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EXPLAINING THE EUROPEAN COMMUNITY – AUSTRALIA WINE TRADE AGREEMENT. IMPACT OF NATIONAL PREFERENCES ON A CHANGE OF SCENE IN TRADE POLITICS

In January 1994, the European Community and Australia signed the Agreement on Trade in Wine. Considering the dramatic changes in the international wine market, this strategy of policy coordination is hardly surprising. In the late 80s and early 90s the dynamic and highly competitive newcomers from countries like Australia and the USA have broken the domination of European producers for the first time. What is astonishing though is the fact that the arrangement was reached in the final phase of the Uruguay Round negotiations, three months before the signing of the Marrakech Agreement that regulated the trade of agricultural products. But neither Brussels nor Canberra settled for this first arrangement, and fourteen years later they signed another Wine Agreement. The article presents the results of analysis of the political debate and legal actions preceding the two Wine Agreements between the EC and Australia. The main focus is on the political and economic factors explaining the 1994 EC-Australia Agreement on Trade in Wine as well as the motivation for the update of this arrangement in 2008. The author argues that the agreement can be explained in terms of the interests of wine producers. The proposed explanation is based on Andrew Moravcsik's theory of national preference formation.

Key words: bilateral agreement, European Union, national preference formation, trade policy, wine market

1. INTRODUCTION

In the year 2008 Australian wine exports to the European Union (EU) reached the value of $1,2 billion[1], positioning the country on the first place among the extra-EU wine suppliers. Every fourth bottle of wine drunk in the 27 Member States that did not originate from the European Community (EC) itself came from Australia. Still, before reaching such a success, Australia put a lot of effort to first guarantee its producers access to this huge but highly protected market. Leading the Cairns Group during the Uruguay Round negotiations, Canberra pursued bringing the agricultural sector under the regime of the General Agreement on Tariffs and Trade (GATT). This happened in April 1994 in Marrakech, but

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[1] European Union Brief: Australia's Relations with the European Union, official website of the Australian Department of Foreign Affairs and Trade: http://www.dfat.gov.au/geo/european_union/eu_brief.html [21.12.2010].

in January 1994 the EC[2] and Australia negotiated a bilateral agreement concerning trade in wine. Both contracting parties signed a second agreement in 2008[3].

The purpose of this article is to present an answer to the question: Which political and economical circumstances pushed the EC and Australia to seek a bilateral agreement on trade in wine? It is also necessary to solve a strictly correlated issue: In what way was the 1994 Agreement not satisfactory to the contracting parties so that they replaced it with the 2008 Agreement?

The hypothesis of the author is that the 1994 EC-Australia Wine Agreement is a result of unsatisfactory protection of the EC and Australian interests in the wine trade provided by the Uruguay Round agreements. The interests of both contracting parties, reflected in the national preferences and strongly influenced by changes in the international wine market, were not safeguarded at the multinational level. So, the parties decided in favour of a bilateral solution. The 2008 Wine Agreement, as a revision of the previous one, became necessary because of the changed political and economic circumstances – the three subsequent EU-enlargements and further export successes of Australia in the international wine market – as well as the matters not resolved in the first arrangement.

First, the methods and the theoretical approach are presented in the article. Further, the most important tendencies about the international wine market are depicted. This way the short economic background for the two Wine Agreements is provided. This is followed by the political background – trade policies of the EC and Australia – as well as a description of the relevant actors. The preferences of both contracting parties and the important interactions between them are illustrated, and at the very end the relevant results are summarized and conclusions drawn.

2. METHODS AND THEORETICAL APPROACH

The study was conducted as an analysis of the political debate and legal actions preceding the two Wine Agreements between the EC and Australia. It was a disciplined interpretative case study (Odell 2001) aiming at explaining both arrangements by embedding them in the theoretical framework provided by Andrew Moravcsik's theory of national preference formation. This theory, which is a part of broader rationalist framework of international cooperation in Moravcsik's liberal intergovernmentalism, usually relates to the process of European integration. But here it is applied to a new event: bilateral agreements about a specific issue. It is not about testing the theory but explaining a relevant event, since the 1994 EC-Australia Wine Agreement became the first of a series of direct agreements between the EC and important wine exporters around the world[4] (Foster, Spencer 2002).

[2] It is the European Community, not the European Union, which has a legal personality and can negotiate and sign international arrangements. Although the EC is a part of the EU, only the EC has the competence in international trade relations (Leal-Arcas, 2008).

[3] This agreement came into force on 1st September 2010.

[4] South Africa 2002, Canada 2004, USA 2005, Chile 2006 – EU bilateral agreements on trade in wine: http://ec.europa.eu/agriculture/markets/wine/third/index_en.html [20.12.2010].

