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Testimony of Wine Institute and WineAmerica
House Committee on Ways and Means
Subcommittee on Trade

Hearing on
"Pending, Job-Creating Trade Agreements: South Korea Trade Agreement"

Wine Institute and WineAmerica submit these comments in support of approval of the United States Free Trade Agreement with the Republic of Korea in response to the March 31, 2011 Committee Advisory No. TR-03.

Established in 1934, Wine Institute is the association of more than 1,000 California wineries and affiliated businesses that initiates and advocates public policy to enhance the ability to responsibly produce, promote and enjoy wine. Wine Institute membership represents 85 percent of U.S. wine production and 90 percent of U.S. wine exports. For more information visit www.wineinstitute.org

WineAmerica (formerly the American Vintners Association) was founded in 1978. With more than 800 members from 48 states WineAmerica supports initiatives to expand opportunities for US wine producers to export their product worldwide. For more Information visit www.wineamerica.org

Together, Wine Institute and WineAmerica represent virtually all U.S. wine production and U.S. wine exports.

Executive Summary

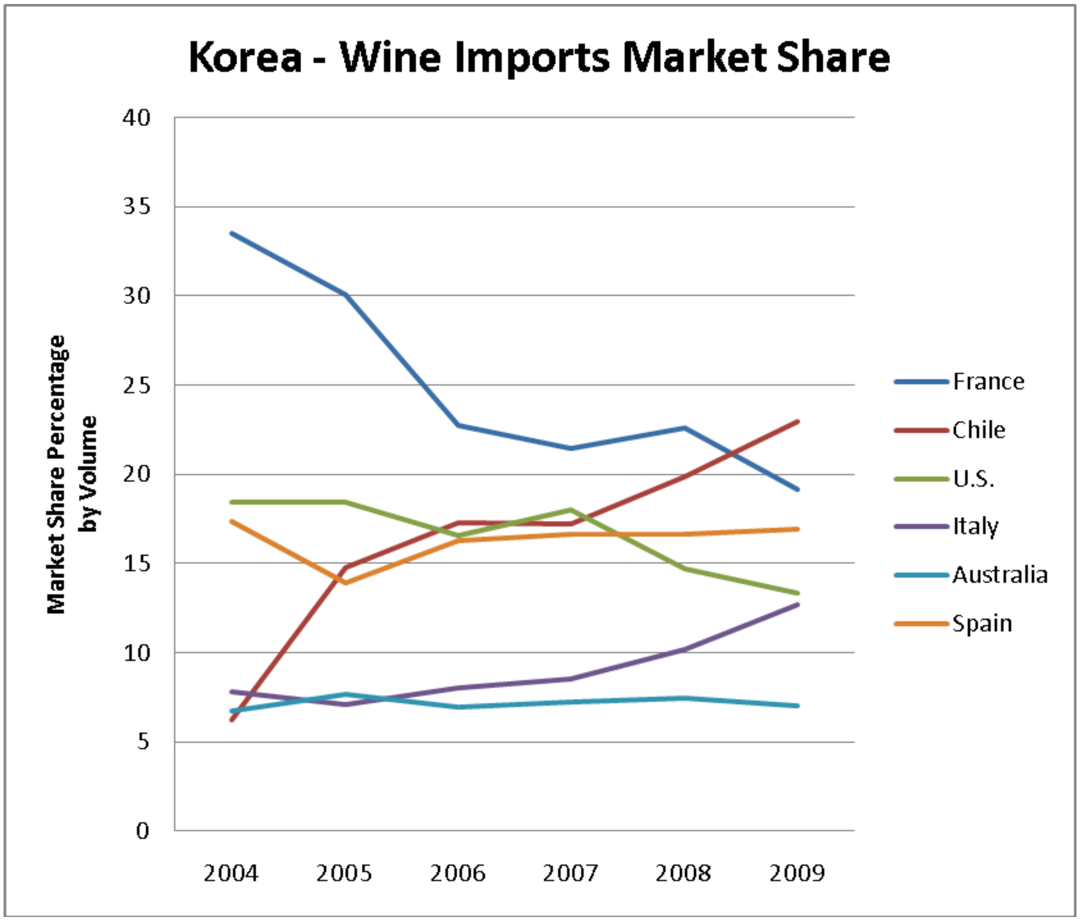
Wine Institute and WineAmerica support the Administration's trade policy, including support in Congress for approval of the Korea trade agreement (KORUS). Throughout the negotiation process, U.S. wine producers requested the immediate duty elimination for wine (HTS 2204) and grape-juice concentrate (HTS 2009) by both parties. U.S. negotiators achieved that objective. Korea is not a significant wine producer and is not a threat to U.S. producers. By comparison, Chile and the

European Community (EC) are significant wine producers and have the potential to be significant grape juice concentrate exporters to Korea. Both have also negotiated and are implementing free trade agreements with Korea.

