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MEMORANDUM

To: Gloria Blue, Executive Secretary, Trade Policy Staff Committee
Office of the United States Trade Representative

From: Karen Ross, Executive Director
California Association of Winegrape Growers

Subject: Comments Concerning Free Trade Agreement with the Republic of Korea as It Affects Wine (HTS 2204) and Grape Juice Concentrate (HTS 2009)

In response to the Federal Register announcement from July 27, 2009 (Volume 74, Number 142) requesting comments concerning the United States Free Trade Agreement with the Republic of Korea, these comments are submitted on behalf of the California Association of Winegrape Growers (CAWG), the Winegrape Growers of America (WGA), the Washington Association of Wine Grape Growers, and the Texas Wine and Grape Growers Association, referred to in these comments as "U.S. winegrape growers." CAWG is an advocate for farmers, providing leadership on public policies, research and education programs, sustainable farming practices, and trade policy to enhance the California winegrape growing business and its communities. WGA is a federation of state winegrape grower organizations representing 18 states. Based in Washington, D.C., WGA serves as the national advocacy arm of the domestic winegrape industry and provides a forum for communication and exchange of information among member states. The Texas Wine and Grape Growers Association provides advocacy and industry education to the fast growing Texas grape growing and wine business. The Washington Association of Wine Grape Growers (WAWGG) advocates for the Washington wine growing industry by educating, promoting, representing, and unifying the industry and fostering a positive business environment for continued growth and production of world-class, Washington-grown wines.

Executive Summary

The U.S. Winegrape Growers continue to support the Administration's trade policy, including support in Congress for approval of the Korea trade agreement (KORUS). Throughout the negotiation process, The U.S. Winegrape Growers and U.S. wine producers supported the immediate duty elimination for wine (HTS 2204) and grape-juice concentrate (HTS 2009) by both countries. U.S. negotiators achieved that objective. Korea is not a significant wine producer and is not a threat to U.S. producers. By comparison, Chile and the European Community (EC) are significant wine producers and have the potential to be grape juice concentrate exporters into Korea. Both have also negotiated free trade agreements with Korea.

The current import tariff for grape juice concentrate is 45 percent *ad valorem*. That tariff is to be eliminated immediately upon implementation of KORUS. The current import tariff for Chilean

concentrate and wine is zero and the tariff for EC concentrate and wine will be zero in five years. The lack of implementation of an agreement with the U.S. will result in a significant economic disadvantage for U.S. grape juice concentrate and wine producers in exporting wine and concentrate to Korea. As described below, this disadvantage affects all U.S. interests from the farmer, labor worker and wine producer through the service providers in the distribution supply chain.

Grape Juice Concentrate and Wine and the Korean Free Trade Agreement

- CAWG represents growers producing over 60 percent of California's grape tonnage that is crushed for wine and concentrate.
- California produces more than 90 percent of all the grapes grown in the U.S. and about 20 percent of the total statewide crush is processed into concentrate.
- WGA represents over 95% of the American production of grapes used for wine.
- In 2008 total value of grape-concentrate trade exceed \$150 million.
- The Korean market represents a significant target market for concentrate exports from the United States and other wine producing countries around imports from the world.

Taking each point in the request in turn:

(1) How implementation of the FTA will affect trade between Korea and the United States, in general and with respect to particular goods or services

- The lack of a free trade agreement with Korea will impose a substantial competitive disadvantage for U.S. exports of wine and grape juice concentrate compared to other countries that have preferential trading agreements with Korea. Korea has high import tariffs. For wine it is 15 percent and for grape juice concentrate it is 45 percent. A preference of 15 percent or 45 percent as a result of compounding reduces the amount of excise, VAT and other taxes that are imposed on the duty paid import value. With the elimination of the duty and the other taxes imposed on that duty, the price of that duty free wine or concentrate will have a competitive margin at retail greater than the actual tariff versus those paying the duty.
- In 2005 Korea was the 13th largest export market for U.S. wine and those imports ranked 2nd in imports of wine into Korea
- Of the more than a dozen FTAs negotiated by the US over the past several years, Korea is the most economically significant since Canada and Mexico.
- There is no significant Korean grape, concentrate, or wine production to be protected by import tariffs. Without that production there is no negative impact on the U.S. market from a potential increase of Korean wine or concentrates imports into the U.S.
- Since 2004 when Chile signed the FTA with Korea US wine exports to Korea have declined as a percent of import market share.
- Wine demand and consumption are increasing significantly in Korea, but Chilean wines are largely satisfying that demand thanks to Chile's FTA with Korea.
- Since the inception of the Chile-Korea FTA, Chilean wine imports have risen dramatically and now hold the dominant market share position. The recent EU-Korea FTA will likely have a similar impact on the market shares of France, Italy, and Spain –thus further diminishing the already falling US market share.



