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Vine and Certain
'ermented Beverages

SITC Publication 2639
une 1993

FFICE OF INDUSTRIES
.S. International Trade Commission
Vashington, DC 20436

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PREFACE

In 1991 the United States International Trade Commission initiated its current *Industry and Trade Summary* series of informational reports on the thousands of products imported into and exported from the United States. Each summary addresses a different commodity/industry area and contains information on product uses, U.S. and foreign producers, and customs treatment. Also included is an analysis of the basic factors affecting trends in consumption, production, and trade of the commodity, as well as those bearing on the competitiveness of U.S. industries in domestic and foreign markets.[1]

This report on wine and certain fermented beverages generally covers the period 1987 through 1991 and represents one of approximately 250 to 300 individual reports to be produced in this series during the first half of the 1990s. Listed below are the individual summary reports published to date on the agricultural, animal, and vegetable products sector.

USITC publication number	*Publication date*	*Title*
2459	November 1991	Live Sheep and Meat of Sheep
2462	November 1991	Cigarettes
2477	January 1992	Dairy Produce
2478	January 1992	Oilseeds
2511	March 1992	Live Swine and Fresh, Chilled, or Frozen Pork
2520	June 1992	Poultry
2524	August 1992	Fresh or Frozen Fish
2545	November 1992	Natural Sweeteners
2551	November 1992	Newsprint
2612	March 1993	Wood Pulp and Waste Paper
2615	March 1993	Citrus Fruit
2625	April 1993	Live Cattle and Fresh, Chilled, or Frozen Beef and Veal
2631	May 1993	Animal and Vegetable Fats and Oils
2635	May 1993	Cocoa, Chocolate, and Confectionery
2636	May 1993	Olives
2639	June 1993	Wine and Certain Fermented Beverages

[1] The information and analysis provided in this report are for the purpose of this report only. Nothing in this report should be construed to indicate how the Commission would find in an investigation conducted under statutory authority covering the same or similar subject matter.

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INTRODUCTION

This summary covers wine and certain fermented alcoholic beverages, except malt beverages, provided for in chapter 22 of the Harmonized Tariff Schedule (HTS). These beverages include table wines, dessert wines, sparkling wines, wine coolers, vermouth, and certain other fermented alcoholic beverages.[1] Although the United States is a large producer and importer of wine and related beverages, it is a small exporter of wine, even though exports have increased rapidly since 1987. Table wine is the leading type of wine produced in the United States, as shown in figure 1.

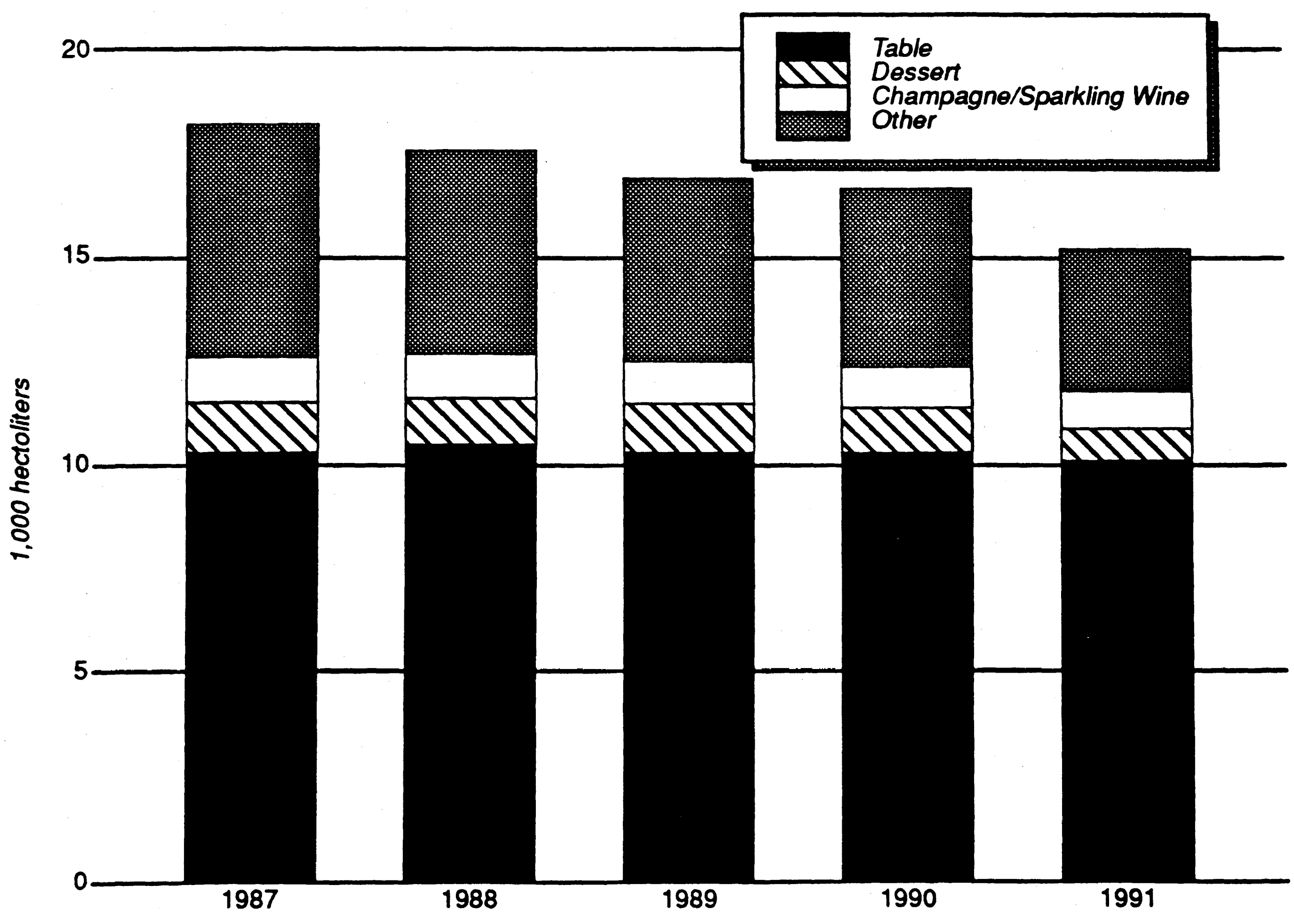
Wine and other similarly-produced alcoholic beverages contain between 7 and 24 percent alcohol by volume. They are used to complement meals and in cooking, entertaining, and religious ceremonies. The major types of domestically produced products covered in this report are table wines, dessert wines, sparkling wines, wine coolers, and vermouth. Standards of identity for these products are set forth in regulations of the Bureau of Alcohol, Tobacco, and Firearms (BATF) of the U.S. Department of the Treasury (27 CFR 4.21). BATF regulations affect the production, packaging, labeling, and advertising of these products. BATF also collects Federal excise taxes on wines sold in the United States, whether the wines are imported or domestically produced.

