

**DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES**

**U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS**

**HEARING ON RUSSIA'S ACCESSION TO THE WORLD TRADE ORGANIZATION
AND GRANTING RUSSIA PERMANENT NORMAL TRADE RELATIONS**

JUNE 20, 2012

**STATEMENT OF THE DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES, INC.**

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**“Russia’s Accession to the World Trade Organization and Granting Russia Permanent
Normal Trade Relations”**

June 20, 2012

The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (Distilled Spirits Council) for inclusion in the printed record of the Committee’s hearing on the extension of permanent normal trade relations (PNTR) to Russia in light of Russia’s upcoming accession to the World Trade Organization (WTO). The Distilled Spirits Council is a national trade association representing U.S. producers, marketers and exporters of distilled spirits products. Its member companies export spirits products to more than 130 countries worldwide, including to Russia.

I. OVERVIEW

U.S. distilled spirits exports have expanded rapidly over the past several years, reaching a record \$1.34 billion in 2011. This was the fifth consecutive year that exports of American-made spirits exceeded \$1 billion. The majority of U.S. spirits exports are comprised of whiskeys, including Bourbon and Tennessee Whiskey, which are distinctive products of the U.S. However, exports of rum and other spirits also make a significant contribution to the U.S. economy. As of 2008, the distilled spirits industry supported 676,000 direct employees. Continuing to expand exports supports current and future employment in the industry.

One of the industry’s key growth markets in the past decade has been Russia. Since 2002, Russia’s reported imports of U.S. distilled spirits have increased by an astounding 2,254 percent, reaching \$89.2 million in 2011. American whiskeys account for 55 percent of this total, while rum accounts for an additional 41 percent.



Source: Global Trade Atlas

According to a recent report by McKinsey, beverage alcohol products are the most popular luxury items in Russia, accounting for 45% of all luxury goods purchases in 2011. Purchases of luxury goods increased 17% compared to the previous year to reach \$5.3 billion. With a population of over 138 million, a growing middle class, and one of the world's largest economies, our member companies see opportunities for continued strong growth in U.S. spirits exports to Russia. As such, U.S. spirits companies have invested significant resources in the market to compete with the wide range of international and domestic spirits products.

Despite these successes and opportunities, Russia remains a challenging market for U.S. spirits companies in many respects. The current regulatory framework for beverage alcohol imports into Russia places numerous burdens on U.S. companies, making the Russian market a costly and sometimes unpredictable place to do business. For example, Russian authorities have at times erected discriminatory regulatory barriers that have negatively impacted U.S. spirits companies' ability to operate in the Russian market. Often, such regulatory measures are adopted without prior consultation or advance notice. Moreover, U.S. exporters do not have the opportunity to provide feedback regarding such proposed regulations in a formal manner prior to implementation. However, Russia's accession to the WTO provides essential tools to address market access barriers as they arise, and will ensure that Russia is bound by the international rules-based trading system.

For all of these reasons, the U.S. distilled spirits industry strongly supports Russia's WTO accession, and extending PNTR to Russia is our top legislative trade priority.

II. BENEFITS OF RUSSIA'S WTO ACCESSION TO U.S. DISTILLED SPIRITS EXPORTERS

Throughout Russia's WTO accession process, U.S. negotiators have insisted on securing strong market access commitments from Russia. As a result, the U.S. distilled spirits industry will enjoy many important benefits from Russia's upcoming WTO membership, provided that the U.S. extends PNTR to Russia. The benefits of Russia's WTO accession to the U.S. spirits industry include:

Tariff Reductions

Russia will reduce its tariffs from 2 Euros per liter to 1.4 Euros per liter for all whiskey imports over a three year phase-in period. This represents a 30% tariff reduction on the U.S.' largest spirit export category to Russia. Additionally, Russia will reduce the tariff on other spirit categories by 25% from 2 Euros per liter to 1.5 Euros per liter, also over three years. This reduction will be very positive for U.S. rum exports, which is another key export category.