The theory of national preference formation is grounded on an assumption of a liberal theory of international relations, according to which "states (or other political institutions) represent some subset of domestic society, on the basis of whose interests state officials define state preferences and act purposively in world politics" (Moravcsik 1997: 518). National preferences are defined as an "ordered and weighted set of values placed on future substantive outcomes, often termed *states of the world*, that might result from international political interaction" (Moravcsik 1998). The more a group can gain or lose, seen from the perspective of its single member, the more influential it is likely to be. For this reason, producers' preferences are generally considered more than preferences of taxpayers or consumers (Olson 1998). Because of economic interdependence between states, governments are often not able to satisfy the national preferences by means of unilateral policies. There is a need of negotiations at the international level in order to reach policy coordination. But "international agreement requires that the interests of dominant domestic groups in different countries converge; where they diverge, cooperation is precluded" (Moravcsik 1993). Further, the preferences' character of the politically important groups strongly influences the bargaining power of a government. The stronger its need to reach an agreement, which implies a bigger readiness to make concessions, the smaller its bargaining power.

By choosing this approach, the author decided to analyze the interrelation between markets and states as it had been described by Susan Strange. Interpreting a complex event based on human actions and relations, there is the need of involving aspects of social, political and economic nature (Strange 1984[5], Strange 1994).

The investigated period included the recent three decades, that is, the period since Australia has been present on the international wine market as a relevant exporter. The first step – the market analysis – was conducted on the basis of data from the Food and Agriculture Organisation (FAO), World Trade Organisation (WTO), the EC and Australian government sources. Then the political framework and relevant actors including their interests were identified. The final step of the analysis consisted in defining the preferences of and evaluating the interactions between the EC and Australia.

3. INTERNATIONAL WINE MARKET

The international wine market and its phenomena seem to be quite an understudied area of research. It is a very specific and complex field that may be all about one single product, but far from being a commodity. Yet, wine can be a highly profitable business and the players of this industry have a good reason to compete, considering that the global wine market reached already in 2002 the value of US$ 90 billion (Bartlett 2003). Although consumption of wine in the world is decreasing, the volume of wine traded globally increased in the year 2006 by 8% reaching almost 9 billion liters. Both the value of wine traded and the unit value of it increased, respectively by 10% and 2% (27th Australian Wine Report).

[5] Book edited by Strange, see her *Preface* and the chapter 9: *What about International Relations?*, also the chapter 1 by Roger Tooze: "Perspectives and Theory: a Consumers' Guide" (*ibid*., pp. 1–22).

The battle that flared up between the wine producing countries has been growing, along with – or for reason of – the transformation of the world wine market, from its traditional regional orientation it had few decades ago to the highly international exchange market that it is today. In this metaphoric battle some countries become better off than others. The winners are to everybody's astonishment the New World[6] producers, which only a few years ago were ridiculed in their attempt to be a serious competitor for the traditional European producers. This process of a shift in the centre of gravity from the Old World to the New World producers as well as the increasing trade in wine accompanied by a declining consumption have been the most serious factors shaping the international wine market during the last three decades.

There have been three tendencies observable on the international wine market during the past thirty years. First, the Old World dominance in the wine market has been broken. Production, once concentrated in Europe, has become polycentric – wine is grown on all continents on an economically relevant scale. Even if global wine production reached its peak in 1982 and the last decades, with slight variations from year to year, was generally decreasing, it was mostly due to the reduction of output in the Old World (France and Italy) and there are still some countries increasing their production. Falling consumption has led to oversupply in the international wine market in the last years. Between 1990 and 2004 wine production in Australia increased by 1 billion liters (+230%), so did the supply in the USA, with 845 million liters more (+53%) and in Chile (+65%). The vineyard surface in the New World grew during this period from 539 thousand hectares to 796 thousand hectares (+44%) (Halliday 2007).

Second, the consumption of wine in the world has been decreasing, but it happens due to the important wine producing countries in Europe and in South America, being traditionally the biggest consumers. However, nowadays the markets with the highest potential are starting to be the ones that have a very high consumption rate and at the same time cannot cover their demand with domestic supply, consequently importing significant quantities of product. Some of these countries almost do not produce any wine, like United Kingdom, Japan, Belgium, Netherlands or Russia; some of them do not produce enough or have consumers expecting a bigger choice than the one offered by domestic producers, as in the case of the USA and Germany. Consumption in these countries has been growing. Therefore, although global consumption is falling, there are many countries drinking more and until recently – what was even more important – more expensive wines. What has really been decreasing is the consumption of low quality wines. In Europe for example a huge amount of cheap, low quality wine is produced, impossible to sell on the market and therefore distilled for pure alcohol. The premium ones still sell very well and the demand for them is constantly growing.

Third, the volume and value of wine traded globally has been growing. Wine has become by value the third most important agricultural export product in the world, being

[6] In the literature about wine, the term *New World* often refers to all the countries that do not have a history of quality wine production; the most important ones are Argentina, Australia, Chile, New Zealand, South Africa, and the United States, but also Brazil or Uruguay. Consistently, the term "Old World" is reserved to the long time incumbents, mainly Europe (Italy, Spain and France).

ahead of such commodities like soybeans, maize and beef. Wine exports in 2007 were worth US$ 28,4 billion, what corresponds to a double value of chicken meat or coffee exports. Thirty years ago wines from the New World were still hardly known not only in Europe, but also in the rest of the world: wine was still a quite rare and exclusive product and it was perceived as a typical European delicacy. But if only a choice between products is available, it will be welcomed by the consumer. This is valid especially when purchasing power is growing (Rangarayan 1984). These important changes to the world wine market have led to the intensification of rivalry between the traditionally wine producing countries and the relative newcomers from the USA and the Southern Hemisphere, to the advantage of the consumers.

