U.S. House of Representatives Committee on Agriculture
Subcommittee on Livestock and Foreign Agriculture
Public Hearing: Meat Labeling Requirements
March 25, 2015

Testimony of Wine Institute

Chairman Rouzer, Ranking Member Costa, Members of the Subcommittee:

Thank you for the opportunity to share our views on the important topic of Country of Origin Labeling (COOL) and the ramifications of Canada and Mexico imposing retaliatory tariffs on American wine exports.

Wine Institute is the premier organization of 1,000 wineries and businesses in the United States (U.S.) and around the world. California wine represents 90% of U.S. wine production, 90% of U.S. exports and contributes over $120 billion annually to the U.S. economy.

Wine Institute conducts a comprehensive export marketing campaign that communicates California as an aspirational place with beautiful landscapes, iconic lifestyle, great wine and food and as an environmental leader. With U.S. wine exported to more than 125 countries, Wine Institute's work in 25 countries, supported by the U.S. Department of Agriculture's (USDA) Market Access Program (MAP), conveys these messages across the globe through a full slate of activities including international trade shows and trade missions, retail and on-premise tastings for trade, media and consumers and a global social media campaign and consumer site *DiscoverCaliforniaWines.com*.

We also work closely with other U.S. industry groups, the U.S. government and the international wine community -- including the Canadian and Mexican governments and their winemakers in the World Wine Trade Group and the Asia-Pacific Economic Cooperation Wine Regulatory Forum -- to lower tariff and non-tariff trade barriers and to grow exports for our mostly small and medium sized, family run businesses.

WWTG

In light of the U.S.'s collaborative work with Canada to reduce barriers to trade and create a level playing field, it is most unfortunate that Canada has now chosen to involve wine and other products in an unrelated trade dispute. Wine Institute strongly opposes retaliatory tariff increases on any country's wines in response to a dispute, such as COOL, that does not involve wine.

In fact, wine producers in the World Wine Trade Group (WWTG), a multinational organization that includes government and industry representatives of the U.S. and Canada have undertaken to follow the principle that wine should not be used for retaliation in trade disputes relating to other products. Wine Institute urges Canada to abide by the principles to which its own industry agreed in WWTG.

U.S. Wine Exports

With Canada the #1 and Mexico the #6 market for U.S. wine exports, COOL-related retaliatory tariffs would have an enormously negative economic impact on our winemakers and grapegrowers. Sales of U.S. wines to Canada have grown steadily in recent years. Globally, 2014 U.S. wine exports totaled $1.49 billion in revenues, the second highest dollar value for U.S. wine exports and a 64% increase from five years ago. Our exports did suffer a slight decline last year because of the strong U.S. dollar and the west coast port slowdown. Combined with those two challenges, a significant tariff increase in Canada would be another tough challenge for U.S. winemakers.

Last year in Canada, U.S. wine exports reached $487 million, a 7% increase over 2013. California sales have experienced strong growth in all the major markets across Canada over the past few years. Retail sales now exceed a record six million cases and $1 billion with the strongest increases in the provinces of Quebec and Alberta. Canadian consumers have confidence in the quality and value offered by California and our wines are successful in all price segments.

U.S. wineries are also experiencing similar success in Mexico, our 6th largest export market. In 2014, U.S. wine exports to Mexico totaled $24 million, a 13% increase over 2013.

<u>COOL</u>

Canada's preliminary retaliation list targets a broad spectrum of commodities that will affect every state in the country, potentially delivering a paralyzing blow to U.S. winemakers, other farm and food economies and rural households. Under World Trade Organization (WTO) rules, retaliatory tariffs would likely be placed on the value of the products as entered into the retaliation country.

Canada calls it a surtax on imports, which would mean that a bottle of wine entering into Canada with an import value of $10 would be hit with a $10 surtax. The resulting doubling of price for our wine in Canada will, no doubt, drive a large percentage of our customers away. In fact, we believe that if this cloud of uncertainty concerning a dramatic increase in the price of U.S. wine is allowed to persist, Canadian and Mexican wine buyers will soon begin looking elsewhere to stock their grocery and liquor store shelves.

A Canadian tariff of this nature could cut off the vast majority of U.S. wine exports to Canada and cost U.S. winemakers hundreds of millions of dollars in lost sales. Adding to this harm, our market share will take many years to gain back. Consequently, the cost of winning back shelf space and market share over the years following the end of retaliatory tariffs will also be substantial.

A difficult but important lesson can be drawn from Mexico's previous retaliatory tariffs. In two past trade disputes with the U.S., Mexico retaliated against U.S. products costing the U.S. millions of dollars in lost sales and lost market share. In 2009, Mexico imposed a 20% tariff on wine due to the trucking dispute. This was the second retaliation imposed by Mexico on U.S. wine in seven years, the first concerning a WTO dispute over the Byrd Steel Dumping Amendment, which the U.S. repealed in 2007.

In 2007, U.S. wine exports to Mexico reached a high of $24 million in revenues to wineries. Following Mexico's retaliatory tariffs, U.S. wine exports dropped to $18 million in 2010, a

25% loss in sales. While Mexico eliminated its retaliatory tariffs in 2011, it took another three years to 2014 before U.S. wine exports returned to just the level where they were in 2007.

From this experience, it is certain that:

1. Retaliatory tariffs dramatically harm U.S. wine exports; and
2. It will take U.S. wineries many years, if not decades, to recover from another country's retaliatory tariffs.

Conclusion

In closing, COOL-related retaliatory tariffs will result in an enormous loss of sales for U.S. wineries, estimated to be in the hundreds of millions of dollars. Since the strong growth of U.S. wine exports to Canada and Mexico over the past decade has in part been due to USDA's Market Access Program, it would be most unfortunate now for Congress to allow another U.S. law such as COOL to undo these hard-fought export gains.

For these reasons, Wine Institute respectfully requests that Congress act quickly to address this critical matter. Thank you very much for your continued leadership and efforts to resolve this dispute and to grow U.S. exports.

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Wine Institute