[1] Malt beverages and distilled spirits produced from fermented alcoholic beverages are covered in another summary.

Report Summary

During 1987–91, apparent U.S. consumption of wine and certain fermented beverages fell steadily from a high of $4.4 billion in 1988 to a low of $3.8 billion in 1991. The U.S. industry accounted for the bulk of consumption, although the ratio of imports to consumption has risen since 1988. U.S. shipments of wines fell steadily from 1988, following an overall decline in the number of wine consumers together with a shift in consumption patterns toward better quality, higher value wines. Table wines accounted for the

Figure 1
Wine and certain fermented beverages: U.S. shipments, by product types, 1987-91[1]



[1] Preliminary.
Source: Compiled by Commission staff from "Wine Entering Distribution Channels in the United States," *Wines and Vines*, vol. 73, No. 7 (July 1992), pp. 22-23.

bulk of U.S. shipments and consumption as well as imports throughout the 5-year period.

U.S. imports of wine and certain fermented beverages fell steadily from $1.0 billion in 1987 to $920.3 million in 1991, with the principal foreign suppliers (France, Italy, and Spain) remaining the same. Imports rose 19 percent from 1991 to $1.1 billion in 1992. Bottled table wine and sparkling wines have constituted the bulk of imports since 1987. U.S. exports of wine and certain fermented beverages have more than doubled since 1987, amounting to $147.2 million in 1991, with the ratio of exports to domestic shipments rising steadily throughout the period. Exports amounted to $175.6 million in 1992, up 19 percent from the amount exported in 1991. In recent years, the product mix of U.S. exports has shifted somewhat toward greater exports of bottled table wines, with the major foreign markets for U.S. exports (Canada, the United Kingdom, and Japan) remaining the same throughout the period.

Production Processes

Wine grapes are the most important raw material used in making wine. Varieties of grapes that originated in Europe (*Vitis vinifera*) are considered some of the best types for wine-making in the United States, but, because *vinifera* lacks resistance to a deadly grape pest (*Phylloxera*), rootstocks of hardier American grape varieties are used to which *vinifera* cuttings are grafted. Vines take 3 to 4 years to mature and generally last 40 years or more in production.[2]

Still grape wines are wines produced by the normal alcoholic fermentation of the juice of sound, ripe grapes. They may or may not include pure condensed grape must or added grape brandy or alcohol, but they may not contain any other addition or be changed in any other way except as may occur in cellar treatment. Cellar treatment refers to practices and procedures used to make an acceptable wine. Such practices include certain additions of sugar and water before, during, or after fermentation.

Table wine (HTS subheadings 2204.21.40, 2204.29.20, and 2204.29.60), the most significant product covered in this summary, is a still grape wine having an alcoholic content not in excess of 14 percent by volume. Table wine generally is subdivided into product categories based on price, quality, and other characteristics. Some domestic table wines are sold under generic names, such as red, white, or rose. Other wines are sold under semi-generic names adapted from types of European wines, such as Burgundy, Rhine, and Chablis. Additionally, other wines are varietals sold using the name of a particular type of grape. BATF labeling regulations require that wine sold using a semi-generic name such as Chablis must bear the name of the true place of origin, such as "California Chablis."

[2] Pierre Spahni, ***The Common Wine Policy and Price Stabilization*** (Aldershot, England: Gower Publishing, 1988), p. 4; an 80-year life span reported for vineyards in Bordeaux, *Wall Street Journal*, Nov. 29, 1990.

Generic wines and some semigeneric wines tend to be lower priced brands, often sold in large jugs. The most expensive domestic table wines are varietal brands labeled with the name of the type of grape used in production, such as Chardonnay, Pinot Noir, Cabernet Sauvignon, or Merlot. The name of a single grape variety may be used as the type designation if 75 percent or more of the wine by volume is derived from grapes of that variety (24 CFR 4.23a). Varietal wines usually are sold in cork-sealed bottles holding 750 milliliters. Wine also may be labeled with a designation of geographic significance (appellation of origin) if at least 85 percent by volume of the domestic wine is from fruit grown in the area designated on the label. An imported wine may be similarly labeled if i has been approved by the appropriate foreign government as meeting its requirements for such designation (24 CFR 4.25a).

