DISTILLED
SPIRITS
COUNCIL
OF THE
UNITED
STATES

February 5, 2016

Lisa Barton
Secretary to the Commission
United States International Trade Commission
500 E Street SW
Washington, DC 20436

Re: Institution of Investigation and Scheduling of Public Hearing Concerning The Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report

Dear Ms. Barton:

On behalf of the Distilled Spirits Council of the United States, Inc. ("Distilled Spirits Council"), I am writing in response to your request for written submissions (80 *Fed. Reg.* 47516-47517 (August 7, 2015)) regarding the economic impact on the United States of trade agreements to which Congress has enacted an implementing bill under trade authorities procedures since January 1, 1984. The Distilled Spirits Council is a national trade association representing U.S. producers, marketers and exporters of distilled spirits products. The Distilled Spirits Council's member companies export spirits products to more than 130 countries worldwide.

I. Introduction

The Distilled Spirits Council and its members have strongly supported efforts to liberalize trade through a variety of fora and mechanisms. International trade has become increasingly important to the U.S. distilled spirits industry, and is instrumental to its long term viability. Past efforts by the United States to open foreign markets have contributed to the impressive gains the U.S. industry has made, and continues to make, in expanding U.S. spirits exports. Since 1989[1], the value of global U.S. distilled spirits exports has increased nearly 545 percent from $242 million to over $1.5 billion in 2014. The majority of U.S. spirits exports are comprised of whiskey (particularly Bourbon and Tennessee Whiskeys), which accounted for 70 percent of total exports in 2014. In addition, exports of rum, vodka, grape brandy, liqueurs and cordials also make a significant contribution to the U.S. economy. As of 2013, the distilled spirits industry supported 745,000 direct employees. Continuing to expand exports supports current and future employment in the industry.

The Distilled Spirits Council has strongly supported multilateral, regional, and bilateral agreements, as these are vital to opening new markets, and keeping them open, for U.S. spirits exports. U.S. spirits exports to our trading partners which have agreed, either through multilateral, regional, or

[1] 1989 is the first year U.S. trade data is available on the U.S. International Trade Commission DataWeb.

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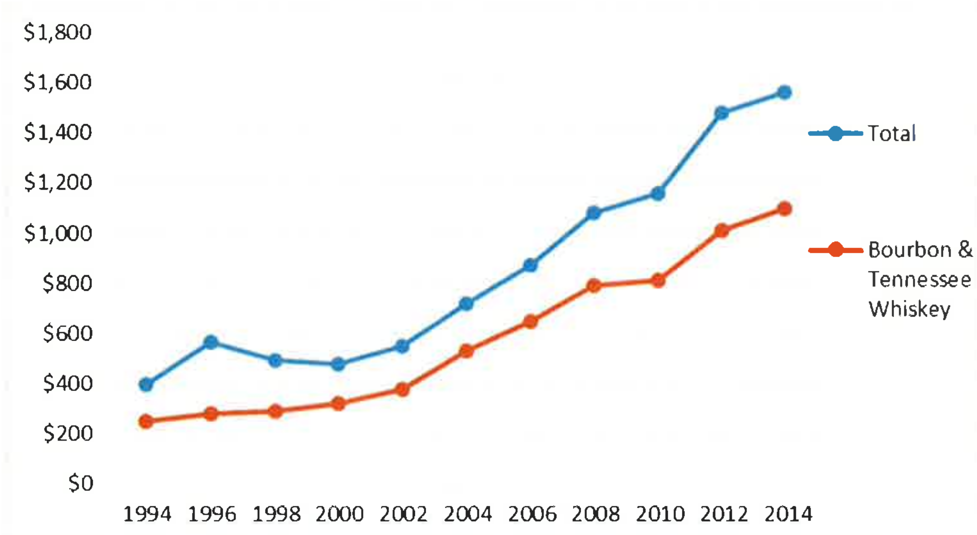
bilateral trade agreements, to eliminate tariffs on U.S. spirits have reached $1.25 billion in 2014, accounting for 85 percent of global U.S. spirits exports.

