December 19, 2019

Amb. Robert Lighthizer
Office of the U.S. Trade Representative
600 17th Street NW
Washington, DC 20508

Dear Ambassador Lighthizer:

I'm writing you to express strong opposition to the proposed tariffs, up to 100 percent, on European wines, as a retaliatory response to both France's Digital Services Tax (docket # USTR-2019-0009-0038) and to the broader enforcement of WTO rights involving civil aircraft (docket # USTR-2019-0003-2518).

There are many reasons for our opposition, and the most salient of these are:

REPLACEABLE AS A TRADE PARTNER

It is important to understand that, while the United States is a significant market for European wine, we are by no means either essential or irreplaceable. To take the most relevant example: The French export wine market totaled €9.1 billion in 2017, according to Douanes France. Of that, €1.6 billion went to the United States. Conversely, €758 million went to China, an increase of more than 63 percent in just four years, which represents a booming Asian market for European wine. French wine producers have increasingly indicated that they view China, not the United States, as their major potential growth market; many have indicated that they have already begun considering a shift in allocations of their best wines from U.S. importers to Asia should the tariffs be put in place.

We have personally been told by our French suppliers that if we do not purchase our allocations, they will sell them to other countries. This is not a theoretical assumption; this is a fact. My business has been adversely affected by the 25% tariff on French still wines and will be severely damaged if these proposed tariffs go into effect.

A HIGH-QUALITY MARKET, NOT SUPPORTED BY SUBSIDIES

The major victims of these proposed tariffs, then, are not European wine producers, but the American companies that do business with them.

Increasing the tariffs (and continuing the tariffs already in place) will, in effect, make it virtually impossible for me to continue my business as a small importer of high quality, European wines. Is this going to impact on either Airbus or the tech companies? Absolutely not, but for entrepreneurs like us, it is devastating.

U.S. WINES WILL NOT REPLACE EU WINES

A common misconception from those outside the industry, and even many in the industry, is that the domestic and import wine markets are interchangeable, that consumers and businesses scared off by high tariffs on European wine will simply drink American wine instead. This might be true of that narrow portion of the market that constitutes low-quality imported wines. But specifically, with French wine, there's simply no equivalency between the two. While one is not better than the other, each has its own partisans. And the U.S. market for French wine has undeniably shifted toward higher-quality wines, as evidenced by the fact that French wine exports to the U.S. have risen 50 percent in volume but nearly 80 percent in value in the past decade.

Simply put, the US wine industry will see no benefit whatsoever from these tariffs.

DEEP IMPACT ON U.S. BUSINESSES

Moreover, the U.S. wine market still relies heavily on European imports. The overall U.S. wine market now exceeds $70 billion, according to Wines Vines Analytics, of which $23 billion is imported wine, for a total of 105 million cases, 18 million of which are French. A significant portion of that is sold on-premise (i.e., in restaurants), which comprises a market of 77 million cases annually, of which more than a proportional amount are imports, as restaurants tend to sell more expensive wines, thus relatively little from the lower tiers of the domestic market. Indeed, on-premise sales are a crucial part of the overall wine market because they typically are sold at higher markups, which directly translate into more revenue for local businesses.

And this is the case across the country. While it can be tempting to view drinking European wine, French wine specifically, as the foibles of a coastal elite, the reality is that these wines are distributed and sold widely in every state.

Some of that business is handled by major distributors, such as Southern Glazer's Wine And Spirits, with its reported $18 billion in annual revenue, but the import and distribution industry for French and other European wine remains largely composed of small independent businesses, like mine, with revenues far less than $18 billion but significant for our lifestyle.

In other words, European wines, and French wines especially, are products with significant demand, differentiated by their unique origins. Effectively barring them from these shores will have a profound negative impact on the broader U.S. wine and hospitality industries. In part that's because imported wines provide revenue at each step along the three tiers of the U.S. distribution system. That €1.6 billion in French wine exports translates to approximately $3.5 billion or more in sales revenue for U.S. companies, most of which would be lost with these tariffs. Extending that more broadly to all EU wine exported to the United States, approximately €3.8 billion in 2018, according to Eurostat, there's a potential revenue loss to U.S. businesses of as much as $8.5 billion, possibly more. That doesn't factor in potential lost tax revenue for local governments.

At the same time, U.S. wineries are almost certain to face significant revenue loss when, as almost inevitably the case, European countries implement retaliatory tariffs on U.S. wines. Of the $1.46 billion in wine exports from the U.S., according to the Wine Institute, $469 million was California wine shipped to the EU-28. The knock-on effect of these tariffs will be not only against U.S. businesses importing European wine, but also U.S. businesses exporting wine. Hence the likely net result will be to penalize American businesses, while doing little to impact the governments and private entities in Europe with which the U.S. has current disputes.

It is for this reason that even the U.S. Chamber of Commerce advocated against applying such tariffs to French goods. "Such action would add to the potential for an escalating trade war with France and the EU and may elicit additional rounds of retaliatory measures that represent a substantial risk to U.S. economic growth and job creation," it wrote in an August 14, 2019 comment to your general counsel, Joseph Barloon.

This is why, like many of those in the U.S. wine industry, we strongly urge the USTR not to implement these further tariffs, and instead find other solutions to resolve the two outstanding trade concerns—preferably solutions that deal with the parties at hand, rather than punishing an unrelated industry, and the thousands of Americans, like us, who earn our living from it.

Quite frankly, I believe that it is unfair and retaliatory to place these additional taxes on the backs of hard-working Americans. The French government isn't paying these tariffs, American businesses are. Airbus isn't paying these taxes, American businesses are. Who is suffering from these capricious taxes? AMERICAN BUSINESSES AND CONSUMERS, AND NO ONE ELSE.

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