Working Party Report Commitments

The Working Party report on Russia's WTO accession, which is the official record of negotiations and concessions made by Russia, contains many references to beverage alcohol. In particular, Russia has committed to transparent and fair licensing procedures for beverage alcohol warehouses, a non-discriminatory excise tax regime, reasonable bank guarantee requirements, and streamlined import licensing procedures. All of these commitments will help prevent trade blockages and ensure a level playing field for U.S. spirits on the Russian market.

Transparency Regarding Technical Trade Barriers

As a WTO member, Russia must notify the relevant WTO committees of proposed regulations that may act as barriers to trade in order to permit affected stakeholders an opportunity to review and comment on such measures. In many key export markets for U.S. spirits, and in Russia in particular, the industry has noticed that these regulatory measures can cause significant market access issues and even, in some cases, costly commercial disruptions. In general, as noted above, U.S. distilled spirits exporters are not provided advance notice of these measures in Russia. Moreover, when drafts are provided, industry is not currently able to submit comments on proposed regulations directly to the Russian government. In addition to notification, Russia must provide a “reasonable interval” between publication and entry into force, and to provide industry with sufficient time to comply with the new procedure. Russia must also ensure that its regulations do not discriminate against imported products.

The WTO’s committees, including the Sanitary and Phytosanitary (SPS), Technical Barriers to Trade (TBT), and Import Licensing Committees, in particular provide another opportunity for the U.S. government to raise concerns on behalf of U.S. industry about regulatory measures that pose trade barriers. In the past, these committees have been a very useful forum for addressing potential and current trade barriers, building support from other trading partners, and working to resolve complex regulatory obstacles. These commitments will be vital to ensuring that the Russian market remains open for U.S. distilled spirits exports.

Enforcement of Intellectual Property Rights

In bilateral negotiations, the U.S. insisted that Russia adhere to international intellectual property rights (IPR) norms and enforce its own legislation. As a result, Russia has made changes to its domestic legislation to adhere to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Russia’s enforceable IPR commitments will be of key importance to U.S. distilled spirits companies in terms of addressing concerns with respect to counterfeit products and protection of trademarks and trade dress, which are critical to protecting internationally-trade U.S. spirits brands.

Recourse to Dispute Settlement Process

As a WTO member, Russia will be subject to the dispute settlement process. The WTO’s dispute settlement process, or even the threat of a dispute settlement case, is an important tool in ensuring that WTO member adhere to principles of non-discrimination, science-based international standards, and the use of measures that are least restrictive to trade. The U.S. spirits industry has greatly benefitted from the use of this process in the past, which has addressed discriminatory taxes on imported spirits in Japan, Korea, Chile, and the Philippines. Should Russia fail to adhere to any of its WTO commitments, the U.S.’ ability to raise such non-compliance in the context of the dispute settlement process will be crucial.

III. THE NEED TO EXTEND PNTR TO RUSSIA

As Members of the Committee are aware, the U.S. must extend PNTR to Russia and end the application of the Jackson-Vanik Amendment with respect to Russia in order for U.S. industry,

including spirits exporters to take advantage of the benefits listed above. In particular, the U.S. would likely not be able to raise Russian trade barriers at the SPS, TBT, and other WTO committees. Even more troubling, the U.S. would not be able to initiate a WTO dispute settlement case against any Russian trade barriers. This deprives U.S. exporters of essential tools to ensure that Russia applies fair and equitable international trade rules to U.S. products.

Failure to pass legislation extending PNTR to Russia will therefore put U.S. spirits exports at a distinct disadvantage to competitive products from Europe and elsewhere.

IV. CONCLUSION

In summary, passage of legislation extending PNTR to Russia is absolutely vital to address the types of trade barriers that impede U.S. exports of distilled spirits to this important growing market. The Distilled Spirits Council, therefore, strongly supports swift congressional approval of this legislation. Failure to do so will leave U.S. spirits exporters at a serious competitive disadvantage vis-à-vis domestic producers and other imported spirits in the Russian market. We stand ready to cooperate closely with Congress in seeking the swift approval of PNTR, and in working with the Administration to ensure that Russia adheres to its WTO commitments.

Thank you very much for your consideration.

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