Dessert wine (HTS subheadings 2204.21.60 2204.21.80, 2204.29.40, and 2204.29.80) is grape win having an alcoholic content greater than 14 percent bu not in excess of 24 percent by volume. Major types o dessert wine include sherry, angelica, madeira marsala, and port. Sherry (HTS subheadin 2204.21.80.30) and marsala (HTS subheadin 2204.21.60) are classified separately in the U.S. tarif schedule when in containers holding 2 liters or less Some dessert wines, also referred to as "fortifie wines," are higher in alcoholic content and ar generally priced below more traditional types o dessert wines.

Sparkling wines (HTS subheading 2204.10.1 include wines charged with carbon dioxide g produced by secondary fermentation in the bottle, or b secondary fermentation in other closed containers bulk tanks before bottling, or by injection of carbo dioxide gas.[3] BATF regulations identify "champagn as a type of sparkling, light, grape wine, fermented glass containers of not greater than 1 gallon capacit and possessing the taste, aroma, and oth characteristics attributed to champagne as made in t Champagne district of France. Champagne produc in France by the "methode champenoise" customarily blended from a combination of the eligib varieties of grapes grown in the designated regi northeast of Paris.[4] Sugar and yeast are added to st (that is, noncarbonated) wines in the spring followi the vintage. The wine is then bottled and capped wh it undergoes a secondary fermentation. During the to 5-year aging period, carbon dioxide forms a suffuses the wine.

[3] The explanatory notes to volume. 1, chapter 22 of the Harmonized Commodity Description and Coding System, Customs Co-Operation Council, 1st ed. Brusse Belgium (1986), p. 166, refer to sparkling wines as tho "...charged with carbon dioxide, either by conducting th final fermentation in a closed vessel (sparkling wines proper), or by adding the gas artificially after bottling (aerated wines)."

[4] Methode champenoise is used for about 18 percen of U.S. production of sparkling wine. "No Surprise: Gallo Leads in Champagne Production," *Wines and Vin* vol. 72, No. 12 (Dec. 1991), p. 18.

Sparkling wines are also made using the charmat and transfer processes. Fermentation in the charmat process takes place in large tanks rather than in individual bottles, and the wine is bottled under pressure. The transfer process involves fermentation in the bottle, but the finished wine is emptied into a large tank and filtered before rebottling. This filtering method is less expensive than the removal of the sediment individually from each bottle, as is done in the methode champenoise. The charmat, or bulk, process is used to produce two-thirds of U.S. sparkling wines.

Vermouth (HTS subheadings 2205.10.30, 2205.90.20, and 2205.90.40) is a type of aperitif wine made from grape wine with brandy or alcohol added to attain an alcoholic content of not less than 15 percent by volume. It is flavored with herbs and other natural aromatic flavoring materials. Other flavored grape wines, such as sangria, are classified under HTS subheadings 2205.10.60 or 2205.90.60.

Wines made from fruit other than grapes are classified under HTS subheading 2206.00 covering "other fermented beverages" and are much less significant in the trade than grape wine is. Cider and prune wines are classified separately in the tariff schedule under HTS subheadings 2206.00.15 and 2206.00.30, respectively. Sake (2206.00.45) is defined in the BATF standards of identity as wine produced from rice, yet it is subject to Federal excise taxes at the rate for malt beverages rather than for wines.

Other types of fruit wine are classified together in subheadings 2206.00.60 or 2206.00.90. Wine coolers (HTS subheading 2206.00.90 (pt)) are made of white wine mixed with citrus or other juices. Trade sources indicate that about two-thirds of domestic production of other fermented beverages are wine coolers. The remainder are wines made from fruit other than grapes.

Grape must (HTS subheading 2204.30.00), obtained from crushing grapes, is an alternate raw material to fresh grapes in wine production. It can be imported in an unfermented condition (with fermentation arrested by the addition of alcohol) or in a partially fermented one. U.S. imports of grape must were negligible during 1987–91, because of an abundance of domestic supply and a low raw-product value. Domestic production of grape must is used almost exclusively as an interim step in wine-making.

U.S. INDUSTRY PROFILE

Early explorers are reported to have discovered wines in the United States as early as 1565.[5] Wines, principally made from native species of grapes, were first commercially produced around the time of the U.S. Colonial period. By the early 1800s, wine production was prevalent throughout most of the Eastern United States and in California.

The U.S. industry of wine and certain fermented beverages has grown considerably since its beginning. Encouraged by the availability of land and favorable climate for growing grapes, a number of the larger wineries located in California. Thirty-six of the California wineries in operation today were founded before 1900. A number of wineries were operating in Eastern states during the same period, with some of the largest firms still in operation today. In more recent times, the number of wineries expanded rapidly during the late 1970s and early 1980s, when consumption was rising and most wineries were able to sell their highest quality wines at premium prices. Wineries were considered a good credit risk, and money was readily available during this time because banks were willing to make loans based on sales projections.[6]

Industry Structure[7]

Firms, employment and wages, and prices

The industry of wine and certain fermented beverages exhibits a diverse structure in that it incorporates many small producers as well as some large firms. In recent years, larger firms have dominated U.S. wine production—the five largest U.S. wine producers accounted for over one-half of industry sales value in 1990.[8] The industry includes privately held firms (many of which are family-run), cooperatives, and limited partnerships with grape growers as partners. A small number of U.S. wineries are believed to be foreign-owned, whereas others are subsidiaries of large multinational corporations.