4. THE EUROPEAN COMMUNITY AND AUSTRALIA'S TRADE POLICIES AND RELEVANT ACTORS

Comparing both contracting parties of the two Wine Agreements, some substantial differences are observable. These differences concern the meaning of the parties in international trade, their wine industries as well as their trade policies. The EU is the world biggest importer and exporter of agricultural products, accounting in 2009 by value for respectively 43,9% (extra-EU: 11,8%) of total imports and 42,3% (extra-EU: 9,4%) of total exports worldwide[7]; only 0,4% of EU imports in agriculture originate from Australia (WTO 2010). The European Union is also the biggest market for Australian wines, with almost half a billion inhabitants and 16,38 trillion US$ of GDP. Australia has a population of 21 million and a GDP of almost 1 trillion US$; and is also not among the most important destinations or origins of EU exports and imports[8]. It is therefore undeniable the importance for Australia to maintain good economic relations with the EU, and the strongly unbalanced negotiating powers of the two parties.

The strength of Australia comes not from the size of its economy, but the advantages of its wine industry. Australia has a concentrated wine industry structure dominated by a few big companies, which are responsible for the majority of the country's output. Its producers apply advanced production technologies and invest in further development. Also its investor-friendly stable political and economic climate supports the industry's expansion through foreign capital inflows. Considering these factors, Australia has a competitive advantage in wine (Castaldi, Cholette and Hussain 2006). The country also enjoys a comparative advantage in all industries connected directly to natural resources, including agriculture and more specifically also wine (Chatterjee 1996). Profits from this comparative advantage started to be enjoyed by Australia in the late 1980s, which can be explained by its trade liberalization policy developed at that time. Sectors, which gain from trade, are the ones in which a nation already possesses or wins a comparative advantage. Analogically, for sectors

[7] The numbers are respectively 37,4% and 37,7% for overall trade (WTO, 2010).

[8] WTO trade profiles, data for the year 2009, available on: http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=AU,E27 [25.02.2011].

in which a nation loses comparative advantages the consequences of trade are negative. And as a matter of fact Australian agriculture not only profited from the trade liberalization policy of Robert Hawke's Labor government, but it was the agricultural industries themselves that pushed Canberra to adapt a policy favoring their development through exports.

The strength of the Australian wine industry is an implication of the collaboration between the stakeholders which involves an active and well developed system of organizations. They have built a clear hierarchy with national, state and regional levels. The national organizations are the Australian Wine and Brandy Corporation (ABWC), the Grape and Wine Research and Development Corporation (GWRDC), and the Australian Trade Commission (Austrade) on the government side; as well as the Winemakers' Federation of Australia (WFA), the Wine Grape Growers Australia (WGGA), and the Australian Wine Research Institute (AWRI) on the industry side. The close cooperation of these actors made both the "Strategy 2025" and the "Directions 2025"[9] possible and supported economy of scale, high investments in research and development, generic and regional brand promotion, and jointly coordinated marketing strategies as well as the fostering of distribution channels. The weak and fragmented industry structure in the majority of European wine producing countries (particularly France, and Italy) has led, in turn, to weak competitors.

With one voice the Australian wine industry managed to articulate its interests which, aggregated at the national level, became part of the national preferences referring to trade. Significant was especially the role of the WFA engaged in policy-making as lobbyist and a consultative body. Worth underlining is the fact that wine is Australia's 3rd most important agricultural export product after beef and wheat, accounting for 8,2% of total exports in agriculture and exceeding such important Australian products as wool (6,5%), milk and cream (3,4%) or sugar (2,4%)[10]. The importance of the sector has in this case a strong influence on setting priorities in interest consideration: a sector relevant to the entire economy, which derives profits mainly from exports and clearly articulates its expectations toward the government, will find its interest represented and reflected in the national preferences.

In Europe wine represented in 2004 5,4%[11] of the total agriculture production[12], and by value it was among the EU's most important agricultural exports to all of its main trading partners: the USA, Russia, Switzerland and Norway[13]. Also generally wine enjoyed

[9] "Strategy 2025" was a development strategy for the Australian wine industry, jointly created by the Winemakers' Federation of Australia and the Australian Wine and Brandy Corporation. The first target was to raise the sales, especially the exports, by 300% by 2025, but it proved to be quite an effective plan since this goal was reached already in 2001. As the strategy became obsolete already a few years after its creation, a new program called "Directions 2025" was launched in 2007. This program should help to guarantee sustainable growth and to preserve the position in the global wine market gained through the Strategy. See also the official website of the Winemakers' Federation of Australia: http://www.wfa.org.au/direction_2025.aspx [20.12.2010].

[10] Australian Government: Department of Foreign Affairs and Trade, data available at: http://www.dfat.gov.au/trade/negotiations/trade_in_agriculture.html [14.11.2010].

[11] In countries like France, Portugal, Austria, Italy, Luxembourg and Slovenia the share of wine in agriculture production reaches 10%.

[12] Communication from the Commission to the Council and the European Parliament: Towards a Sustainable European Wine Sector, COM (2006) 319 22 June 2006.

