Motivating Question: Wine Import Tax

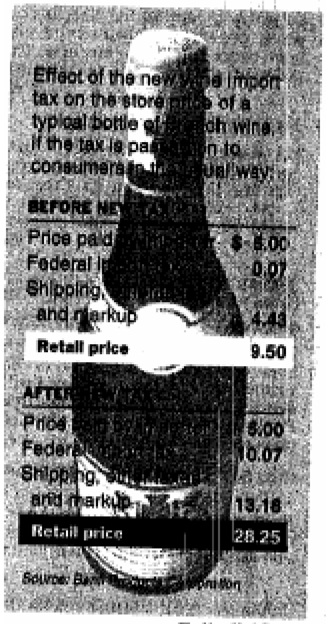
The United States' threatened to impose a 200% tariff (import tax) on the imports of all white wine from the European Community in November, 1992. The fact that the U.S. never actually imposed the tariff should be irrelevant to your answer. No specific knowledge of the wine industry is necessary to answer this question. Assume that the relevant markets are competitive.

The table in the attached *New York Times* article describes the expected effect of the tariff on the retail price of a typical bottle of European white wine in the United States. The article describes in detail how these numbers are determined.

Consider the validity of the expected final retail price ($28.25), and the assumptions made in the article to arrive at this price.

U.S. Puts a 200% Punitive Tax On White Wines From Europe

A Trade War Is Possible as Washington Fights Farmers' Subsidies



The New York Times

By KEITH BRADSHER

Special to The New York Times

WASHINGTON, Nov. 5 — After years of skirmishing over European farm subsidies, the Bush Administration fired the first shot today in what may become a trade war, announcing that in 30 days it would begin collecting a 200 percent import tax on all still white wine from the European Community.

The new taxes cover popular wines like Chablis from France, which currently sells for about $13 a bottle; riesling from Germany, about $10, and verdicchio from Italy, about $9. In addition to about $270 million in wine, about $30 million worth of cooking oil and pet food ingredients will also be taxed. Sparkling wines, including Champagne, are not affected.

Current Shipments Not Affected

While the taxes would triple the prices that consumers pay, the impact is not likely to be visible until sometime next year. Importers of wine, French Cognac and other distilled spirits have been stocking their warehouses in anticipation of the trade war. Only when those stocks are close to exhausted might replacements be ordered at the higher prices. Indeed, wine industry executives fear that many of the wines would not be palatable at the higher prices and that consumers would turn elsewhere — perhaps to the white wines of California, Australia and South America.

Carla A. Hills, the United States trade representative, said the delay before the taxes were actually collected would allow for the arrival of wine already bought by American importers, and would allow time for further negotiations. With one exception, similar delays in the past have not resulted in negotiated settlements and the United States has gone ahead and collected the punitive taxes.

But there is added pressure for a settlement this time because the amount of money and the prestige of the exports involved are greater than in previous disputes.

The United States decided to single out white wines because France is the European Community's leading shipper of white wine to the United States, with sales of $125 million last year, according to the National Association of Beverage Importers, a Washington-based trade group. France has been the most steadfast opponent of compromise in the subsidies dispute, because its farmers are a potent political force and general elections are scheduled for the spring.

The American decision today means a wine importer in the United States who buys a bottle of European wine for $5 will have to pay a $10 tax, in addition to the tax of 7 cents a bottle that is already in place. Retailers usually charge 87 percent more than the importer's price of the wine, including the tax: A bottle for which an importer now pays $5.07 now is likely to be sold by a retailer for about $9.50. When the importer is paying $15.07, the retailer is likely to sell it for about $28.25.

Harry F. Mariani, the president and chief operating office of the Banfi Products Corporation, a large wine importer in Old Brookville, L.I., said prices could climb this winter as white wine stocks dwindle. "Whoever has some white wine left will probably raise the price at the end, even if they didn't pay the tax," he said.

Dispute Over Subsidies

The Bush Administration's willingness to impose punitive tariffs rather than find a compromise with the European Community's insistence on continued subsidies is a sign of the Government's determination to punish countries that do not open their markets to American exports.

Over the last 30 years, the United States has repeatedly complained that European farm subsidies unfairly reduce demand for American exports. The disintegration of the Soviet Union and its diminution as a military threat have freed the United States to take a more aggressive stand.

Tran Van Thinh, the European Community's Ambassador to the General Agreement on Tariffs and Trade, the organization in Geneva that oversees world trade, said Wednesday that the broad trade talks trying to reduce trade barriers could be severely hurt if the United States went ahead with the taxes.

Mrs. Hills also released a list of $1.7 billion worth of manufactured goods, including perfume and construction materials, on which the United States may also impose taxes.

The European Community challenged the legality of imposing import taxes without GATT's permission. "In effect, this constitutes an illegal position according to GATT rules," Frans Andriessen, the European Community's External Relations Commissioner, said today. The foreign ministers of the community's 12 members will meet on Monday in Brussels.

Europeans Refused Arbitration

Robert E. Hudec, the Melvin C. Steen Professor of Law at the University of Minnesota, said the Bush Administration appeared to be on strong legal ground in imposing duties.

"If you offer to arbitrate the action you propose to take and the other side turns you down, then under international law you have the right to take the action," he said.

Agriculture Minister Jean-Pierre Soisson of France called today for the European Community to raise taxes on an equal amount of American goods. Mrs. Hills said the community would have no legal basis for such action but refused to say what the United States would do if the European Community did retaliate.

Mrs. Hills said she had not discussed today's move with any representative of Gov. Bill Clinton of Arkansas, the President-elect. She noted that that Mr. Clinton had emphasized on Wednesday that President Bush remained in charge until Inauguration Day, and Mr. Clinton had strongly supported the strategy of punishing nations that did not open their markets.

Two GATT panels have ruled that the European Community has violated world trade rules with its indirect subsidies for soybeans, rapeseed and other oilseeds. But the European Community has used its veto to block American efforts to get GATT approval for its retaliatory taxes.

Talks Failed on Tuesday

The American action today comes after the failure on Tuesday night of talks in Chicago between Agriculture Secretary Edward R. Madigan and Ray MacSharry, the European Community's Agriculture Commissioner. Mr. MacSharry stepped down today as the community's negotiator on GATT agricultural issues, although he will serve out his term as commissioner, which expires next month.

After France, Italy is the largest exporter of white wine to the United States, with $97 million in sales, followed by Germany with $36 million and Portugal with $5.5 million.

Mrs. Hills identified the 251 wines on the list today as white wines. But as the French Embassy here pointed out to her office this afternoon, several of the wines, such as Sancerre, are also available as red wines. The red wines also appear to be subject to the taxes, given the wording of Mrs. Hills's official order this morning, which will be published in the Federal Register.