Wineries that store wines according to regulations of the BATF are bonded by the BATF. Subsequently, these firms are not required to pay Federal excise taxes on any stored wine until it is removed from storage. The number of bonded U.S. wineries increased by an estimated 10 percent during 1987–91 (figure 2).[9] About one-half of these wineries are in California,[10] where most of the large U.S. producers are located.

In recent years, this industry has faced a decline in overall U.S. per capita consumption of wine as a result of heightened consumer awareness of the potential health risks associated with excess consumption of alcohol. California is still the dominant State in U.S. production of wine and certain fermented beverages, accounting for an estimated 70 percent of U.S.

[5] Harold J. Grossman, *Grossman's Guide to Wines, Beers, and Spirits*, 6th rev. ed. (New York: Charles Scribner's Sons, 1977), p. 227.

[6] "California Wine Industry Faces Credit Crunch," *Impact*, vol. 22, No. 3 (Feb. 1, 1992), p. 5.

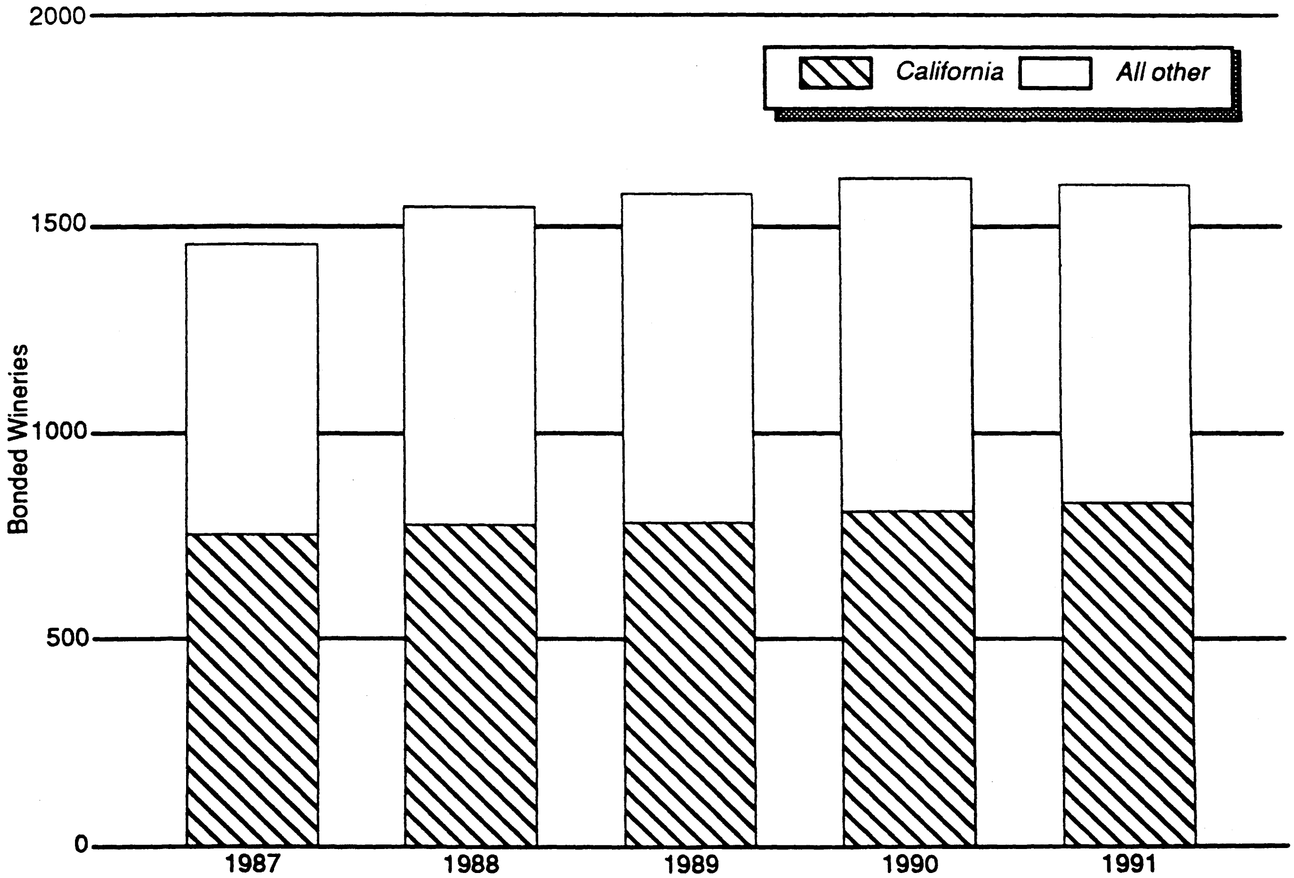
[7] SIC code 2084 covers the U.S. wine and brandy industry. Brandy, a distilled spirit, is not covered in this summary.

[8] *Beverage World*, vol. 110, No. 1494 (July 1991), pp. 22–30.

[9] Bureau of Alcohol, Tobacco, and Firearms statistics, except as noted.

[10] George M. Cooke and Edward P. Vilas, "California Wineries: Growth and Change in a Dynamic Industry," *California Agriculture*, Mar./Apr. 1989, p. 4.