II. Uruguay Round Agreements

The Distilled Spirits Council has had a long and active involvement with the World Trade Organization (WTO). The Council remains a strong supporter of the organization and ongoing efforts to further liberalize global trade and strengthen the rules-based multilateral trading system. Unquestionably, the package of agreements concluded in the Uruguay Round, which led to the establishment of the WTO in 1994, has significantly benefitted the U.S. distilled spirits sector. In particular, since the Uruguay Round agreements entered into force in 1995, global U.S. distilled spirits exports have increased nearly 220 percent through 2014.

U.S. Global Distilled Spirits Exports 1994-2014
In millions of U.S. dollars



a. Tariffs – "Zero-for-Zero"

The tariff elimination commitments regarding distilled spirits products secured during the Uruguay Round and subsequent negotiations under the U.S. government's "zero-for-zero" initiative has paved the way for a significant increase in U.S distilled spirits exports. At the outset, participation in the spirits "zero-for-zero" was limited to the United States and the European Union. However, other countries, including Japan, Canada, Macedonia, Taiwan and Ukraine have since been included. For example, since Taiwan eliminated its tariffs in 2002, U.S. distilled spirits exports to Taiwan increased nearly 660 percent -- from $1.1 million to $9 million in 2014. In the case of Japan, U.S. distilled exports grew from $71.8 million in 2002, when the tariff was eliminated, to $99.7 million in 2014, representing a growth rate of 38 percent for that period.

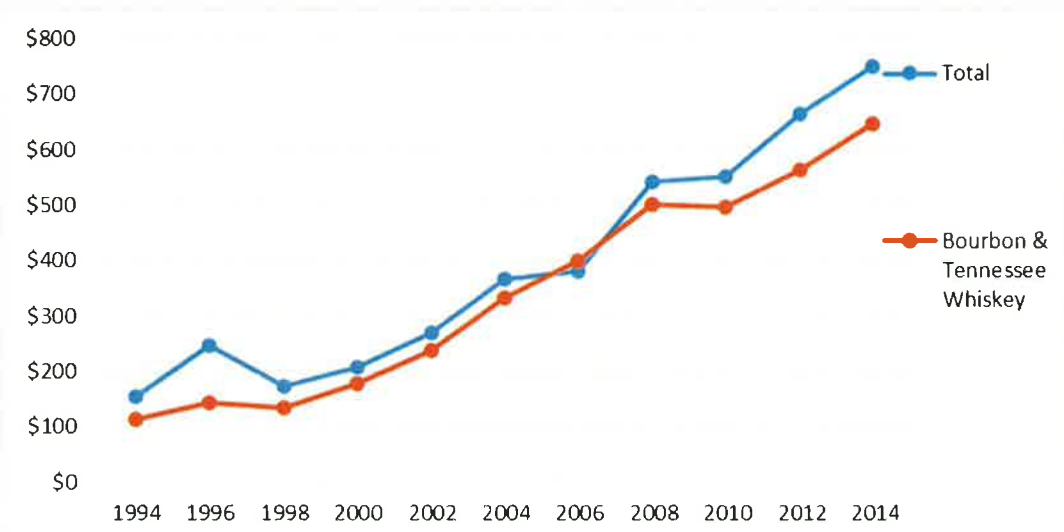
The "zero-for-zero" agreement continues to produce benefits for U.S. spirits exports. Specifically, as countries have joined the European Union they are required to adopt the European Union's common external tariff, which, in the case of distilled spirits is zero for practically all spirits.

Since 2004, the following countries have joined the European Union: Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic, and Slovenia. For example, exports to Latvia, which is currently the 12th largest destination for U.S. distilled spirits, increased almost 1,270 percent, from $1.8 million in 2004 when it joined the European Union, to $24.8 million in 2014. Similarly, exports to Poland, which is the 14th largest market, increased nearly 1,900 percent, from $1.1 million in 2004 when it joined the European Union to $22.5 million in 2014. Prior to Poland joining the European Union, U.S. spirits faced tariffs ranging from 75 percent to 105 percent *ad valorem.*

In addition, prior to Bulgaria and Romania's entry into the European Union, those countries applied preferential tariff rates to EU-origin spirits, which significantly disadvantaged U.S. spirits exports to those markets. Immediately upon their accession to the European Union, however, Bulgaria and Romania were required to adopt the European Union's common external tariffs on spirits (i.e., zero for practically all spirits categories), thus creating a level playing field for U.S. spirits exports to those markets.