(2) Economic costs and benefits to U.S. workers, farmers, ranchers, businesses and consumers of removal of tariffs and non-tariff barriers affecting trade between the United States and Korea

- The benefit of the Korean market for grape juice concentrate and wine is significant. California farmers and laborers rely on growing export markets to remain in business and retain their jobs. The U.S. market is relatively stagnant and under pressure itself from cheap imports from Argentina and other producing countries.
- At the time it negotiated its free trade agreement Chile’s import market share for wine was 6.25 percent. In 2008 that share even in a growing market had increased to 23 percent. It is the number one Korean wine import by volume. That growth has been coincident with the decrease in tariffs.
- Elimination of tariffs for U.S. wines will simply make US wine more competitive with Chile. Anything less leaves US wine producers and winegrape growers in a secondary position.
- Elimination of the grape juice concentrate tariff will help retain market share for U.S. grape juice producers.
- There will be no economic cost to U.S. workers, farmers, ranchers, businesses, and consumers resulting from increased imports of wine or grape concentrate from Korea. As stated above, Korea does not have an industry that poses any threat to U.S. producers.
- There will be significant economic costs to those U.S. interests if there is no agreement.
 - The loss of the wine market share has a negative impact on U.S. winegrape growers since those grapes are the basic component in wine. Growers sell more grapes to winemakers than to concentrate producers. Both market segments are economically important.
 - Since the Chile Agreement U.S. wine producers have lost 6 percentage points in import market share by value. Korean wine imports have grown to \$166 million in 2008 resulting in a loss of about \$10 million in lost sales because U.S. wine could not retain its

market share. In the absence of approval of KORUS these losses will increase as the EC Agreement provides a more favorable environment for EC wine imports.

- Losing almost 5 percent of all U.S. grape juice concentrate exports should the Korea market become non-competitive with Chile and the EC enjoying preferential treatment, could be devastating to California and other State's farmers.
- Even if the existing market is not totally lost, the inability to grow that export market will have longer term negative effects.

(3) Any additional steps that one or both governments should take to address specific concerns regarding the FTA and the bilateral trade and investment relationship.

- One of the major concerns of many of our trading partners is the predictability of the commercial relationship. To invest and grow business and trade for the benefit of U.S. workers, farmers, business, and civil society, long-term stable business and government relationships are required. Wine production and sales are not *ad hoc* business ventures. By its nature, wine requires long lead times for production, distribution and retail sale. Customers need to know that their supply chain will not be interrupted by one party's request to re-negotiate an agreement to change terms or other action that could disrupt that supply chain.
- There are provisions in the agreement concerning customs clearance and distribution that are as equally important as the reduction of tariffs. Attention should be given to the implementation and monitoring of those obligations to ensure both parties fully comply with those obligations.
- As a result of the preference to be provided under the agreement, the regulatory bodies in both parties should increase their cooperation and consult often to enable the greatest benefit from the agreement. Be it labor, environment, health and safety standards or other regulatory matters, transparent administration of those regulations is a must. Policies and procedures should be put in place to facilitate regular communication and cooperation between the parties.

Conclusion

The U.S. Winegrape Growers support the implementation of the KORUS as soon as possible. The current delay is leading to lost sales to both wine and concentrate producers. Because the 15 percent wine tariff and the 45 percent import tariff have not already been eliminated, U.S. import market share is dropping in this growing market. The net result of those losses inflicts economic harm to the farmers, laborers, winemakers, service providers, and associated business involved in grape and wine production. Wine production in the U.S. supports more than 875,000 jobs throughout the entire supply chain. Assisting U.S. wine exporters to grow their market in Korea and other countries provides the indirect benefit to all of those farmers and workers by keeping the producers economically sound. That benefit is badly needed during this financial recession and for the future of US grape and wine production.