Figure 2
Wine and certain fermented beverages: Number of bonded wineries, 1987-91[1]



[1] Data for 1991 are estimated by Commission staff.
Source: "Number of Establishments Authorized to Operate," ATF Form No. 5700.5, Bureau of Alcohol, Tobacco, and Firearms, U.S. Department of the Treasury, Washington, DC.

shipments in recent years.[11] Other important producing States include New York, Florida, Texas, Illinois, and New Jersey.

The wine industry in California, in particular, has experienced a reorganization in the face of flat overall sales and an oversupply of high quality grapes selling at reduced prices.[12] Since 1988, over 30 California wineries were sold.[13] According to industry sources, at least nine California wineries filed for bankruptcy in 1991 and others are expected to file in the near future.[14] Mid-sized firms are reported to be in the worst financial condition of all firms.[15] They are described as being too small to benefit from economies of scale in production, marketing, and distribution enjoyed by larger firms and too large to operate strictly in niche markets.

11 Estimated by the Commission staff based on data presented in "The 49th Annual Statistical Survey," *Wines and Vines*, vol. 73, No. 7 (July 1992), pp. 16–42.
12 "California Wine Industry Faces Credit Crunch," *Impact*, vol. 22, No. 3 (Feb. 1, 1992), p. 2.
13 Ibid., pp. 4–5.
14 Ibid., p. 2.
15 Ibid., p. 7.

The California industry is reported to b experiencing problems in securing the financin necessary for its operations.[16] According to industr sources, the amount of financing available fc replanting vines or for upgrading or expanding winer facilities is influenced by the extended length of tim necessary to generate cash flows from suc investments, usually from 6 to 8 years.[17] Bankin officials, however, report that, although credit office may be checking applications more carefully and ma require more supporting documents than in pa transactions, lending institutions are looking increase their overall business with the wine industr At the same time, wineries are considering su alternative financing as insurance or equity loans ar loans from farmer–run credit unions.

Total employment in the U.S. wine industry was estimated 12,900 workers in 1991, down 7 perce from 13,900 in 1987 as most companies scaled ba production following a drop in consumpti

16 Ibid., pp. 1–7.
17 Ibid., p. 2.

(figure 3).[18] The hourly wage rate for workers in the wine industry, however, has risen steadily from $11.59 in 1987 to $12.15 in 1991.

Grapes grown in California represent about 90 percent of the total U.S. grape harvest.[19] Although wine is sometimes produced from table or raisin–type grapes, about 83 percent of the grapes crushed in recent years were wine variety grapes. California production of grapes for crushing remained flat in 1991 as compared with 1990 (figure 4).[20] This continues a steady downward trend in the California harvest of grapes for crushing since 1988 and reflects the overall drop in consumption throughout most of this same period.

The average price for grapes for crushing has risen irregularly since 1987. Average grower prices rose 12 percent from 1990 to 1991 as a result of the continued industry shift into the production of more higher priced premium or varietal wines.[21] Of the major varietal wine grapes crushed in 1991, prices of French Colombard and Napa Cabernet Sauvignon rose 6 and 5 percent, respectively, from 1990 to 1991, whereas prices were flat for Sonoma Chardonnay and down for Zinfandel.

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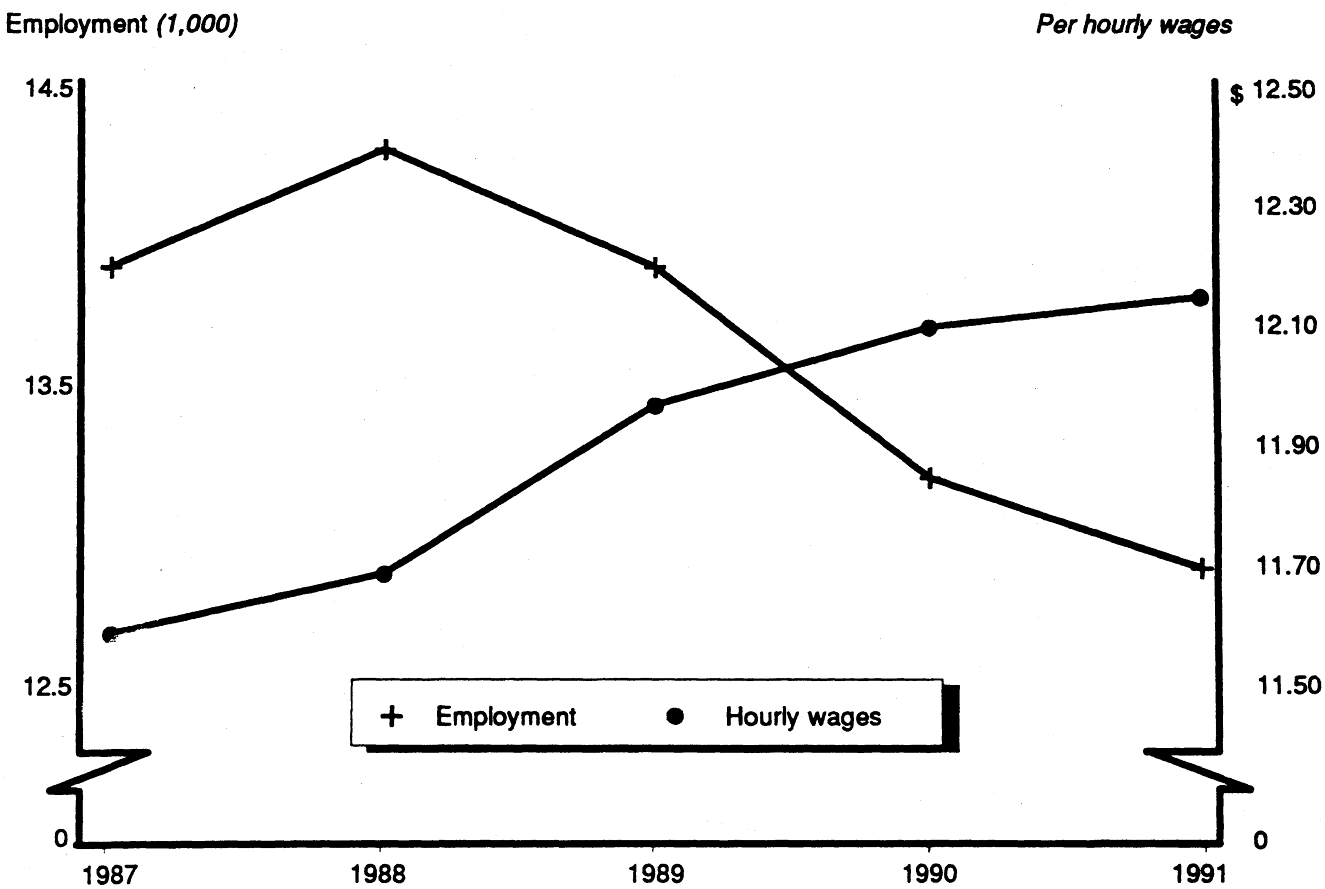
[18] U.S. Department of Commerce, "Food and Beverages," *1992 U.S. Industrial Outlook* (Washington, DC: GPO), p. 32–32.
[19] Wine Institute, *1990 Wine Industry Statistical Report*, p. 6.
[20] California Department of Food and Agriculture, *Grape Crush Report*, various issues, except as noted.
[21] "1991: Bumper Crop for Premium Wines," *Wines and Vines*, vol. 73, No. 4 (Apr. 1992), p. 22.