The current import tariff for grape juice concentrate is 45 percent *ad valorem.* That tariff is eliminated immediately upon implementation of KORUS. The current import tariff for Chilean concentrate and wine is zero and the tariff for EC concentrate and wine will be zero in five years. The lack of implementation of an agreement with the U.S. will result in a significant economic disadvantage for U.S. grape juice concentrate and wine producers in Korea. As described below this disadvantage affects all U.S. interests from the farmer, labor worker and wine producer through the service providers in the distribution supply chain.

<u>How implementation of the FTA will affect wine trade between Korea and the United States</u>

- Implementation of a free trade agreement with Korea will overcome the substantial competitive disadvantage facing U.S. exports compared to other countries that have preferential trading agreements with Korea. Korea has high import tariffs. For wine it is 15 percent and for grape juice concentrate it is 45 percent. That 15 percent preference also reduces the amount of excise, VAT and other taxes that are imposed on the import as a result of compounding. That reduction along with the elimination of the duty will provide a greater competitive margin at retail over those paying the duty.
- In 2005, Korea was the 4th largest export market for U.S. grape juice concentrate.
- Concentrate imports from the U.S. into Korea rank number one with a 36 percent share of those imports in 2008.
- In 2005, Korea was the 13th largest export market for U.S. wine and those imports ranked 2nd in imports of wine into Korea
- Of the more than a dozen FTAs negotiated by the U.S. over the past several years, KORUS is the most economically significant since Canada and Mexico.
- There is no significant Korean grape growing, concentrate, or wine production to be protected by import tariffs. Without that production there is no negative impact on the U.S. market from a potential increase of Korean wine or concentrates imports into the U.S.
- Since 2004 when Chile signed the FTA with Korea, U.S. wine exports to Korea have declined as a percent of import market share.
- Wine demand and consumption are increasing significantly in Korea, but Chilean wines are largely satisfying that demand thanks to Chile’s FTA with Korea.
- Since the inception of the Chile-Korea FTA, Chilean wine imports have risen dramatically and now hold the dominant market share position. The recent EU-Korea FTA will likely have a similar impact on the market shares of France, Italy, and Spain – thus further diminishing the already falling U.S. market share.



<u>Economic costs and benefits to U.S. workers, farmers, ranchers, businesses and consumers of removal of tariffs and non-tariff barriers affecting trade between the United States and Korea</u>

- At the time it negotiated its free trade agreement, Chile's import market share for wine was 6.25 percent. In 2009, that share even in a growing market had increased to 23 percent. It is the number one Korean wine import by volume. That growth has been coincident with the decrease in tariffs.
- Elimination of tariffs for U.S. wines will simply make U.S. wine competitive with Chile. Anything less leaves U.S. wine producers and winegrape growers in a secondary position.
- Elimination of the grape juice concentrate tariff will help retain market share for U.S. grape juice producers.
- There will be no economic cost to U.S. workers, farmers, ranchers, businesses, and consumers resulting from increased imports of wine or grape concentrate from Korea. As stated above, Korea does not have an industry that poses any threat to U.S. producers.
- There ***will*** be significant economic costs to those U.S. interests if there is no agreement. Since the Chile Agreement, U.S. wine producers have lost almost 6 percentage points in import market share by volume. Korean wine imports grew to $174 million in 2008 resulting in a loss of about $10 million in lost sales because U.S. wine could not retain its market share. Imports dropped to $124 million in 2009 with most of that loss attributable to decreases in French and U.S. imports

of 44 and 31 percent respectively. In the absence of approval of KORUS these losses will increase as the EC Agreement provides a more favorable environment for EC wine imports.

- One of the major concerns of many of our trading partners is the predictability of the commercial relationship. To invest and grow business and trade for the benefit of U.S. workers, farmers, business and civil society long-term stable business and government relationships are required. Wine production and sales are not an *ad hoc* business venture. By its nature, wine requires long lead times for production, distribution and retail sale. Customers need to know that their supply chain will not be interrupted by one party wanting to re-negotiate the agreement to change terms or other action that could disrupt that supply chain.
- There are provisions in the agreement concerning customs clearance and distribution that are as equally important as the reduction of tariffs. Attention should be given to the implementation and monitoring of those obligations to ensure both parties fully comply with those obligations.
- As a result of the preference to be provided under the agreement, the regulatory bodies in both parties should increase their cooperation and consult often to enable the greatest benefit from the agreement. Be it labor, environment, health and safety standards or other regulatory matters, transparent administration of those regulations is a must. Policies and procedures should be put in place to facilitate regular communication and cooperation between the parties.

Conclusion

Wine Institute supports the implementation of the KORUS as soon as possible. The current delay is costing U.S. producers millions of dollars each year. The net result of those losses is economic harm to workers, farmers, service providers and businesses. Wine production in the U.S. supports more than 875,000 jobs throughout the entire supply chain. Assisting U.S. wine exporters to grow their market in Korea and other countries provides an indirect benefit to all of those workers by keeping the producers economically sound. That benefit is badly needed during this financial recession, growing unemployment and increasing business bankruptcies just to stem the tide of further economic decline.

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