

**COMMITTEE ON FINANCE
U.S. SENATE**

THE PRESIDENT'S 2024 TRADE POLICY AGENDA

APRIL 17, 2024

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

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The following statement is submitted on behalf of the Distilled Spirits Council of the United States, Inc. (“DISCUS”) for inclusion in the printed record of the Finance Committee hearing on the Administration’s 2024 trade policy agenda. DISCUS is a national trade association representing U.S. producers, marketers, and exporters of distilled spirits products. Its member companies represent approximately 75% of total U.S. distilled spirits exports.

Introduction

DISCUS and its member companies have strongly supported commitments by the U.S. to liberalize trade through a variety of fora and mechanisms. International trade is essential to the U.S. distilled spirits sector and is instrumental to its long-term viability. Our small, medium and large companies, their employees and their suppliers have benefitted from the successful efforts to open markets for U.S. spirits exports. Distilled spirits are high value-added agricultural products, which utilize a range of grains, fruits, and other agricultural raw materials in the production process. In fact, over the past decade, grain use in U.S. production of whiskey, brandy, rum, gin, and vodka increased by 121% to more than 2.8 billion pounds in 2023.

2023 was a banner year for American spirits exports. Total U.S. spirits exports reached a record \$2.2 billion, up 8% compared to last year. American Whiskeys, which accounted for 63% of all U.S. spirits exports, increased by 9% over 2022 to reach a record \$1.4 billion. U.S. distilled spirits were exported to more than 130 countries in 2023 from small, medium, and large distillers located in 44 states. Today, there are more than 2,600 U.S. craft distillers, up from less than 100 in 2005. The distilled spirits sector directly and indirectly supports 1.7 million good-paying jobs in every state, from the production, import, wholesale and retail tiers.

Over the past two decades, global U.S. spirits exports rose nearly 280% (from \$587 million to more than \$2.2 billion between 2003-2023). Long-term growth for U.S. spirits exports is due, in large part, to the range of trade agreements that eliminated import tariffs, opened many foreign markets for distilled spirits, and provided tools and mechanisms to address discriminatory tariff and non-tariff barriers.

U.S. spirits exports tumbled between 2018 and 2021, due largely to retaliatory tariffs on American spirits imposed by the European Union (EU) and United Kingdom (UK), which have since been suspended or removed. In 2023, exports have rebounded over pre-tariff levels. Our top priority is to secure the final removal of tariffs on U.S., EU, and UK distilled spirits and a return to permanent zero-for-zero tariffs.

I. U.S. Spirits Industry Has Benefitted from Market Opening Trade Agreements

DISCUS and its members have strongly supported comprehensive trade agreements that eliminated tariffs and included other provisions to protect U.S. spirits products, such as recognition for distinctive American Whiskeys (e.g., Bourbon, Tennessee Whiskey, American Rye Whiskey, and American Single Malt Whiskey), and best practices for the labeling and certification of distilled spirits products. These have been vital to opening new markets and keeping them open for U.S. spirits exports.

a. Tariff Elimination

Exports to our trading partners, which have agreed either through multilateral, regional, or bilateral trade agreements, to eliminate tariffs on U.S. spirits, reached \$1.8 billion in 2023, accounting for 83% of global U.S. spirits exports. In 2023, U.S. distilled spirits exports to bilateral and regional free trade agreement (FTA) partners totaled \$726 million, accounting for nearly 1/3 of global U.S. spirits exports. In fact, between 2000 and 2023, exports to U.S. FTA partners have grown faster (539% increase) than U.S. distilled spirits exports to non-FTA partners (400% increase).

In contrast, U.S. spirits exports to high-tariff countries, such as India (150% tariff), Vietnam (45% tariff) and Brazil (20% tariff on all imported distilled spirits, except bulk whiskey, which is 12% tariff), reached \$69.2 million, accounting for only 3% of total U.S. spirits exports in 2023. Clearly, the elimination of tariffs leads to an increase in U.S. spirits exports.

In particular, the tariff elimination commitments regarding distilled spirits products secured during the Uruguay Round, which led to the development of the World Trade Organization (WTO) in 1994, and subsequent negotiations under the U.S. government's "zero-for-zero" initiative have 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 U.S. and the EU. However, other countries, including Japan, Canada, Macedonia, Taiwan and Ukraine have since also agreed to eliminate tariffs on spirits imports on a Most Favoured Nation (MFN) basis.