Figure 3
Wine and certain fermented beverages: Employment and hourly wages,[1] 1987–91



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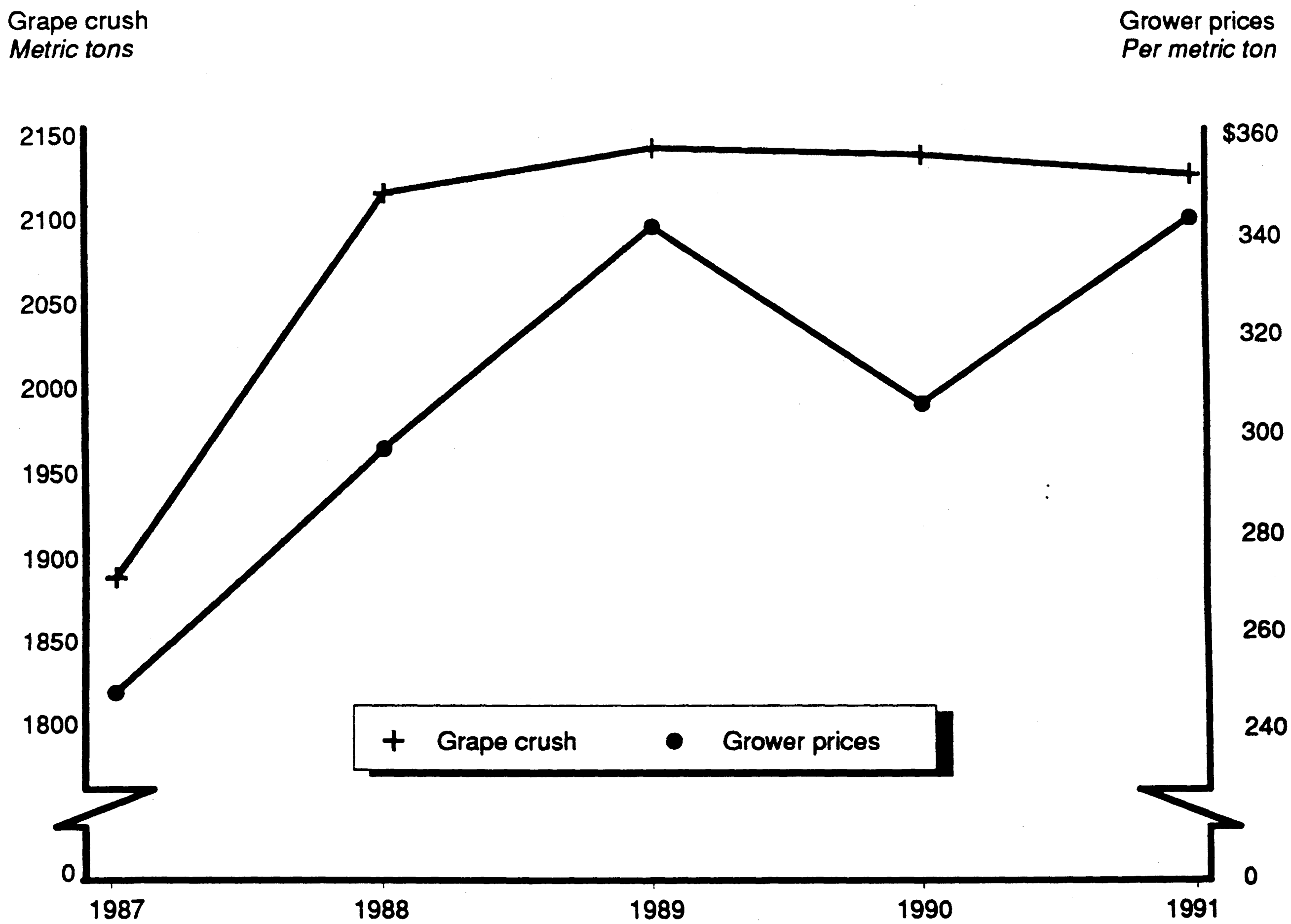
[1] Wages are in deflated dollars, 1987.

