



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

TRADE SUBCOMMITTEE

**HEARING ON THE EFFECTS OF TARIFFS ON U.S. AGRICULTURAL AND RURAL
COMMUNITIES**

JULY 18, 2018

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

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“The Effects of Tariffs on U.S. Agriculture and Rural Communities”

July 18, 2018

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 House Ways and Means Trade Subcommittee’s hearing on the effects of tariffs on U.S. agriculture and rural communities. The Distilled Spirits Council is the national trade association representing the leading producers and marketers of distilled spirits in the United States. In 2017, U.S. distilled spirits were exported from small, medium, and large distillers located in 42 states.¹ The distilled spirits sector directly and indirectly employs approximately 1.5 million people.

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 sector and is instrumental to its long-term viability. Global exports of U.S. spirits, including Bourbon, Tennessee Whiskey, American Rye Whiskey, rum, gin, vodka, brandy and liqueurs have benefitted significantly from the United States’ efforts to secure market opening trade agreements. Exports of all U.S. spirits have nearly tripled in the past twenty years, reaching \$1.64 billion in 2017.² In particular, American Whiskey exports increased nearly four-fold during that period rising to \$1.13 billion in 2017. This export success story has enabled distilleries across the country to grow, including expanding and hiring more employees. This growth has also benefitted the hospitality sector, U.S. farmers which supply the grains used in the production of these products, as well as other input providers such as glass and other packaging suppliers. In 2017, the U.S. distilled spirits sector used 165 billion pounds of grain produced by U.S. farmers, up from 158 billion pounds in 2016.

II. Retaliatory Tariffs on U.S. Distilled Spirits Exports

Exports to the European Union (EU), Canada, Mexico, Turkey, and China worth an estimated \$759 million a year are currently the target of retaliatory tariffs, ranging from 10 to 70 percent *ad valorem*. **In fact, 46 percent of global U.S. spirits exports and 65 percent of global U.S. whiskey exports are facing retaliatory tariffs.** Such tariffs will seriously impede the export progress that has benefitted the U.S. spirits sector over the past twenty years.

The specific tariffs that are being applied are detailed below.

The EU implemented a retaliatory tariff of 25 percent on all U.S. whiskey imports on June 22, 2018 in response to the Section 232 tariffs. By way of background, the U.S. and the EU mutually agreed to eliminate tariffs on practically all distilled spirits from all other World Trade Organization (WTO) members as part of the so called “zero-for-zero” agreement resulting from the WTO’s Uruguay Round of agreements. This duty-free access has significantly benefitted U.S. spirits exports to the EU, which went from \$216 million in 1997 to \$789 million in 2017, an increase of 265

¹ See annex I for maps indicating which states exported spirits and American Whiskey in 2017

² National export data is compiled from the U.S. International Trade Commission DataWeb.

percent. American whiskey exports to the EU increased 350 percent in that time, from \$148 million in 1997 to \$667 million in 2017. The following 23 states exported whiskey to the EU in 2017 (in descending order of the value of exports): Tennessee; Kentucky; Texas; Florida; Illinois; California; New Jersey; South Carolina; Virginia; Massachusetts; Ohio; Arkansas; West Virginia; Washington; Michigan; Pennsylvania; North Carolina; Alaska; Minnesota; Georgia; Missouri; Vermont; and Oregon.³

Canada implemented a retaliatory tariff of 10 percent on all U.S. whiskey imports on July 1, 2018 in response to the Section 232 tariffs. Since implementation of the North American Free Trade Agreement (NAFTA), U.S. spirits exports to Canada grew nearly 615 percent, from roughly \$28 million in 1995 to \$200 million in 2017, ranking Canada as the top export market for U.S. distilled spirits. American whiskey exports to Canada during that period increased from \$4.8 million to \$49 million. In 2017, the following 25 states exported whiskey to Canada (in descending order of the value of exports): Kentucky; Tennessee; Illinois; Indiana; New Jersey; California; Minnesota; Florida; Maryland; Oregon; Arkansas; Wisconsin; New York; Missouri; Colorado; South Carolina; Wyoming; Nebraska; North Carolina; Iowa; Washington; Utah; Connecticut; Texas; and Arizona.

Mexico imposed a retaliatory tariff of 25 percent on all U.S. whiskey imports on June 5, 2018 in response to the section 232 tariffs. Since implementation of NAFTA, U.S. distilled spirits exports to Mexico grew nearly 585 percent, from \$6.5 million in 1995 to \$44.4 million in 2017, ranking it as the 9th largest market for U.S. distilled spirits exports. American Whiskey exports to Mexico during that period increased from \$1 million to \$13.4 million. In 2017, the following 13 states exported whiskey to Mexico (in descending order of the value of exports): Texas; Kentucky; Florida; Arizona; Illinois; California; New York; Nevada; Virginia; Minnesota; Kansas; Louisiana; and Maryland.