Since the "zero-for-zero" agreement came into effect in 1995, the value of U.S. spirits exports to the European Union has more than quadrupled; from $184 million to over $748 million in 2014.

U.S. Distilled Spirits Exports to the European Union 1994-2014
In millions of U.S. dollars



b. Trade Enforcement Mechanism

In addition, the industry has benefitted from the WTO's dispute settlement mechanism established under the WTO's Dispute Settlement Understanding. Specifically, it has provided an important forum to ensure that countries meet their international trade obligations. The mechanism has been used successfully to challenge discriminatory spirits excise tax regimes in four dispute settlement cases; Japan – Alcoholic Beverages (DS8, 10 and 11); Korea – Alcoholic Beverages (DS 75 and 84); Chile – Alcoholic Beverages (DS 87 and 110), and most recently the Philippines -- Taxes on Distilled Spirits (DS396 and DS403). As a result of the aforementioned cases, U.S. distilled spirits products were put on equal footing in regards to domestic taxes with domestically produced products in accordance with Article III the WTO's General Agreement on Tariffs and Trade.

c. Regulatory Reporting Mechanisms

In addition, the reporting mechanisms established by the Agreements on Technical Barriers to Trade (TBT Agreement) and Sanitary and Phytosanitary Standards (SPS Agreement) have given the industry advance notice, in some cases, of significant regulatory changes that could have serious – and sometimes adverse – effects on the industry. Most importantly, the reporting mechanisms provide industry with an opportunity to provide valuable and pertinent input on the potential impact of proposed regulations. This helps to ensure that regulations are, for example, based on science, reflect international standards and best practices, and do not discriminate against imported products or create unnecessary obstacles to trade.

d. Protection for Bourbon and Tennessee Whiskey

Similarly, the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS), includes important protections for geographical indications (GIs) for spirits, such as "Bourbon" and "Tennessee Whiskey." The inclusion in the agreement of provisions specifically mandating the establishment by all WTO member countries of a legal means of protecting GIs associated with distinctive distilled spirits was, in our view, a major achievement of the Uruguay Round.

III. Bilateral and Regional Free Trade Agreements

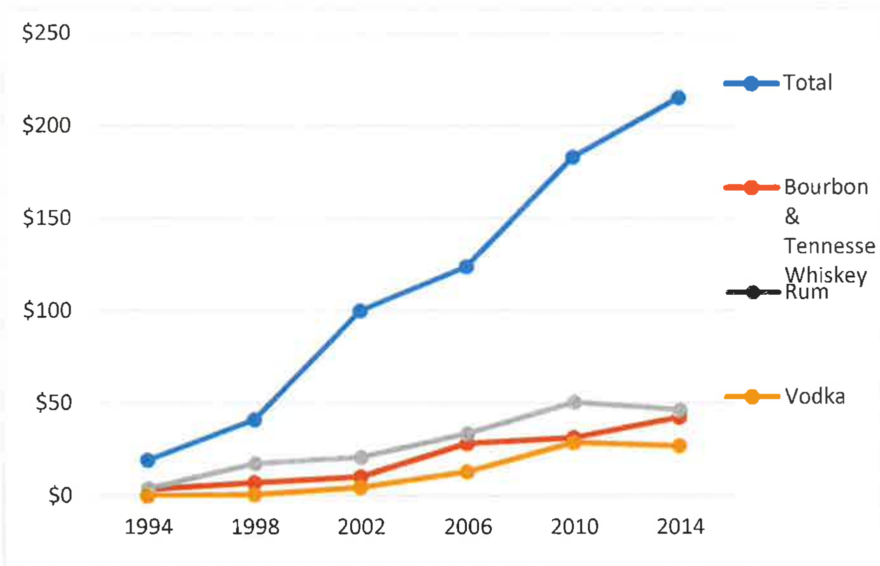
The Distilled Spirits Council equally supports efforts by the U.S. government to secure the most rapid trade liberalization and enhanced rules through comprehensive bilateral and regional free trade agreements. Such comprehensive agreements have played a critical role in opening foreign markets and increasing U.S. distilled spirits exports. In 2014, U.S. distilled spirits exports to bilateral and regional free trade agreement partners reached roughly $500 million, accounting for nearly 1/3 of global exports. In fact, between 2000 and 2014 exports to bilateral and regional trade agreement partners have grown at a faster rate (310 percent increase) than total U.S. distilled spirits exports (225 percent increase).