Source: Compiled by Commission staff from "Food and Beverages," *1992 U.S. Industrial Outlook*, U.S. Department of Commerce, Washington, DC, p. 32–32.

Figure 4
Wine and certain fermented beverages: Grape crush and grower prices,[1] 1987-91[2]



[1] Deflated by taking a weighted average of price indexes.
[2] Data for 1991 are preliminary.

Source: Compiled by Commission staff from *Economic Research Report,* The Wine Institute, San Francisco, CA, Report No. ER 97, Aug. 1992, p. 8.

Marketing methods and channels of distribution

The production, distribution, and marketing of wine and certain fermented beverages in the United States are subject to regulation and taxation at the Federal and State levels.[22] Under the XXIst amendment to the U.S. Constitution, States have the right to regulate the distribution of alcoholic beverages within their borders. The original intent of such control was "to prevent, by all means, the evils and abuses that were recognized as having been associate with the distribution and sale of alcoholic beverages : pre-Prohibition days."[23]

State laws generally regulate the channels distribution from the time the product crosses the sta border until it reaches the consumer. Most States ha established control over the sale and distribution alcoholic beverages either by monopolistic control the distribution system or by strict licensi requirements. Under the "monopoly State" system, State acts as the sole wholesaler of alcoho beverages, thereby forcing all manufacturers and oth suppliers to sell directly to the State. The State th

[22] Compiled by Commission staff from "The Three-Tier System of Distribution in the Wine and Spirits Industry" (St. Louis, MO: Wine and Spirits Wholesalers Association, Feb. 1975). This distribution system is believed to be in effect in virtually the same form today.

[23] Ibid., p. 7.

sets up state–owned retail outlets, or it provides licenses to private firms for retail distribution. In those States where licensing is the primary method of enforcement, manufacturers and wholesalers are not allowed to have financial interests in retail stores, nor are they allowed to offer to, or accept from, retail stores free goods or gifts, or to participate with retail stores in any unfair practices, commercial bribery, excessive credit programs, consignment sales, or other such trade practices that might result in exclusive outlets or ties between wholesaler and retailer.

Eighteen States are considered control States, in which wholesale and, sometimes, retail distribution of distilled spirits is in the hands of a State monopoly. The remaining 32 States and the District of Columbia issue licenses to allow private firms to distribute alcoholic beverages at the wholesale or retail level, subject to certain regulations regarding business practices.

The Federal Government also has played a role in the regulation of wine distribution, in an effort to prohibit anticompetitive trade practices while at the same time providing for more strict control of alcoholic beverage firms. Under the Federal Alcohol Administration Act, enacted by Congress on August 29, 1935—

> 1. "all manufacturers, importers, wholesalers, and other suppliers to retailers must have basic permits. To secure and retain such permits, they must establish that they are qualified and law abiding persons."
>
> 2. "exclusive outlets or tied houses by any form of agreement between a supplier and a retailer are prohibited, as are any subterfuge or device such as gifts, undue credit, or commercial bribery that would tend to develop a tied–house arrangement or exclude other suppliers in whole or in part."[24]

Federal and State laws require that any licensed distribution system for alcoholic beverages has three distinct tiers (figure 5). The intent of the three–tier system is to avoid vertical integration which, prior to Prohibition, was believed to have contributed to over–promotion of drinking and its resulting social ills. In practice, it means that a wholesaler cannot own a retail account and producers cannot sell directly to the public. However, most States make an exception for in–State wineries by permitting the latter to sell their products directly to the public within the same State. These sales are usually fairly small relative to total sales from winery tasting rooms in most States.

In California, the exception for in–State wineries has enabled certain producers, such as Viansa and V. Sattui wineries, to sell wine directly to consumers and large distributors, such as Young's Market and Southern Wines and Spirits, and to become dominant suppliers statewide.[25] Also, some States have special intrastate trade arrangements that permit reciprocal trade from wineries in one State to consumers in the other State. Most premium wineries use the "distributor direct" method in which the winery deals directly with many distributors. A winery with nationwide distribution may sell through 50 to 75 different distributors.

In recent years, the industry trend for wholesale wine distribution in California and in many other States has been to consolidate the smaller wine distributors into a few large, statewide distributors. In 1991, the top 20 wholesalers of wine and spirits had an estimated 44 percent of the market, and the top 10 wholesalers had an estimated 35 percent share.[26] Concentration at the wholesale level is expected to increase as a result of competition in tight markets and acquisitions by large multi–state distributor corporations. These large distributors often obtain an exclusive contract from the supplier, and they generally carry hundreds of brands of wine. A major drawback of these operations to most wineries, however, is that an individual winery is one among many handled by a distributor, thereby making it difficult for the distributor to promote products of one winery over those of another.[27] In addition, some industry sources believe that the distribution system concentrates on distilled spirits and neglects the special conditions needed for marketing wine successfully, mainly the need for the sales force to have knowledge of premium wines.[28]

In general, the retail distribution of wine includes such outlets as independent outlets and chain stores, warehouse discount stores, and eating and drinking establishments. Premium wines, because of their quality image, have been sold traditionally at the retail level in independent wine shops or restaurants serving expensive foods. Such outlets generally offer a wider selection of products and more service to their customers. Some industry observers, however, have criticized this marketing strategy as being narrowly focused on too few consumers.[29] Others have suggested a marketing strategy aimed at a larger number of consumers, stressing the features of quality wine and its being appropriate for consumption on more occasions.

