

U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS

THIRD IN A SERIES OF THREE HEARINGS
ON THE PENDING, JOB-CREATING TRADE AGREEMENTS:
SOUTH KOREA TRADE AGREEMENT

STATEMENT OF BEAM GLOBAL SPIRITS & WINE, INC.

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Beam Global Spirits & Wine, Inc. is a global leader in the distilled spirits industry, with strong brands, innovation and distribution. We are the fourth largest premium spirits company in the world and the largest U.S.-based spirits company, with 10 of the world's top-100 premium spirits brands in our portfolio. Our flagship brand is Jim Beam® Bourbon, which is the #1 selling Bourbon worldwide. We also produce Maker's Mark® Bourbon, Sauza tequila, Canadian Club and Courvoisier, among many other global brands. Each year, we sell more than 33 million cases of spirits, and nearly half of our sales come from outside the United States.

Beam Global Spirits & Wine, Inc. has a long and proud heritage. Our flagship brand, Jim Beam, dates back to 1795, and is one of our many brands that have been trusted for generations – even centuries – for their craftsmanship and quality.

Our corporate headquarters is in Deerfield, Illinois. Our U.S. manufacturing and bottling operations include facilities in Clermont, KY, Boston, KY, Frankfort, KY, Loretto, KY, Cincinnati, OH and St. Croix, U.S. Virgin Islands.

Over the past several decades, Beam Global Spirits & Wine, Inc. has evolved into a truly global company. Our brands are sold in more than 150 countries worldwide, and international markets present some of the best growth opportunities for U.S. spirits producers.

As a global company, we are acutely aware of the still substantial barriers to trade that exist worldwide. That is why Beam Global Spirits & Wine, Inc. strongly supports market-opening agreements such as the U.S. – Korea (KORUS) Free Trade Agreement and urges the United States Congress to approve the agreement as quickly as possible. Korea is a commercially important market for distilled spirits. Indeed, Jim Beam® Bourbon is the largest selling Bourbon in the Korean market, just as it is worldwide. But Korea's tariff barriers are currently high – 20% *ad valorem* on nearly all imported spirits – significantly impeding U.S. spirits exports. The KORUS FTA will eliminate the tariff on U.S. spirits, promoting expanded trade opportunities for U.S. exporters.

Here are the facts:

- Korea is the 10th largest spirits market in the world, with retail sales valued at over \$10 billion in 2010. Sales are dominated by whiskey and the domestically-produced spirit, soju. The whiskey category accounts for 39% by value of all spirits sold in Korea, but only 2% of all spirits sales by volume. Thus, the whiskey category comprises almost entirely higher-priced premium and super premium imported brands – the price segments in which U.S. spirits compete.
- U.S. spirits exports worldwide are dominated by whiskey. In 2010, total U.S. spirits exports reached almost \$1.2 billion (FAS value, not retail sales value). Whiskey exports accounted for 70% of the total. U.S. spirits exports to Korea follow the same pattern. In 2010, total U.S. spirits exports to Korea were valued at just over \$10 million (FAS value, not retail value). Whiskey exports accounted for 69% of the total, with Bourbon and Tennessee Whiskey accounting for the vast majority of export sales. In fact, Bourbon and Tennessee Whiskey accounted for 68% of total U.S. spirits shipments to Korea in 2010, with an export value of nearly \$7 million (FAS value).

- Beam Global – and all American spirits producers – will benefit when the KORUS FTA enters into force. Once the KORUS FTA is implemented, Korea will *eliminate immediately* its 20% tariff on Bourbon and Tennessee Whiskey. Korea will phase out over five years its tariffs on all other categories of U.S. spirits, such as vodka, gin, rum, etc., (currently 20% *ad valorem* for all categories except grape brandy, which is 15% *ad valorem*).
- The KORUS FTA plays to the strengths of our company – and to the U.S. spirits industry overall. The immediate elimination of the 20% tariff on Bourbon and Tennessee Whiskey will create an opportunity for U.S. exporters in a promising market and enhance choices for consumers. In particular, there is significant room for growth in U.S. Bourbon sales. Although Korea’s spirits market is large, and whiskey accounts for a significant slice of it in value terms, sales of U.S. whiskeys still remain relatively small, accounting for only 2% of total whiskey sales. The whiskey market is dominated by Scotch whisky, which beat U.S. whiskey to the market by decades.
- The U.S. negotiators of the KORUS FTA are to be congratulated for having achieved such attractive terms relative to other competing products. For example, under the EU-Korea FTA, Korea will phase out its 20% tariff on Scotch and Irish whisky over three years, not immediately. This will give Bourbon and Tennessee Whiskey a small window of opportunity, but only if the U.S. Congress acts quickly. The European Parliament approved the EU-Korea FTA in February 2011, and the agreement will enter into force on July 1, 2011. Unless the U.S. Congress acts now, all U.S. exporters will be put at a significant competitive disadvantage.
- The Distilled Spirits Council of the United States (DISCUS), a national trade association representing U.S. producers, marketers, exporters and importers of distilled spirits products, including Beam Global, has estimated that the full elimination of Korea’s 20% tariff on Bourbon and Tennessee Whiskey would reduce U.S. whiskey prices in Korea by about 12%. Assuming (as is reasonable) that the price elasticity of distilled spirits in Korea is similar to that in the United States, DISCUS estimates that U.S. whiskey could register an increase in volume of between 20% and 30% after the full elimination of the tariff. This translates to an anticipated increase in U.S. whiskey exports of between \$1.5 million to \$2 million in value terms (for total U.S. whiskey exports of up to \$9 million the first year) and an increase of between 645 thousand and 890 thousand liters in volume terms.
- The timing is fortuitous: the KORUS FTA-inspired boost in U.S. whiskey exports would come at a time when Korea’s whiskey market is projected to grow by 13.2% in value terms and by 9.7% in volume over the 2010-2015 period (according to Euromonitor International). Not surprisingly, Beam Global Spirits & Wine, Inc. is a strong supporter of the KORUS FTA.
- As an added important benefit, the KORUS FTA also includes an important anti-counterfeiting tool: Korea has agreed to recognize American’s signature spirits -- Bourbon and Tennessee Whiskey -- as “distinctive products” of the United States. This means that only spirits produced in the United States, in accordance with the laws and

regulations of the United States, may be sold in Korea as Bourbon and Tennessee Whiskey, thus offering important protection to our brands and products.

The potential benefits of the KORUS FTA to Beam Global and the rest of the U.S. distilled spirits industry are plain to see. But we will not be the only beneficiaries of this agreement. Distilled spirits are highly processed agricultural products. They are produced exclusively from agricultural raw materials and water. U.S. spirits producers are significant consumers of corn, wheat, molasses, rye, barley and other agricultural raw materials. The spirits industry's U.S.-sourced raw materials include grain from the Midwest, sweeteners and bulk spirits, wooden barrels, glass, plastic and aluminum containers, flavors and blending ingredients, labels, closures, folding cartons, corrugated shipping containers and much more. The KORUS FTA will have a multiplier effect: it will enable higher U.S. spirits exports to Korea, which in turn will enhance demand for U.S. agricultural products and the wide array of goods needed to produce, age, bottle, label, package and ship spirits.

For all of these reasons, Beam Global Spirits & Wine, Inc. urges the Ways and Means Committee to take up and approve the implementing legislation for the KORUS FTA at the earliest possible moment. It is good for American exporters, good for America's balance of trade and good for America's economy.

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