a. Tariff Elimination

As with the reduction of tariffs under the Uruguay Round, the elimination of tariffs on U.S.-origin spirits through regional and bilateral trade agreements has led to a significant increase in exports to these trading partners. As a result of U.S. bilateral and regional free trade agreements, the vast majority of U.S. distilled spirits to Israel, Mexico, Canada, Singapore, Australia, Chile, Peru, Panama, Morocco, Bahrain, Korea, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua are currently duty-free. As noted below, some products are still subject to tariff phase outs.

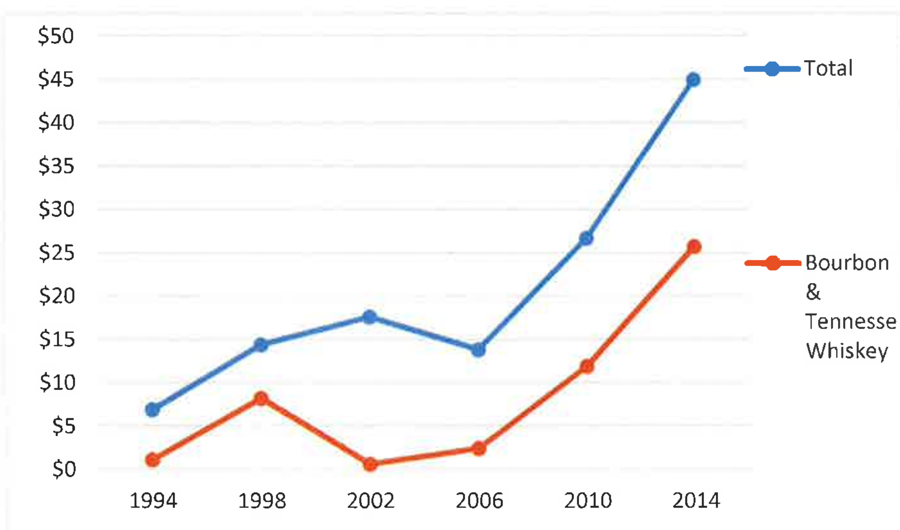
The export data clearly indicates that bilateral and regional trade agreements have had a significant impact on U.S. distilled spirits exports. For example, since implementation of the ***North American Free Trade Agreement*** (NAFTA – Canada and Mexico), U.S. spirits exports to Canada grew nearly 660 percent, from roughly $28 million in 1995 to $215 million 2014. Canada ranks as the 2nd largest export market for U.S. distilled spirits exports. Similarly, in the case of Mexico, U.S. distilled spirits exports grew nearly 590 percent, from $6.5 million in 1995 to $45 million in 2014. Mexico is currently the 9th largest market for U.S. distilled spirits exports. As noted below, the United States exports a wide variety of spirits products to our NAFTA partners, including rum, vodka, liqueurs, etc.