[13] European Commission: Agriculture and Rural Development, available at: http://ec.europa.eu/agriculture/analysis/tradepol/graphs/ [10.10.2010].

in the years 2006–2008 the status of the most valuable agriculture export product of the EU: worth €5,6 Mio., it exceeded dairy (€1,8 Mio.), milk and cream (€1,2 Mio.) and pork meat (€1,8 Mio.) altogether[14]. But its wine production, by contrast to the New World, is still based on individual farmers and small cooperatives. In consequence, a big part of the industry seems to be not enough open for innovations and dynamic for conquering new markets. Taking into account this fact, Andreas Dür's thesis that the EU trade policy is a form of protection for its importers and their foreign market access (Dür 2007) does not apply to the issue of this article. The EU protectionist measures concerning the wine industry aim more at the protection of the local import-competing producers. Further, Dür argues that "under certain circumstances, EU exporters mobilize in response to discrimination abroad and push the EU to conclude trade agreements to protect their foreign market access" (Dür 2007: 834). In the case of the EU-Australian trade relations on wine, this statement applies, mutatis mutandis, to Australia, not the EU.

Although cooperation between wine producers in the EU is significantly less developed than in Australia, they do not lack representation of their interests. Since producers are able to exert direct and instrumental pressure on politicians and in the agriculture sector they usually are remarkably mobilized (Moravcsik 1998), their interests – in comparison to the ones of consumers or taxpayers – were and still are overrepresented in the process of national preference formation in the EU Member States. Furthermore, agriculture is in Europe still not only an economically relevant but also a politically sensitive issue, when considering the number of people influenced by any potential reform. Wine production is by value far more important than sugar beets or olive oil and comparable rather to wheat. Being very labor-intensive, it involved more than 2,2 million people in 2005 (full-time equivalent), which is tantamount to 22% of the EU agriculture workforce[15].

The process of preference formation in the European Union involves one level more than in the case of Australia. Whereas in Australia nationally defined preferences are represented by the federal government in international negotiations, in the EU there is the supranational level in between. The interests of the social groups are aggregated first in the Member States and then brought to the EU-level, where a compromise between the preferences of different Member States has to be found. It is the European Commission which has competence in international negotiations. Its preferences are not national but supranational; the outcome of negotiations should satisfy interests in possibly all Member States concerned. However, the interest groups in the EU are able to lobby not only at the national level but through the umbrella organizations at the European level, such as the European Confederation of Independent Winegrowers (ECIW/CEVI)[16] or the European Federation of Origin Wines (EFOW)[17], they can influence the decisions of the European Commission directly. Sonia Mazey and Jeremy Richardson write that in Brussels "lobbying is widely regarded as a perfectly respectable and even necessary part of the EC policy process" (Mazey and Richardson 1993: 191).

[14] *Ibid*.

[15] Communication from the Commission to the Council and the European Parliament: Towards a Sustainable European Wine Sector, COM (2006) 319 final, 22 June 2006, p. 14.

[16] ECIW represents around 210 000 winegrowers in eight Member States: http://www.cevi-eciw.eu [25.02.2011].

[17] EFOW represents winegrowers from five Member States: http://www.efow.eu [25.02.2011].

Yet, the reason for which the EC and Australia sought an agreement was the negative externalities imposed by both parties on each other's wine industries. The wine industry of the European Union is protected by a mechanism of the Common Market Organization for wine, being a part the Common Agriculture Policy (CAP) – the biggest system of subsidies worldwide and an obstacle for the Australian export-oriented winegrowers. The thorn in the European producers' side was, in turn, an abuse of geographical indications (GIs)[18]. They claimed that making use of the well-known European GIs by the non-EU producers leads to limited access to some markets for the original wines with GI as well as potentially decreasing consumer loyalty[19]. However, the issue of GI protection may also be considered as a solution to gaining the upper hand in the light of the negative development in the CAP (structural oversupply in low quality wine), subsequent backfired reforms of the Common Market Organization for wine and the low competitiveness of the local producers. These new negative externalities could not be tackled unilaterally by any of the parties, and there were no regulations applying to this problem. Even though the Lisbon Arrangement for the Protection of Appellations of Origin and their International Registration was signed in 1958, only 26 states[20] like France, Italy, Hungary, and Portugal are contracting parties to it but other big wine market players like the USA, Australia, Chile or Spain are absent. Similarly, the Agreement on Mutual Acceptance of Oenological Practices from the year 2001, signed before the second EC-Australian agreement, remained an accord of the World Wine Trade Group[21], which is composed of the New World wine producing countries, and does not include any European state. Hence, there were no regulations provided which could help the EC and Australian wine industries in the changed economic and political situation. The results of the Uruguay Round did not bring any significant improvement either.

5. DEFINING PREFERENCES AND EVALUATING INTERACTIONS

The new development on the British market itself – the amendment of British liquor licensing laws and the domination of retail wine sales in the UK by big chains like Tesco or Sainsbury's – along with the devaluation of the Australian dollar in the 80s and the close cooperation of all industry actors in the newly founded WFA, strongly supported Austra-

[18] In the Article 22 of the Agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS): "Geographical indications are, for the purposes of this Agreement, which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin" (TRIPS, Article 22).

