December 30, 2019

Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

Submitted electronically at www.regulations.gov

Re: Notice of Hearing and Request for Public Comments Concerning Action Pursuant to Section 301: France's Digital Services Tax

Distinguished members of the Section 301 Committee,

My name is Barkley Stuart, I serve as the Executive Vice President of Southern-Glazer's Wine and Spirits and am the immediate past chairman of the Wine and Spirits Wholesalers of America (WSWA). I come before you today to express the strong objection of America's wine and spirits wholesalers to the inclusion of French sparkling wine and champagne on the proposed list of products under consideration by the Office of the United States Trade Representative (USTR) for tariffs in connection with France's Digital Services Tax. Beverage alcohol companies—from suppliers to wholesalers to retailers—are responsible for hundreds of thousands of American jobs, and therefore, our industry has a direct and significant interest in this matter.

As the only national membership organization of wine and spirits distributors, WSWA advocates on federal, state, regulatory, and legal issues impacting distributors and the beverage alcohol industry. Southern Glazer's is the largest wine and spirits wholesaler in the United States and represents approximately 1,500 wine, spirits, beer, and beverage suppliers from around the world—and markets, promotes, merchandises, and distributes over 5,000 brands. The company alone employs more than 22,000 people—all of them here in the United States. During a working week, the sales, delivery, and support staff of Southern Glazer's collectively calls on or services over 250,000 different chain and independent retail, grocery, lodging, restaurant and bar customers across the country.

Over the last several decades, international trade in beverage alcohol products has boomed as tariff and non-tariff barriers to trade have been reduced. This has resulted in a wide range of product availability to adult consumers—whose evolving tastes have elevated both expectations and demand. Southern Glazer's Wine and Spirits has sold over 730,000 cases of French Sparkling wines over the last 12 months, a value of $436 million in wholesale cost.

To meet this consumer "pull", wine and spirits wholesalers have diversified our portfolios with products from around the globe—creating the most dynamic beverage alcohol marketplace in the world, delivering the widest variety of products to US consumers. The industry's ability to offer a product for every taste, budget, and occasion has driven growth and created myriad job opportunities for US workers. The wine and spirits industry has directly created an estimated 1.3 million American jobs. Wholesalers alone account for 87,722 jobs paying nearly $7.5 billion in wages annually.

To foster this continued growth, the US has agreed—through mutual recognition agreements with various trading partners—to officially recognize products from a handful of key producing countries. Thus, "Tequila" can only be made in Mexico, "Scotch Whiskey" can only be made in Scotland, etc. In return, our trade partners have officially recognized “Bourbon” and “Tennessee Whiskey” as distinctive products of the United States.

As a result, consumers have come to understand that products, such as “Champagne”, have characteristics unique to the regions in which they are produced and that these products cannot be made in the United States. Since retaliatory tariffs are, in effect, taxes, imposing tariffs on French sparkling wine and champagne will have the unintended consequence of harming American consumers through marked retail price increases and the associated reduction in consumer demand—given no authentically designated category substitutions.

In 2018, the United States imported $743 million worth of sparkling wine from French producers. This would be equal to a product value of $718 million after deducting freight and insurance charges.

Champagne and sparkling wine imported from France account for about 12.14 percent of total wine imports and 2.76 percent of the entire wine market in the United States. Under a 100-percent tariff, prices rise and demand will drop.

A 100 percent tariff on French sparkling wines would be equal to a price increase of approximately $718 million. Adding back the transportation margin, the increased cost to distributors rises to over $743 million.

Evenly distributed across the entire market, the cost of the tariff leads to an overall price increase on wine of 2.5 percent, or by about $1.87 a gallon at the purchaser level. This would be passed through from importers to distributors and ultimately to the final consumer.

Based on a demand model developed for WSWA, this price increase will result in 1.15 million gallons of lost sales. This is a reduction of about 1.84 percent in wine sales. Lower volumes will result in lost jobs as wholesalers need fewer truck drivers, clerks and warehouse staff.

Over 300 alcohol distributor jobs could be lost because of higher prices resulting from tariffs. Including all firms in the beverage alcohol industry—those that supply the industry and those who depend on expenditures by direct and supplier firm employees—this would lead to a total of over 17,000 lost jobs and $767 million in lost wages. On top of this, the total cost to the American economy could be over $2.1 billion.

A 25 percent tariff on French Champagne and other sparkling wines would be equal to a price increase of $179 million. Adding back the transportation margin, the increased cost to distributors would total $186 million.

Evenly distributed across the entire market, the cost of the tariff leads to an overall price increase on wine of 0.62 percent, or by about $0.47 a gallon at the purchaser level.

This price increase will result in 5.2 million gallons of lost sales, a reduction of about 0.56 percent in total wine sales. As with the 100 percent tariff example I addressed previously, this fall in sales results in lost jobs as wholesalers need fewer truck drivers, clerks and warehouse staff. By including all the suppliers to the alcohol industry, as well as industries supported by the spending of wages from the wine industry, the total economic impact of a 25 percent tariff on French Champagne and other sparkling wines is over 5,000 lost jobs and $234 million in lost wages. The total cost in terms of lost output is over $643 million.

In addition, the US wine and spirits industry is already being negatively impacted by the imposition of retaliatory tariffs by our key trading partners on certain US-origin distilled spirits and wines due to the Section 232 steel and aluminum tariffs and by China in response to the various Section 301 actions. The EU also promptly indicated its intent to impose additional tariffs on several categories of US-origin wine and spirits in connection with its WTO dispute concerning civil aircraft against the United States. Further, imposing a new tariff on French sparkling wine and champagne would double down on American consumers, who are already feeling the pinch from increased costs of Single-malt Scotch, French wine, Irish whiskey, and other popular imported products that have had tariffs imposed as a result of the Airbus dispute.

The beverage alcohol industry in the United States currently provides consumers with the most diverse selection of products in the world and supports hundreds of thousands of jobs across the country in an array of related industries. US consumers and companies have benefited from efforts to open up markets around the world, which have been a tremendous success.

We strongly urge the US and France to reach a negotiated settlement in this dispute and avoid the implementation of new tariffs. At a minimum, in order to avoid the negative economic impact and allow wine and spirits wholesalers to continue to respond to consumer demand, USTR should remove French sparkling wine and champagne from the final list of French-origin products that may be subject to additional tariffs in this dispute.

Thank you for this opportunity to provide you with our views. Please do not hesitate to contact the Wine and Spirits Wholesalers of America should you need any additional information.

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