U.S. Distilled Spirits Exports to Canada 1994-2014
In millions of U.S. dollars



U.S. Distilled Spirits Exports to Mexico 1994-2014

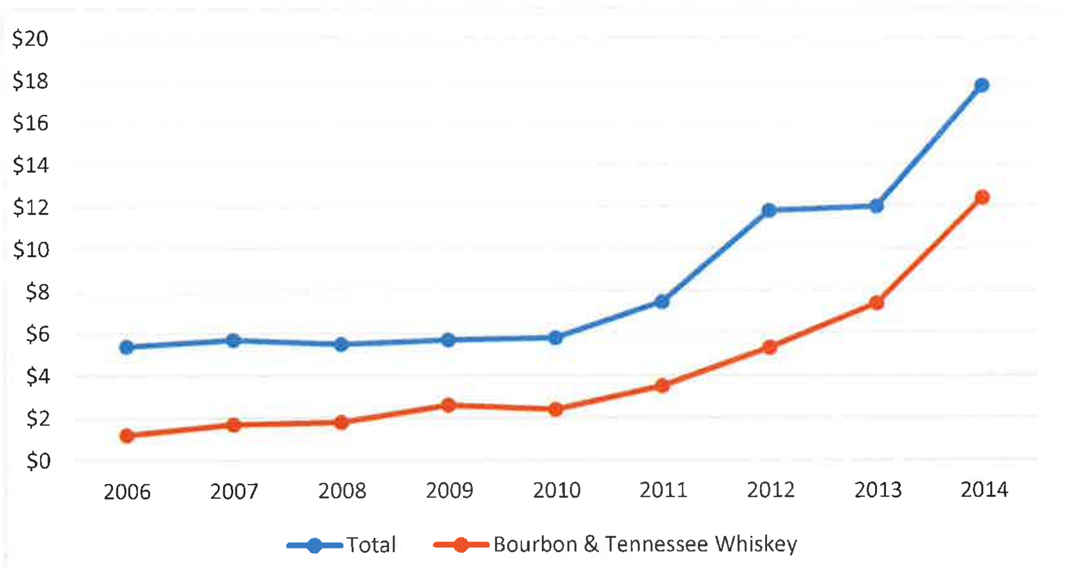
In millions of U.S. dollars



Since tariffs were eliminated under the ***U.S. - Australia FTA*** in 2005, U.S. spirits exports have grown by nearly 70 percent, from $77 million to $131 million in 2014. Australia now ranks as the industry's fourth largest export destination worldwide.

Under the ***U.S. - Chile FTA***, tariffs on all U.S. spirits (except gin) were eliminated in 2006, immediately upon entry into force of the agreement. The tariff on U.S. gin was eliminated on January 1, 2016. As noted below, since implementation of the agreement U.S. spirits exports have increased from $5.1 million to $17.8 million in 2014.

U.S. Distilled Spirits Exports to Chile 2006-2014
In millions of U.S. dollars



The ***U.S. - Peru FTA*** eliminated tariffs on all U.S. spirits products in 2009. Since that date, U.S. spirits exports increased from $878,000 to $2.4 million in 2014. Likewise, the ***U.S. – Panama FTA***, which was implemented in 2012, included immediate elimination of tariffs on all U.S. spirits exports. Exports to Panama have increased from $5.8 million in 2012 to $16.5 million in 2014.

In the case of the ***U.S. - Colombia Trade Promotion Agreement*** (CTPA) and ***U.S. - Oman Free Trade Agreement***, tariffs on U.S. distilled spirits products are currently being phased-out.

Under the CTPA, ***Colombia*** eliminated its tariffs on U.S.-origin brandy, gin and liqueurs as of May 15, 2012. The tariffs on other U.S.-origin spirits will be phased out until they are eliminated either by 2016 (for one category of "other spirits") and for whiskey, rum, and vodka by 2021. U.S. spirits exports to Colombia have increased modestly since implementation of the agreement in 2012, from $2 million to approximately $2.3 million last year.

In the case of the ***U.S.-Oman FTA***, the 100% tariff on U.S. origin spirits will be eliminated by January 1, 2018.

b. Distinctive Product Recognition

Many of the international trade agreements in which the United States is a party includes important protections for "Bourbon" and "Tennessee Whiskey," the single largest category of U.S.

spirits exports. Such recognition ensures that products sold as Bourbon and Tennessee Whiskey are produced in the U.S. in accordance with U.S. laws and regulations. Distinctive product recognition for "Bourbon" and "Tennessee Whiskey" has been secured in free trade agreement negotiations with Canada, Mexico, Colombia, Peru, Chile, Australia, Panama, Korea, Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. In addition, distinctive product recognition for "Bourbon" and "Tennessee Whiskey" has been secured in Brazil and the European Union through bilateral agreements. With regard to the European Union, any country that joins must automatically afford this protection to "Bourbon" and "Tennessee Whiskey."

IV. Conclusion

In sum, the U.S. distilled spirits industry has benefitted significantly from the comprehensive multilateral, regional and bilateral trade agreements the United States has concluded. The Distilled Spirits Council strongly supports additional efforts to further liberalize trade with other trading partners, as it will be the key to continued growth and long-term viability of the U.S. spirits industry. Thank you again for the opportunity to provide the U.S. spirits industry's views. Please do not hesitate to contact us if we can provide any additional information.

Sincerely,

Christine LoCascio

Christine LoCascio
Senior Vice President
International Issues and Trade