China implemented a retaliatory tariff of 25 percent on U.S. whiskeys on July 6, 2018 in response to the Section 301 actions. American spirits exports to China have grown by almost 1,200 percent, from \$959,000 in 2001 when China joined the WTO to \$12.8 million in 2017; of this \$8.9 million was whiskey. In 2017, the following 8 states exported whiskey to China (in descending order of the value of exports): Tennessee; Kentucky; California; Missouri; Illinois; Wisconsin; Oregon; and New York.

Turkey implemented a 70 percent tariff on all U.S. distilled spirits on June 21, 2018 in response to the section 232 tariffs. In 2017, Turkey imported \$21 million in spirits from the United States; of this \$20.2 million was whiskey. In 2017, the following three states exported spirits to Turkey (in descending order of the value of exports): Tennessee; Kentucky; and Arkansas.

III. Impact of Retaliatory Tariffs on U.S. Distilled Spirits Producers

Below is an illustrative list of small and medium distilleries from across the U.S. describing how their individual companies have been negatively affected by the retaliatory tariffs:

- **Catoctin Creek Distillery (Purcellville, VA)**: Catoctin Creek Distillery was founded by husband and wife Scott and Becky Harris in 2009 and employs 20 people. The company recently invested \$100,000 in the European market and exports its American Rye Whiskey to Germany and Italy and had been planning to expand sales to Holland and the U.K. Prior to

³ State export data is compiled from the U.S. Census Bureau, Economic Indicators Division

the EU's implementation of its retaliatory tariffs, Catoctin Creek projected that the European market would account for approximately 25 percent of its overall sales.

Scott Harris said "this year we launched into these countries with redistribution, and we're really ready to just go, go, go, and then—almost right away—these tariffs come on. If the tariffs hold up for a longer time, we're going to have to refocus our growth objectives, sell more in the U.S. and basically wait on anything going into Europe—which is really a shame." As a result of the EU's retaliatory tariffs, Scott Harris said, "the option we're really left with is to tread water and see how long this will check out." "If Europe dried up, then we're sitting on inventory we didn't need."

- **Cleveland Whiskey (Cleveland, OH)**: Founder and CEO Tom Lix said the threat of retaliatory tariffs from the EU "sent a chill through our EU distributors" which subsequently canceled orders. Lix said they "were about to launch a new product in Europe this year which has now been put on hold. I have part of a warehouse filled with 700 milliliter bottles, which is how I have to sell them in Europe, so I can't use those bottles in the US. I also have product I could be shipping. This is happening around the world. Nobody wants to order something, and it turns out the purchase price you thought you had when it left the docks in Cleveland is going to be something else when they get it in Hong Kong, Germany or Britain." Cleveland Whiskey employs approximately 15 people.
- **Dry Fly Distilling (Spokane, WA)**: Established in 2007, the company employs approximately 10 people. Don Poffenroth, Owner, said the 10 percent tariff in Canada "makes me uncompetitive in the market" and recently had a sale of approximately 2,000 cases of whiskey to Ontario, Canada cancelled.
- **FEW Spirits (Evanston, IL)**: Established in 2011, the company has approximately 15 employees. Exports make up about 15 percent of its total revenue and its top export markets are the U.K., France, Finland and China. Founder and CEO Paul Hletko said the company has lost sales "in the six figures" from distributors in Europe and China.
- **James E Pepper Distillery (Lexington, KY)**: The company was established in 2010 and recently invested several million dollars to renovate an old distillery which is now producing American Whiskey. Amir Peay, Owner and CEO, said the EU's 25 percent retaliatory tariff on American Whiskey "will absolutely hurt us." "We've been exporting to Europe for four years; it's about 10 percent of our business. We had been planning for some time to make a major expansion into the European Union, which is the best market for growth for American whiskey. ... We brought on a new 700ml bottle, rearranged new distribution network and brought on a distribution network in Amsterdam. Wham, it's a new reality for Europe," he said. "We'd either need to eat it and have our margins affected or pass it along to importers and distributors, who pass it along to bars, who pass to customers. So it ends up being exponential."
- **King County Distillery (Brooklyn, NY)**: Established in 2010, the company has approximately 40 employees and has been exporting to the United Kingdom and Canada for the past five years. Colin Spoelman, Co-founder and Head Distiller, said some Canadian distributors will stop carrying his product due to the decreased competitiveness of his products compared to others not subject to the retaliatory tariffs.

- **KOVAL Distillery, (Chicago, IL)**: Established in 2008 by husband and wife Robert and Sonat Birnecker, the company employs approximately 20 people. In recent years the company has grown its business in Asia and Europe and exports account for approximately 20 percent of its annual revenue. Its largest markets are Austria, Germany and Italy. President Sonat Birnecker said “we don’t know the extent of the damage this is going to cause, but it’s definitely going to be painful.”
- **Mountain Laurel Spirits (Bristol, PA)**: Established in 2011, the company increased its production nearly 250 percent in 2016 and now exports to approximately 20 countries, including France, Germany, and the United Kingdom. Co-founder Herman Mihalich says consumers in foreign markets have found American whiskeys to be "tasty and price competitive" to Scotch, but the “tariffs could erode the competitive pricing element in those markets.”

