DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

HEARING ON THE PENDING FREE TRADE AGREEMENTS WITH COLOMBIA, PANAMA AND SOUTH KOREA AND THE CREATION OF U.S. JOBS

JANUARY 25, 2011

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

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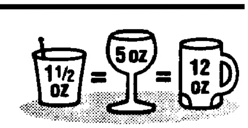


U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS

"The Pending Free Trade Agreements with Colombia, Panama, and South Korea and the Creation of U.S. Jobs."

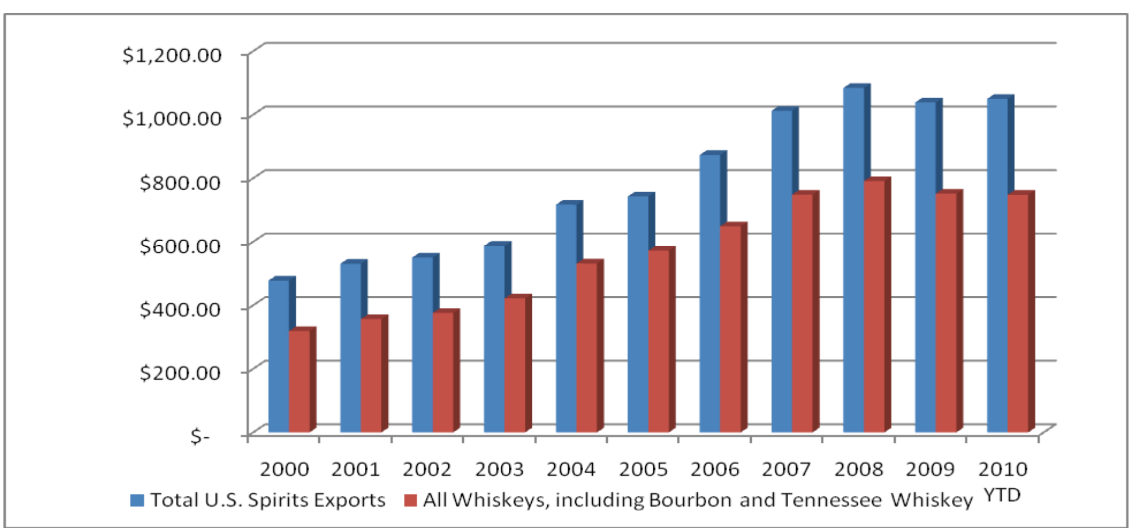
January 25, 2011

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 pending bilateral free trade agreements (FTAs) with Colombia, Panama and South Korea. 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 Colombia, Panama and South Korea.

I. OVERVIEW

The Distilled Spirits Council and its member companies enthusiastically support Congressional approval and prompt entry-into-force of the free trade agreements with Colombia, Panama and South Korea, which will bring about significant and measurable benefits for U.S. spirits exporters. Over the past two decades, the export market for U.S. distilled spirits products has become increasingly more important to the U.S. distilled spirits industry. As of 2008, the industry supported 676,000 direct employees. Expanding exports to foreign markets will help to support current and future employment in the industry. U.S. spirits exports have more than doubled since 2000, and have surpassed the $1 billion mark for the fourth consecutive year (exports from January through November 2010 totaled $1.05 billion). As shown below, the vast majority of U.S. spirits exports are comprised of whiskeys, including Bourbon and Tennessee Whiskey, which are distinctive products of the United States.

Global U.S. Distilled Spirits Exports
(2000-2010)



While the Uruguay Round negotiations produced significant benefits for U.S. distilled spirits exporters, including substantial reductions in import tariffs and non-tariff barriers, numerous barriers still remain. The U.S. distilled spirits industry actively supports the U.S. government's efforts to seek the elimination or reduction of these remaining barriers within the context of the ongoing World Trade Organization negotiations, and in other multilateral and bilateral negotiations.