[19] This can be true if the New World wineries, using some prestigious European term, produce wine of low quality, thereby negatively influencing the image of the original European product; or if the GIs help the EU producers to gain some market niches, for example for traditional, old-fashioned in style wines with 'history' (proved or legendary) like *EST! EST!! EST!!! di Montefiascone*, *Lacryma Christi* or *Tokaji*.

[20] The full list of members is available on the official website of the World Intellectual Property Organization (WIPO): http://www.wipo.int/lisbon/en/members/ [28.02.2011].

[21] The list of contracting parties is published by the US government on the website of the Consumer Goods Industries: http://www.ita.doc.gov/td/ocg/oenological.html [28.02.2011].

lia in its conquering of the UK market (Anderson 2001, Spawton 2006). A new boom in the Australian wine industry started and, in comparison to the earlier ones in the country's history, this one was utterly market-driven. While its domestic consumption did not increase, the total vineyards area started to grow rapidly. The industry became in a short period of time completely export-oriented. Therefore, the foundation of the WFA specialized in government relations, international affairs as well as research and development, in the late 1980s was by no means accidental – it was the period of intensive advancement in the Australian wine industry and first big pushes on the government, which was expected to guarantee access to some new export markets. The government itself shared the aims of the WFA as – considering the relevance of agriculture in the Australian economy – it attached great importance to improving the competitiveness of domestic producers as well as to achieving regulatory objectives and limiting its spending (Moravcsik 1998).

By the late 1980s Australia experienced a dramatic change in its trade policy and became one of the most open economies in the world (Capling 2005). Liberalizing unilaterally its market, what is a universally recommended solution, the government started to pursue a new trade policy, according to which the multilateral system was the best option and highest priority for further economic development. Mere unilateral liberalization could not guarantee commercial advantages and export markets to the interested producer groups, thus foreign cooperation and multilateral liberalization were needed. Since the agriculture commodities exporting countries did not manage to influence the protectionist policies of the USA and the EC neither during the Kennedy Round (1964–1967) nor the Tokyo Round (1973–1979), Australia proposed closer cooperation to pursue their agenda and as a result the Cairns Group was created (Capling 2005). The energy Australia invested in the Uruguay Round negotiations should be perceived through its national preferences, which character can be here explained by Moravcsik's approximation: "the greater the exports and export opportunities and the more competitive are domestic export producers, the more intense the pressure for trade liberalization" (Moravcsik 1998: 38). Countries from the Cairns Group, which were generally competitive exporters of agricultural goods and which economic development was impeded by growing protectionism, tried to use the negotiations to change the situation, but as the bargaining power of each was low they decided to act collectively. The position of each of them on the international market was relatively weak, so their exposition of the negative externalities of the European policies was enormous. Their preference intensity or "asymmetrical interdependence" only lowered their bargaining power vis-à-vis Europe, since they placed more value on reaching an agreement and were in consequence more willing to make concessions (Moravcsik 1998). Even supported in certain issues by the USA, they did not succeed in breaking the European pattern of moderate policy reforms (Daugbjerg 1999), which implied modest and sluggish modifications of the situation on the global agriculture market, disadvantageous for the Cairns Group.

In spite of the importance of the Uruguay Round and many changes which were initiated, the content and the potential efficiency of the agreements was not wholly satisfying to any party. The inclusion of many provisions was not secured even in the last months of negotiations. With their raising production the Australian wine industry looked for new markets; apart from the UK it wanted to enter also other European markets and so Canberra was advised to phase out traditionally European terms and develop its own appellation-style system (Hinchliffe 2007). The Australian government, after consultation with important industry actors, agreed to both conditions of the EC and so the agreement was signed. Both the Australian and the EC wine producers did not want to wait for the results of the GATT negotiations – in Australia because of its growing production and need for extending the export markets, in the European Community because of lacking sureness, that the GATT Agreements would protect their interests sufficiently. It is especially visible in the case of the Agreement on Trade-Related Aspects of Intellectual Property Rights, which failed to provide any law against unfair competition in the branding of wine products (Hinchliffe 2007). Besides, in the EC the so-called traditional expressions – which were not recognized as geographical indications by TRIPS – were used as a barrier against imports. For those reasons in January 1994 the EC negotiated with Australia a complementary bilateral agreement on trade in wine. From the point of view of the Australian wine industry, the harmonization of standards – which could be used as a potential non-tariff barrier – was a way of trade facilitation, and that was why labelling requirements or mutual recognition of wine-making practices were of big relevance for countries exporting to the EU and were among the key issues in all bilateral agreements related to the wine trade.

The relation between the interests of some societal groups and national preferences in the European Union is more complex than in the case of Australia. It is because of the three and not two levels involved in the process of the preference formation: societies, Member States and the EU. According to Moravcsik, important social groups still express their preferences on a national level (Moravcsik 1991), even if having an opportunity to lobby at the supranational level. Practically it means that between the wine producers with their needs, fears and interests and the EU-bodies, regulating the sector and representing its interests in international negotiations, there is a kind of intermediary: the national state. The EU aggregates the preferences of single Member States' governments and tries to coordinate different interests before negotiating with third countries. Frequently, the small EU-states can be assuaged by side-payments, while only the biggest ones enjoy the power of effectively influencing every significant change (Moravcsik 1991). Hence, the formation of EU-preferences is possible only through the convergence of national preferences in the biggest Member States.

