JON BONNÉ

December 17, 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).

For nearly 20 years, I have written professionally about wine and the wine industry. I spent more than eight years as the Wine Editor and Chief Wine Critic of The San Francisco Chronicle, one of the most highly visible roles covering American wine. While there I wrote *The New California Wine*, a comprehensive book on the modern California wine industry. After spending much of the past five years reporting in France, interviewing hundreds of winemakers, I am now completing *The New French Wine*, which similarly will be a deep look at that country's wine industry. In short, I have decent perspective on both the American and French wine industries. I deeply respect them both, and the extraordinary quality they represent. And I'd like to share some of that perspective in order to explain my opposition.

Quite simply, if the goal of these tariffs is to either rebalance economic conditions between the two countries' industries, or to offer retaliatory action against the French (for the DST) or the Europeans more broadly (for the WTO issue), these tariffs **<u>will not achieve those goals.</u>**.

<u>REPLACEABLE AS A TRADE PARTNER</u>

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. But €3.75 billion went to other EU countries; €1.15 billion to the United Kingdom; €504 million to Japan; and crucially, €758 million 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 to me and others in the industry 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.

In other words, for most top producers in France—and all Europe—there are other markets more than willing to buy their wines. And these wine producers, like many producers of the products listed on the proposed roster of affected goods, have had nothing to do with either the Macron administration's proposed DST, or with the Airbus fight. Indeed, in rural France, they are most often the biggest defenders of free trade and less government. In a country with deep agricultural and social subsidies, these are typically small business owners who believe in the value of private enterprise.

A HIGH-QUALITY MARKET, NOT SUPPORTED BY SUBSIDIES

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

I'm aware that a handful of large U.S. wine producers, at times through their trade body, the Wine Institute, have made a case that EU subsidies for winegrowers provide an unfair economic advantage. But to be clear: We're largely speaking about two different markets. The subsidies in question typically benefit large producers growing low-quality grapes and producing low-quality wine, relatively little of which is exported to the United States. Indeed, this is the sole sub-category in which American wine producers have a competitive advantage: It is generally more efficient to produce cheap wine in California or Washington than to import it from southern France or Spain.

French export data affirm this: Of the €1.6 billion total market to the United States, €618 million is sparkling wine, most of it Champagne (which underscores the questionable utility of having excluded such a large tranche of the industry from the 25 percent tariffs imposed in October); and €834 million is in AOP (Appellation d'Origine Protégée), high-quality appellation wine. Less than 10 percent of French exports by value to the U.S. are in lower-quality designations, and less than 1 percent of exports are bulk wine.

In which case, who would be penalized by these tariffs? The answer, again, is simple: American businesses in every state who traffic in higher-quality French and other European wines. Steep tariffs effectively double the wholesale prices of imported wines, which make them largely unsalable by American businesses. As has been widely noted, that makes these tariffs punitive for Americans, and not for European producers.

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 constitues 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.

Hence most consumers and professional wine buyers simply won't replace a Burgundy with a California pinot noir, or Champagne with California sparkling wine. French or Italian restaurants won't simply switch to domestic alternatives for their wine lists. Their business models are based on being able to sell a specific product of origin. A Sancerre is a Sancerre, and a Chianti is a Chianti.

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.

These are businesses that employ not merely wine specialists and salespeople, but also truck drivers, forklift operators, warehouse managers and so on. They create and maintain thousands of jobs across the country. As my wife, who for many years managed a national import portfolio worth more than $15 million, frequently likes to remind me, there is just as much interest in European wine in states like Texas, Wisconsin, Ohio, Oklahoma and Arizona as there is in New York or California. The modern market for imported wines is broadly distributed across America.

REVENUE LOSS ACROSS THE INDUSTRY

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, I 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 who earn their livings from it.

Sincerely,

Jon Bonné