The pending Free Trade Agreements (FTAs) eliminate several of the barriers that U.S. spirits exporters currently face in these markets. Prompt Congressional approval and implementation of the FTAs will permit U.S. spirits exporters to benefit from improved market access to Colombia, Panama and South Korea, thus ensuring the continued growth of the U.S. distilled spirits industry.

II. BENEFITS OF THE U.S. - COLOMBIA AGREEMENT TO U.S. DISTILLED SPIRITS EXPORTERS

The U.S. – Colombia Free Trade Agreement (or Trade Promotion Agreement (CTPA)) (CTPA) will provide significant benefits for the U.S. distilled spirits industry in the growing Colombian spirits market, which was valued at $2.5 billion in 2010 (retail sales). Although the overall spirits market is growing, the market for imported spirits faces several hurdles in Colombia. The spirits market is dominated by locally-produced spirits (*i.e., aguardiente* and rum). *Aguardiente*, in particular, has a long-standing place in Colombia's beverage alcohol market, accounting for approximately 67% of total spirits volumes in 2010. The dominance of domestically-produced categories is due, in part, to the benefits these products have enjoyed from lower tax rates via Colombia's discriminatory consumption tax regime, as well as by the existence of alcohol monopolies or *licoreras* in several states or *departamentos*. As detailed below, implementation of the CTPA will address these concerns and provide meaningful market access improvements for U.S. spirits exporters to Colombia.

First, the U.S. – Colombia FTA provides essential protections for Bourbon and Tennessee Whiskey--two distinctly American spirits. Under the agreement, Colombia has agreed to provide explicit protection in the Colombian market for Bourbon and Tennessee Whiskey as distinctive products of the United States. Such recognition ensures that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be marketed in Colombia as Bourbon and Tennessee Whiskey.

Second, Colombia has agreed to eliminate its 20% *ad valorem* tariff on all U.S.-origin spirits, except whiskey, rum, and vodka, immediately upon entry-into-force of the agreement. The tariffs on U.S.-origin whiskey, rum, and vodka will be phased out over a ten-year period. While the U.S. – Colombia FTA remains in limbo, both Canada and the European Union – the U.S. spirits industry's key competitors in international markets – have concluded FTAs with Colombia. Once in force, Colombia will phase out its tariffs on imports of Canadian whisky and vodka over a 12-year period and will phase out its tariffs on European whiskeys and vodka over a 10-year period. Unless the U.S. – Colombia FTA is promptly implemented, U.S. spirits exporters will be placed at a significant competitive disadvantage vis-à-vis European and Canadian producers.

Third, Colombia has agreed to eliminate the discriminatory aspects of its tax regime for distilled spirits within four years of entry-into-force of the agreement. Colombia's tax regime, which has been in place since 2003, discriminates against imported distilled spirits through arbitrary breakpoints that have the effect of applying a lower tax rate per degree of alcohol to domestically-produced spirits than the rate that applies to most imported spirits. Every year that the agreement has remained in limbo had added another year to the time that U.S. spirits exports continue to be subject to Colombia's discriminatory tax system.

Finally, the agreement contains important obligations with regard to national treatment (Article 2.2) and prohibitions with regard to import/export restrictions (Article 2.8), which will help to address the industry's concerns regarding the operation of Colombia's alcohol monopolies (*i.e., licoreras)* in several states or *departamentos*. The *licoreras* control the distribution and marketing of distilled spirits, restricting the ability of U.S. distilled spirits companies to do business in Colombia. These state monopolies are subject to the national treatment obligations in the CTPA. The state alcohol monopolies remain a significant and real concern: recent press reports suggest that the monopolies have proposed to prohibit imported spirits. Thus, once the agreement is implemented, it should usher in much needed reform to this system.