The preferences of the Member State do not need to be depicted separately. It is more about two groups: "protectionists" and "free traders" (Deutsch 1999). The attitudes of these groups toward the wine market and its liberalization mostly correspond to their general orientation in trade with agricultural products. For countries not producing wine determining is whether they consume considerable amounts of this beverage or not. Some EU countries do not have any clear position and vital interests concerning the wine market and they do not belong to the important traders of this product, so they are not mentioned.

The "protectionists" are the countries, which produce wine on their own, whose wine share in agricultural production is generally high, and which are mostly also less competitive than Australia and other New World producers. Among them can be rated Austria, Bulgaria, France, Greece, Hungary, Italy, Portugal, Romania, Slovenia, and Spain. Wine share in agriculture surpasses in the majority of them the wheat's share[22]. Shortly before the first Wine Agreement also the share of agriculture in terms of total labour force of these among the named countries, which were at that time members of the Community, remained high: from 6,1% in France, through 17,8% in Portugal, to 25,3% in Greece (El-Agraa 1994). This fact implies the significance of agriculture, and more specifically wine, in the economies of the "protectionists". Since producers are able to exert direct and instrumental pressure on politicians, and in the agriculture sector they usually are remarkably mobilized (Moravcsik 1998), their interests – in comparison to the ones of consumers or taxpayers – were and still are overrepresented in the process of national preference formation in the EU Member States. The "protectionist" EU members are also the ones, which registered the highest number of geographical indications for food (Josling 2006). Their farmers pushed the national governments and the Community to reach the highest protection possible for GIs, and – as the protection guaranteed by TRIPS proved to be not satisfactory – they concentrated their efforts on reaching bilateral agreements, where the Commission tried to negotiate an arrangement serving in fact exactly the "protectionist" countries. Considering their low competitiveness, they attempted to apply geographical indications as a strategy to regain some lost markets. Member States from the north of Europe registered relatively few geographical indications in general and, as they do not produce wine, they had no interest in protecting the terms, since it limits supply and raises prices.

The "free traders" are in turn countries which do not produce wine or produce considerably less than the domestic consumption (also in the meaning of variety of the product), but import huge amounts to cover their high consumption. Ergo, they have a stake in low prices, and so they support freer access of non-EU countries to their markets. Among them count the United Kingdom, the Netherlands, Denmark, Germany, and to some extend also Sweden, Finland, and Ireland. All of them import noticeably a great amount of wine from the New World. In the UK, Germany and also in the smaller European markets Australia has a strong position. Germany, as the third biggest world wine importer, is in this field decidedly a "free trader", even if its wine industry is even less competitive than the French or Italian ones and if it commits sins in the dark, concerning other agricultural products, as it was called by Klaus Günter Deutsch (Deutsch 1999). For the UK, free trade is still a dominant ideology and policy orientation, especially concerning its small but highly efficient agricultural producers and its Commonwealth relations (Moravcsik 1991, Moravcsik 1998, Deutsch 1999). The Dutch and the Danish positions are similar to the British one. The Swedish, Finnish and Irish openness can be explained by their status in the wine market: they are not producers, but important consumers, importing considerable amounts also from Australia. These countries' preferences corresponded with the Australian ones and so they supported a better access for its wine into the EU market.

Generally, the free trade orientation, in both industry and agriculture, was characteristic in EU-12 for Germany, the UK, the Netherlands, and Denmark. All other Member States

[22] Communication from the Commission to the Council and the European Parliament: Towards a Sustainable European Wine Sector, COM (2006) 319 22 June 2006, p. 14.

could be defined as protectionist. The interventionist orientation prevailed – the "protectionists" presented a majority, however not a two-third majority of votes in the Council, and were able to control the liberalization process. Still, the "free traders" had some manoeuvring room, especially when supported by the Commission's efforts and the pressures from the trade partners abroad (Deutsch 1999). Among the 15 new Member States after 1994 there were also more countries interested in protecting their agriculture than the "open" ones, so the position of Brussels in the negations of the second Wine Agreement did not appreciably change.

Under these circumstances, negotiating bilateral agreements with the biggest wine exporters, the EU tried to defend the interests of the producers from the "protectionist" Member States and reach satisfactory compromises from each partner separately. Toward any of them (except the USA) it had overwhelming bargaining power and, already offering small concessions, it was able to establish its interests, as the EU-Australia Wine Agreements show. Allowing the trade partners to handle together, as in the case of the Cairns Group, which members are all important New World wine exporters except for the USA, it ran the risk of facing a much stronger opponent in negotiations. The wine producing members of the Cairns Group accounted in 1993, shortly before signing the EC-Australia Wine Agreement and the Marrakech Declaration, for 5,4% of world wine exports by volume and 5,6% by value. The EU domination in this field – even if still overwhelming – was endangered for the first time in history as the New World producers showed a strong tendency to grow. Fourteen years later, in 2007 – before signing the second Agreement with Australia, the Cairns Group share in world wine exports amounted already to 29% and 23%, respectively. The Australian ability to bring together poor and rich countries, which at that time amounted together to over one quarter of the world trade in agriculture, and create some kind of a third force during the negotiations was probably one of the most pregnant components of its bargaining power towards Europe.