Since the "zero-for-zero" agreement came into effect in 1997, the value of U.S. spirits exports to the EU (current membership) increased by 413%, from \$171 million to nearly \$880 million in 2023. The "zero-for-zero" agreement continues to produce benefits for U.S. spirits exports. Specifically, as countries have joined the EU, they are required to adopt the EU's common external tariff, which, in the case of distilled spirits is zero for practically all spirits. For example, exports to Latvia, which is currently the 21st largest destination for U.S. distilled spirits, increased by almost 879%, from \$1.8 million in 2004 when it joined the EU, to \$17 million in 2023. Similarly, exports to Poland, which is the 14th largest market, increased by nearly 3,887%, from \$1.1 million in 2004 when it joined the European Union to \$47 million in 2023. Prior to Poland joining the EU, U.S. spirits faced tariffs ranging from 75% to 105% *ad valorem*.

In the case of Japan, U.S. distilled exports grew from \$68 million in 2002, when the tariff was eliminated, to \$122 million in 2023, representing a growth rate of 79%.

b. Distinctive Product Recognition for Bourbon, Tennessee Whiskey, and American Rye Whiskey

Bourbon and Tennessee Whiskey, the largest categories of American spirits exports, are recognized by 45 countries as distinctive products of the U.S. 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, Japan, the EU, the UK, and Bolivia through bilateral agreements. With regard to the EU, any country that joins must automatically afford this protection to Bourbon and Tennessee Whiskey.

The USMCA includes provisions to preserve recognition for Bourbon and Tennessee Whiskey in Canada and Mexico and secures Mexico's agreement to take steps to provide distinctive product recognition for American Rye Whiskey, a fast-growing category of American Whiskey.

c. Best Practices for the Labeling and Certification of Distilled Spirits Products

For the first time in a U.S. FTA, the USMCA establishes new best practices regarding the labeling and certification of beverage alcohol products. These important protections will facilitate trade in distilled spirits and reduce potential barriers to trade by providing greater certainty, transparency and efficiency for distilled spirits producers, importers and exporters among the three countries. These commitments ensure that the USMCA is a model 21st-century trade agreement for the distilled spirits industry.

II. American Spirits Exports Tumbled Due to Retaliatory Tariffs

As noted above, trade agreements and the elimination of tariffs on U.S. spirits exports have directly increased U.S. spirits exports.

However, in mid-2018, the EU, UK, Canada, Mexico, Turkey, and China implemented retaliatory tariffs on U.S. spirits in trade disputes unrelated to the spirits sector. The retaliatory tariffs curtailed overall U.S. spirits export growth between 2018 and 2021.

Export contracts were canceled, and distribution negotiations were postponed for U.S. distillers of all sizes. Many also put expansion and investment plans on hold. The impact was felt across the U.S. throughout the supply chain, from farmers to suppliers.

The only retaliatory tariffs on U.S. distilled spirits currently imposed are those applied by China and Turkey. The EU's retaliatory tariffs on U.S. distilled spirits products are suspended as part of trade disputes over steel-aluminum and large civil aircraft subsidies. The U.S., Canada, and Mexico reached an agreement in the steel and aluminum dispute in connection to the USMCA negotiation that resulted in the repeal of retaliatory tariffs on American Whiskey exports to Canada and Mexico.

Since the EU first agreed to suspend its 25% retaliatory tariff on American Whiskeys in 2022, exports to the EU surged by over 60%, climbing from \$439 million in 2021 to \$705 million in 2023.

In December 2023, the EU announced that it would continue the suspension of tariffs on American Whiskeys in the steel and aluminum dispute for 15-months, until March 31, 2025. If no agreement is reached, the EU will reimpose its tariff on American Whiskeys at 50%, up from the previously imposed 25%. The UK permanently removed its retaliatory tariff on American Whiskeys in the steel and aluminum dispute in June 2022.

Tariffs on U.S., EU, and UK distilled spirits in the large civil aircraft disputes are suspended until June 2026. If agreements are not reached, the tariffs will be reimposed. Our top priority is to secure the permanent removal of U.S and EU tariffs on distilled spirits and a permanent return to zero-for-zero tariffs with the EU and UK.