III. BENEFITS OF THE U.S. - PANAMA AGREEMENT TO U.S. DISTILLED SPIRITS EXPORTERS

Similarly, the U.S. spirits industry stands to benefit from the provisions of the U.S. - Panama FTA. Panama's 15% *ad valorem* tariff on U.S. spirits imports will be eliminated immediately upon entry into force of the agreement, significantly improving the competitiveness of U.S. spirits in this market. Panama currently ranks as the fifth largest export market in Latin America for U.S. distilled spirits; in 2009, exports totaled almost $4.1 million (FAS value). As in the case of Colombia, further delays in implementation of the FTA will be costly to U.S. exporters. Canada, one of the U.S. spirits industry's major competitors, particularly in the whiskey category, signed a free trade agreement with Panama in May 2010. Under that agreement, Panama will immediately eliminate its tariffs on most spirits imported from Canada, including Canadian whisky. Prompt action on the U.S. – Panama FTA is required to ensure that U.S. exporters will not be disadvantaged.

In addition, under the FTA Panama has agreed to provide explicit protection in its market for Bourbon and Tennessee Whiskey as distinctive products of the United States which, as stated above, is an important tool to ensure that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be marketed in Panama as Bourbon and Tennessee Whiskey.

IV. BENEFITS OF THE U.S. - KOREA AGREEMENT TO U.S. DISTILLED SPIRITS EXPORTERS

Prompt implementation of the U.S. – Korea Free Trade Agreement (KORUS FTA) will ensure that U.S. spirits exporters will be able to compete in one of the most important markets in Asia with strong potential for increased spirits sales. In 2010, the Korean spirits market was valued at $10.1 billion (based on retail sales prices), ranking it as the tenth largest spirits market in the world, and fourth among Asian nations behind China, India and Japan, respectively.

The spirits market in Korea is dominated by two categories: whiskey and soju, the domestically-produced spirit made from any of the following ingredients: rice, wheat, barley, sweet potatoes or tapioca. In volume terms, soju accounts for an astonishing 96% of total spirits sales in Korea. In value terms, however, the market is more evenly divided, with soju accounting for 56% and whiskey accounting for 39%. Thus, the whiskey category is comprised mainly of higher-priced premium and super-premium brands – the segment where U.S. whiskeys compete. Whiskey is forecast to grow by over 45% from 2009 to 2014 in value terms.

Korea's whiskey market is dominated by Scotch Whisky; sales of Scotch Whisky accounted for almost 98% of total whiskey sales (retail) in Korea in 2010 (Euromonitor International). The leading U.S. spirits exports to Korea are Bourbon and Tennessee Whiskey, accounting for 86% of total exports in 2009. Although American whiskeys are growing in popularity in Korea, they are still considered as niche products and have not been able to penetrate significantly the whiskey market in Korea, in large part due to the high tariffs and taxes that currently apply and Scotch Whisky's continued dominance.

Under the KORUS FTA, Korea will eliminate its 20% *ad valorem* tariff on Bourbon (and Tennessee Whiskey), which as noted above comprises 86% of total U.S. spirits exports to Korea, immediately upon entry into force. The tariffs on all other U.S. origin spirits (between 15-20% *ad valorem*) will be phased out over a five-year period. Prompt action to approve the KORUS FTA is needed to ensure that U.S. spirits exporters are not competitively disadvantaged vis-à-vis European spirits producers: under the terms of the EU – Korea FTA, which was signed in October 2010, Korea will eliminate its tariffs on Scotch and Irish whisky over three years.

In addition, as noted above with the Colombia and Panama FTAs, the KORUS FTA provides recognition of Bourbon and Tennessee Whiskey as distinctive products of the United States. Securing this recognition is critical because it provides the U.S. spirits industry with an important anti-counterfeiting tool.

V. CONCLUSION

In summary, the pending free trade agreements with Colombia, Panama and South Korea successfully address the principal trade barriers currently impeding U.S. exports of distilled spirits to those markets. The Distilled Spirits Council, therefore, strongly supports these agreements, which, once implemented, will provide considerable tangible benefits to U.S. spirits exporters. We stand ready to work closely with the Congress in seeking the swift approval of these agreements, so that U.S. spirits exporters may begin soon to enjoy improved access to the Colombian, Panamanian and South Korean markets. Thank you very much for your consideration.

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