The size of the EU market as well as its volume of trade make the Community a highly attractive partner for any kind of trade agreements and at same time guarantee its position as a key player in every multilateral arrangement (Dür, Zimmermann 2007). In the late 1980s the European Community had some kind of trade arrangement with almost every country in the world (Pomfret 1986), but wine was a product of enough importance to dedicate it an additional attention. Australia's small internal market is one of its most significant weaknesses, as its development is dependent on international trade. In the case of wine this dependence is even more far-reaching as Australia is reliant upon its main market – the UK – to a much bigger extent than any other important wine exporting country (Foster, Spencer 2002).

It is worth of notice that also the EU has an important weakness – its wine imports grow faster than exports, even if the European Union is still a net wine exporter[23]. Yet, European wine consumption decreases 0,85% every year and the EU-27 structural surplus is estimated at about 8,4% of its wine production; 15% of wine is removed annually

[23] Communication from the Commission to the Council and the European Parliament: Towards a Sustainable European Wine Sector, COM (2006) 319 final, 22 June 2006, p. 3.

from the market through the interventional distillation[24]. The EU has also low custom duties on wine importations and, together with a growing competitiveness of the New World producers, it could soon lead to EU wine imports exceeding exports. This partially explains why during negotiations the push for protectionism in agriculture was so strong for Europe. Still, the negotiating powers of the two parties are strongly unbalanced, which makes undeniable the importance for Australia to maintain good economic relations with the EU. From this point of view the Wine Agreement from 1994 enabled Australia to access a highly valuable market. This is also why Canberra was ready for so many compromises and concessions.

6. RESULTS

The new insights of the study may be summarized in four points. Firstly, changes in the market positions of the relevant producing countries shift national preferences. New national objectives implicate the need of regulation adjusted to the changed political and economical environment. The growing competitiveness of the Australian producers followed by their orientation towards the world market implicated the pressure of the sectoral interest groups like the Winemakers' Federation of Australia on the government. So found the endangered interest of the European wine industry its reflection in the EC trade policy focused first of all on protection. The new market positions influence the bargaining powers of the parties, too. It was the Australian export success which provided this small economy with arguments in negotiations with the European giant. At the same time the more "interdependent" countries, like Australia, usually profit more from market liberalization, thus they prefer policy coordination and tend to concede disproportionally more in order to reach it (Moravcsik, Vechudova 2003). The bargaining power of a country is dependent on the relative preference intensity of a government: the more intense the preferences for an agreement (vis-à-vis an alternative solution like a unilateral policy-making), the lower the bargaining power.

Secondly, the efforts of the state to satisfy the national preferences, and thus the dominant interest groups, offer an explanation for changing the arena in trade politics from a multilateral to a bilateral one. States may switch arenas in order to reach optimal policy coordination. The failure in launching a new round of the WTO negotiations in Seattle and concerns over the outcomes of the Doha Round led in fact to a boom in bilateral and regional agreements. This responsiveness of the government to the interests of important societal groups can be derived from the essence of trade policy, that is, searching for a way to shape and affect the international system to an advantage of a country, or at least attempts to minimize its disadvantage (Capling 2005). Hence, the important interest groups lobby the government to push through their interests, giving this way direction to the country's trade policy. The influence of some interest groups on governments, which in result represent them more than others, can be explained by the fact, that such groups are able to

[24] *Ibid.*, p. 4.

offer to the incumbents substantial political contributions, valuable in future elections[25] and otherwise (Grossman and Helpman 1994).

Thirdly, the ability of forming coalitions can positively affect the bargaining power of a weaker party, as the case of Australia and the Cairns Group or the special British-Australian trade relationships show. Within the Cairns Group Canberra was able to reach goals never available to it as a single player. Without the Cairns Group the objectives of the Uruguay Round would be set and negotiated solely by the most powerful parties: the USA and the EC. For the bilateral EC-Australian negotiations, the role of British-Australian trade relations should not be underestimated. Even though the British imperial preference system had already belonged to the past, the established trade ties, especially if for political and security reasons, do not vanish into oblivion that fast (Strange 1994). To the contrary, the position of the EU has been often weakened by diverging interests and preferences of its Member States. The relation between interests of some societal groups and national preferences in the European Union is more complex than in the case of Australia. There are not two levels – society and state – involved, but three levels – societies, Member States and the EU. Although the European Union is treated by some authors as a single unitary actor of the international scene, it cannot be understood as entity comparable to national states. The Member States are sovereign and their national interests and preferences matter. In the EU preferences vary both by issues and by country and reflect the issue-specific interests of the powerful societal groups in each Member State (Moravcsik 1998).

Fourthly, the geographical indication issue is used by the EU as protectionist strategy for the benefit of its local import-competing producers. Protectionism in the EU has never relied only on tariffs but has involved a range of other instruments like variable levies, antidumping measures or technical barriers. Through the successful enforcement of the European concept of geographical indications, Brussels tries to eliminate competition from a market for a certain commodity. Competitors have to defray high costs in order to reenter the market, if they manage to reach it at all. Considering this policy of the EU and the reappearing conflicts between the EU and Australia over the CAP, both parties decided to sign an arrangement exclusively for wine. The more issues that would be included, the harder it would be to reach an agreement. It is particularly true for multilateral agreements, where the states have multiple and frequently mutually inconsistent objectives (Strange 1994).