IV. Conclusion

In summary, the U.S. distilled spirits industry has benefitted significantly from the comprehensive multilateral, regional and bilateral trade agreements the United States has concluded. However, the imposition of these tariffs threatens to seriously impede the export progress that has benefited our sector and created jobs across the country throughout the entire supply chain, from farmers to suppliers. Depending on how long these are in place, the impact will be felt across the United States. U.S. distilled spirits are exported from small, medium and large distillers located across 42 states; American Whiskey is exported from U.S. distillers located in 37 states.

As noted above, retaliatory tariffs have already had a significant negative impact on small and medium distillers, many of which are family owned and operated. These companies have invested significant time and resources to build these markets for American distilled spirits exports. These markets may be lost as foreign adult consumers shift to distilled spirits produced domestically or by our global competitors.

We welcomed the recent commitment announced by the U.S. and the EU to de-escalate this trade dispute and address tariff issues. We hope that Congress, the Administration and our trading partners will build upon this spirit of collaboration through timely dialogue that leads to the prompt removal of retaliatory tariffs on our exports. Thank you again for the opportunity to provide the U.S. spirits sector’s views. Please do not hesitate to contact us if we can provide any additional information.

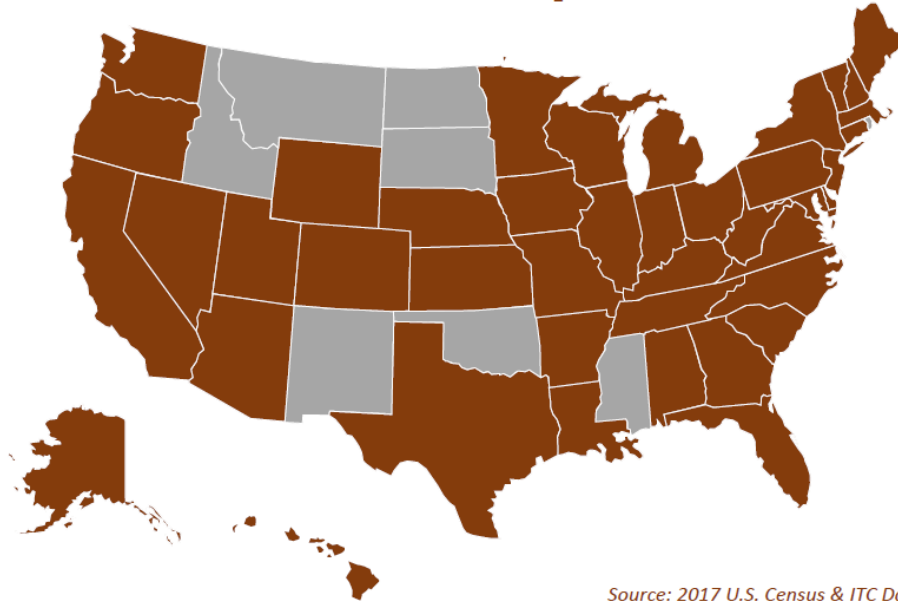
Thank you very much for your consideration.

Written Statement of:

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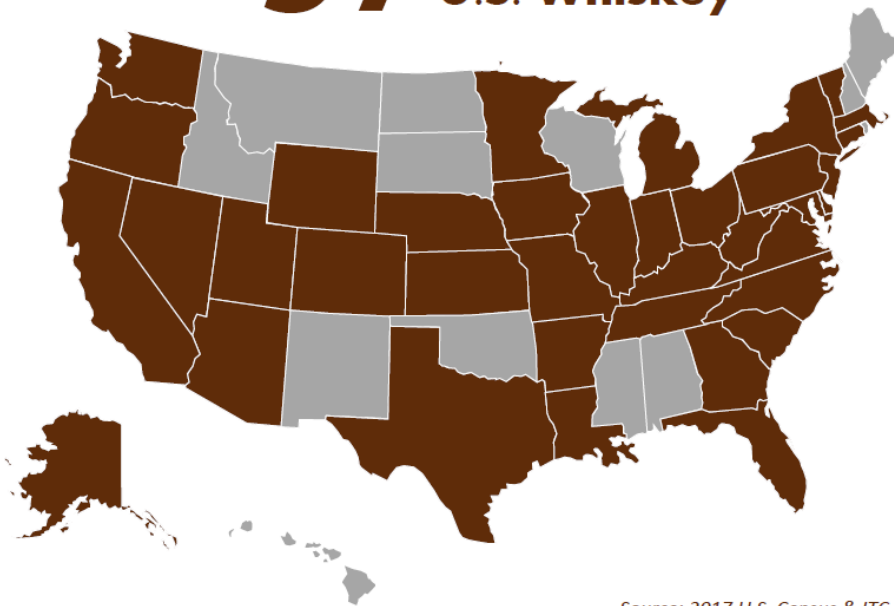
Annex I:

42 States Export
U.S. Spirits



Source: 2017 U.S. Census & ITC Data

37 States Export
U.S. Whiskey



Source: 2017 U.S. Census & ITC Data