19.3*	*3.3*
1997	*409*	16.7	6.0	12.5	63.1	1.7	*16.8*	*3.3*

[a] Argentina, Brazil, Chile, New Zealand, South Africa, and Uruguay.

Source: Calculated from United Nations trade value statistics as summarized by Berger, Spahni and Anderson (1999, Table 22).

Table 2: Value and sources of world wine exports

(current U.S. $billion and per cent by value)

	Value of world wine exports (US $ billion)	Percentage of world wine exports from:				
		United States	Australia	Other 'New World'[a]	Western Europe	Rest of world[b]
1988	*6.4*	1.1	1.4	0.8	94.2	2.5
1989	*6.7*	1.4	1.5	1.1	93.1	2.9
1990	*8.1*	1.3	1.6	1.3	93.0	2.8
1991	*8.1*	1.5	2.0	1.8	91.7	3.0
1992	*8.8*	1.8	2.4	2.6	90.2	3.0
1993	*7.6*	2.0	3.3	3.2	87.4	4.1
1994	*8.7*	2.2	3.6	3.3	87.1	3.8
1995	*10.0*	2.4	3.3	4.1	86.2	4.0
1996	*11.4*	2.9	4.1	5.5	81.6	5.9
1997	*12.3*	3.3	4.8	6.7	79.1	6.1

[a] Argentina, Brazil, Chile, New Zealand, South Africa, and Uruguay.
[b] Mostly Central and Eastern Europe and the former Soviet Union

Source: Calculated from United Nations trade statistics as summarized by Berger, Spahni and Anderson (1999, Table 22).

Table 3: Index of intensity of wine exports to Canada, by source[a]

	United States	Australia	Other 'New World'[b]	Western Europe	Rest of world
1988	6.70	1.97	2.00	0.92	0.72
1989	6.34	2.05	1.82	0.90	0.48
1990	6.36	2.76	2.54	0.89	0.50
1991	7.56	2.14	2.50	0.85	0.53
1992	7.89	1.91	2.68	0.80	0.67
1993	7.68	1.53	2.38	0.80	0.70
1994	7.18	1.42	2.24	0.81	0.40
1995	6.29	1.42	2.07	0.81	0.40
1996	5.86	1.37	1.87	0.80	0.36
1997	5.06	1.25	1.87	0.80	0.28

[a] The intensity of trade index is the share of the value of each exporting country's/region's wine exports going to Canada divided by Canada's share of world wine trade (or equivalently, the exporting country's/region's share of Canada's wine imports divided by that country's/region's share of world wine trade when just export data are used).

[b] Argentina, Brazil, Chile, New Zealand, South Africa, and Uruguay.

Source: Calculated from United Nations trade value statistics as summarized by Berger, Spahni and Anderson (1999, Table 22).

Table 4: Unit value of wine exports to Canada (and to the world), by source[a]

(current U.S. cents per litre)

	United States	Australia	Other 'New World'[b]	All exporters
1988-90	106 (176)	211 (217)	89 (115)	185 (176)
1991-93	137 (179)	234 (215)	130 (152)	202 (189)
1994-96	188 (225)	294 (273)	120 (137)	224 (197)
1997	240 (252)	371 (331)	151 (177)	255 (212)
1997/ 1988-90	*2.26 (1.43)*	*1.76 (1.52)*	*1.70 (1.54)*	*1.37 (1.20)*

[a] Argentina, Brazil, Chile, New Zealand, South Africa, and Uruguay.

Source: Calculated from United Nations trade value and volume statistics as summarized by Berger, Spahni and Anderson (1999, Tables 21 and 22).

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2. **Wittwer, Glyn and Kym Anderson**, "Impact of Tax Reform on Australia's Wine Industry" September 1998. (Since published in *The Australian Grapegrower and Winemaker* No. 418, October 1998.)
3. **Berger, Nicholas and Kym Anderson**, "Are Australia's Wine Consumers Over-Taxed?" February 1999. (Since published in *The Australian Grapegrower and Winemaker* No. 423: 59-61, March 1999.)
4. **Anderson, Kym and Glyn Wittwer**, "More on Modeling the Impact of Tax Reform: How Unequal is the Proposed Wine 'Equalization' Tax" May 1999. (Since published in *The Australian and New Zealand Wine Industry Journal* 14(3), May/June 1999.)
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