7. SUMMARY AND CONCLUSIONS

The late 1980s and the early 1990s brought changes not only related to the Uruguay Round. It was a time of dramatic transformations in the international wine market, too. The dominance of the Old World was broken and the significance of the New World producers started to grow. While the Australian share in the international wine market was increas-

[25] An example of a political contribution from which incumbent officeholders may profit in future elections are PAC’s – Political Action Committees, supporting them for instance through fundraising.

ing, the European one was falling, continuously. The interests of wine producers crystallized on both sides in the environment of changes in the international wine market and not satisfying negotiation outcomes in the Uruguay Round. While competitive wine industry players from Australia pushed for trade liberalization and sought for freer access to the European market, their substantially less competitive counterparts from Europe called for better protection. But these changes affected not only the economic interests and led the way to the defining of national preferences on this issue, they influenced also Brussels and Canberra's bargaining powers.

A bilateral solution corresponded with the preferences of both contracting parties. Even if Australian and European producers had thoroughly conflictual interests, the Agreements reduced the negative externalities that the policies and economic strategies of both partners created for each other. In the EU there was also a compromise between the protectionist and liberal oriented Member States needed (Conceição 2010). Although the guaranteed protection of the geographical indications and traditional expressions pleased mostly the protectionist Member States, a greater access for imports from Australia was of advantage for national markets of the free traders.

The EU's gains in both Wine Agreements analyzed outweighed the Australian ones. Still, both parties reached objectives which were not guaranteed by the WTO. The EU achieved protection for all of its geographical indications and traditional expressions, including the ones considered as generic terms. Australia provided its wine industry with better access to the European market and, having its oenological practices and labelling standards recognized, reduced the risk of the EU using these issues as non-tariff barriers. Canberra paid a high price for these concessions, mainly through costly rebranding and losing markets for some particular wines. The second Wine Agreement was in fact an update of the 1994 one, resolving issues still open in 1994 and adapting the provisions to the changed political and economic circumstances. But observing the stalled Doha Round negotiations, both contracting parties could feel reassured that the bilateral solution served their interests more. The findings confirm the hypothesis; the theory of national preference formation offers an explanation for the arrangements between the EC and Australia.

The Uruguay Round negotiations present a relevant background for the 1994 EC-Australia Wine Agreement and their results – unsatisfactory to both Australia and the EC – are the main motive for signing the bilateral agreement. In fact, not only these two actors (and not only referring to wine) were concerned over possible failure or delays and potentially unsatisfying results of the Uruguay Round. Also other countries sought for a more secure solution for their interests in other forms of agreements. The prime examples are the 1989 Canada-U.S. Free Trade Agreement and the signed five years later: NAFTA. The increase in bilateral and regional agreements, caused by the uncertain outcomes of a new round of negotiations launched in Doha, brought much over hundred of them notified to the WTO (Folsom 2008, Leal-Arcas 2008). As the GATT/WTO has not managed until now to regulate international trade in a way satisfactory to its members, bilateral agreements will probably remain a preferred solution. These arrangements allow also to be selective and open each country's market only for countries or products which are of advantage and do not endanger domestic production. They are discriminatory, but it is in fact their biggest advantage for contracting parties (Folsom 2008).

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UMOWA POMIĘDZY WSPÓLNOTĄ EUROPEJSKĄ I AUSTRALIĄ W SPRAWIE HANDLU WINEM. WPŁYW PREFERENCJI NARODOWYCH NA ZMIANY W POLITYCE HANDLOWEJ

W styczniu 1994 roku Wspólnota Europejska i Australia podpisały „Umowę w sprawie handlu winem". Taka strategia koordynacji polityk nie jest zaskakująca, jeżeli uwzględnić dramatyczne zmiany na międzynarodowym rynku wina. W późnych latach 80. i wczesnych 90. ubiegłego wieku dynamiczni i konkurencyjni nowicjusze z państw takich jak Australia czy Stany Zjednoczone przełamali po raz pierwszy dominację producentów europejskich. Zadziwia jednakże fakt, że porozumienie osiągnięto w końcowej fazie negocjacji Rundy Urugwajskiej, na trzy miesiące przed podpisaniem umowy w Marrakeszu, regulującej handel produktami rolniczymi. Ani Bruksela, ani Canberra nie poprzestały na dwustronnej umowie i czternaście lat później podpisano kolejne porozumienie. W artykule poddano analizie polityczne i prawne kroki poprzedzające obie umowy pomiędzy Wspólnotą Europejską i Australią. Autor koncentruje się na czynnikach politycznych i gospodarczych, wyjaśniających umowę w sprawie handlu winem z roku 1994 oraz motywy jej aktualizacji w roku 2008. Dowodzi też, że umowy można wyjaśnić poprzez interesy producentów. Proponowane wyjaśnienie oparto na teorii kształtowania się preferencji narodowych, sformułowanej przez Andrew Moravcsika.

Słowa kluczowe: umowa dwustronna, Unia Europejska, kształtowanie preferencji narodowych, polityka handlowa, rynek wina