III. U.S. Tariffs on Imported EU and UK Spirits Impact U.S. Jobs

While U.S. tariffs imposed on EU and UK spirits may appear only to harm EU and UK companies, this is simply not the case. As a result of the important market-opening agreements highlighted above, the U.S., EU, and UK spirits sectors are deeply integrated with companies owning a range of U.S., EU, and UK spirits. The same is true for EU and UK tariffs on American spirits. Many companies have made considerable investments in the U.S., EU, and UK to successfully create complementary product portfolios with brands from the U.S., EU, and UK to satisfy consumer demands. Thus, tariffs on imported spirits compounds the negative impact on companies negatively impacted by the EU's retaliatory tariff on American spirits. Since retaliatory tariffs on imports are, in effect, taxes, imposing tariffs on EU beverage alcohol imports will have the unintended consequence of harming U.S. consumers of these products.

Trade associations representing the spirits sectors in the EU and UK are aligned with DISCUS in opposition to tariffs on distilled spirits. They have and continue to urge their respective governments to permanently remove tariffs on American spirits imports.

IV. DISCUS Strongly Supports New Comprehensive Market Opening Trade Agreements

DISCUS and its members have strongly supported comprehensive multilateral, regional, and bilateral market-opening agreements, as these are vital to opening new markets and keeping them open for U.S. spirits exports. Efforts by the U.S. government to secure the elimination of tariffs on U.S. spirits have contributed to the significant growth in exports. As noted above, U.S. spirits exports to our trading partners, which have agreed to eliminate tariffs through multilateral, regional, or bilateral trade agreements, reached \$1.8 billion in 2023, accounting for 83% of global U.S. spirits exports.

DISCUS supports new comprehensive bilateral/regional market-opening agreements, which we believe will contribute significantly to the continued growth of our sector. DISCUS supported the Congressional passage of the U.S.-Mexico-Canada Agreement (USMCA) implementing bill and continues to urge the administration to pursue new comprehensive trade negotiations to secure the reduction of tariffs for U.S. spirits exports, distinctive product recognition for Bourbon, Tennessee

Whiskey, and American Rye Whiskey, and best practices for the labeling and certification of distilled spirits products.

DISCUS also strongly supports the WTO and its 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 by reducing or eliminating import tariffs and establishing rules for transparency, non-discrimination, and equal access. Since the Uruguay Round agreements entered into force in 1997, global U.S. distilled spirits exports have increased by almost 300% through 2023.

V. Other Trade Barriers Negatively Impacting American Spirits Exports

Several priority target markets apply discriminatory spirits taxes in favor of domestically-produced spirits and maintain high tariffs and/or an array of non-tariff barriers to U.S. spirits, which inhibit the sector's long-term growth prospects. For example, India maintains an excessive tariff on imports of bottled spirits of 150% ad valorem, Brazil maintains a tariff of 12% ad valorem for bulk whiskey and 20% ad valorem for other distilled spirit products, and Vietnam imposes a 45% ad valorem tariff. In addition, Thailand, Peru, Brazil, and the EU continue to apply discriminatory spirits taxes in favor of domestically produced spirits, which distort the market in violation of the national treatment provisions of GATT Article III, paragraph 2. Furthermore, labeling requirements, packaging requirements, and product standards under consideration in Thailand, Ireland, South Africa, the EU, Brazil and elsewhere, which are inconsistent with standard international practices, could impose unnecessary barriers to entry for U.S. spirits exporters.

These, and many other tariff and non-tariff market access barriers impacting U.S. spirits exports, are discussed in length in DISCUS' October 2023 submission regarding foreign trade barriers to U.S. exports to the Office of the United States Trade Representative, which can be viewed at the following link: <https://www.distilledspirits.org/wp-content/uploads/2023/10/DISCUS-2024-National-Trade-Estimate-Report-Submission-Final.pdf>

Conclusion

In summary, the U.S. distilled spirits industry has benefitted significantly from the comprehensive multilateral, regional, and bilateral trade agreements the U.S. has concluded. However, the imposition of retaliatory tariffs had a significant negative impact on the sector. For these reasons, our top priority is to request that Congress continue to urge the Administration to engage with their EU and UK counterparts to secure the permanent removal of U.S., EU, and UK tariffs on distilled spirits. Our EU and UK counterparts share our strong opposition to the application of any tariffs on distilled spirits and are sharing similar concerns with their respective governments.

In addition, we urge the Administration to pursue new market-opening and comprehensive trade agreements for U.S. spirits exports to secure the reduction of tariffs on these exports, distinctive product recognition for Bourbon, Tennessee Whiskey, American Rye Whiskey, American Single Malt Whiskey, and best practices for the labeling and certification of distilled spirits products.

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.

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