Retail distribution of wine has also changed in recent years, with the importance of distribution through chain stores and warehouse clubs growing as

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[24] Ibid.

[25] Mike Fisher, "Options for Getting Wine to the Consumer," *Vineyard & Winery Management*, vol. 17, No. 6 (Nov./Dec. 1991), p. 10.

[26] "Top 20 U.S. Wine & Spirits Wholesalers To Hit Projected Revenues of $8.3 Billion in 1991," *Impact*, vol. 21, Nos. 9 and 10 (May 1 and 15, 1991), pp. 1–23.

[27] Mike Fisher, "Options for Getting Wine to the Consumer," *Vineyard & Winery Management*, vol. 17, No. 6 (Nov./Dec. 1991), p. 10.

[28] "Selling Wine: Then and Now," *Impact*, vol. 21, Nos. 9 and 10 (May 1 and 15, 1991), p. 18.

[29] *Market Watch*, vol. 10, No. 12 (Dec. 1991), p. 26.

Figure 5
Wine: Three–tier U.S. distribution system

I. Supplier

- About 1,600 bonded wineries are licensed to operate by the Bureau of Alcohol, Tobacco, and Firearms (BATF).
- Must pay Federal excise tax to BATF.
- Their methods of production, packaging, labeling, and advertising are regulated by BATF.
- May sell to licensed wholesalers, State stores, or directly to the public under State exemptions for in–State wineries.
- Also includes importers who act as a U.S. primary source[1] and sell directly to wholesalers—most importers are also in this category.

II. Wholesaler

- Includes about 1,900 establishments, of which 1,800 are licensed and 100 are State–operated.
- Must pay State excise taxes.
- All are subject to State regulations regarding record–keeping and certain business practices.
- Must sell to in–State licensed retailers.
- Some are also direct importers and must pay appropriate duties and Federal excise taxes.

III. Retailer

- Includes the following types of outlets: independents; chain stores; warehouse discount stores; and restaurants and bars.
- Must be licensed by the State in which they operate.
- Are subject to State regulations on advertising and promotion.
- May sell both on– and off–premise.

[1] A primary source is the original source of supply for the product sold.

Source: Compiled by Commission staff from "The Three–Tier System of Distribution in the Wine and Spirits Industry" (St. Louis, MO: Wine and Spirits Wholesalers Association, Feb. 1975).

compared with distribution through independent stores.[30] Retail sales through supermarkets, liquor chain stores, and discount clubs have made wine more available to a broader assortment of consumers, generally at lower prices.[31] Grocery stores currently account for 20 to 25 percent of all U.S. sales of wine cases and are increasing in importance as an outlet for sales of premium varietal wines.[32] Such sales are attributed to the "one–stop shopping" theme popular among the increasing number of households where both partners work full–time.[33] Some industry observers feel that large price discounts offered by warehouse club stores degrade brand images that are important to wine. Other suppliers, however, believe that low prices sell more wine and have developed special packaging for selling their products off pallets rather than from store shelves. Suc packaging is designed to be appealing to customers in warehouse store where other point–of–sa merchandising is not possible.[34] Chain stores have tl resources to advertise, and, subsequently, to buy ar display wine in large quantities.

Advertising is an important element in tl distribution of all wine and a major marketing eleme by the largest wine companies. E. and J. Gallo Winei the world's largest winery, reportedly spent betwe $44 million and $50 million on advertising in 19S much of it for prime–time television.[35] Promotion f wine brands from smaller companies is limited advertising undertaken by the retailer or throu company–sponsored point–of–sale promotioı Although small in comparison with advertisi expenditures by larger firms, small firm advertisi

[30] Ibid.

[31] Ibid.

[32] Cindy Deutsch, "The Scan What Am, Supermarket Style," *Wines & Vines*, vol. 72, No. 9 (Sept. 1991), pp. 27–30.

[33] Ibid.

[34] "Sutter's Illusion," *Beverage World*, vol. 110, No. 1492 (June 1991), p. 12.

[35] "An Interview With Ernest Gallo," *Impact*, vol. 2 No. 17 (Sept. 1, 1991), pp. 1–10.

expenditures are important to the movement of wine through retail outlets, especially since an estimated 75 percent of consumers make their decision to purchase wine while in the store.[36]

Some fine wines, mainly Bordeaux, are sold using futures contracts.[37] About 20 million bottles per year, roughly 150,000 hectoliters, or 15 million liters, are traded in futures.[38] In the original use of such contracts, merchants purchased a contract promising future delivery of the wine. The contract would specify the price for a particular vintage 2 years in the future, after it had been aged and bottled, thus covering the vintners' storage costs. If the wine turned out well, the merchant could market it at a price above the contract price and make a profit. In recent years, consumers have taken out more contracts, particularly since the 1982 vintage increased greatly in value and the 1989 vintage had spectacular early reviews by wine critics. Consumers can buy the contracts only from a licensed retailer and take delivery of the wine through the retailer.

Government programs

In addition to government regulation of the distribution system described in the previous section, other State and Federal government activities affect the wine industry in the United States. The most important of these include excise taxes, health and safety regulations, and export promotion activities.

Excise taxes

Federal, State, and local governments collect excise taxes on all wines sold in the United States. Tax revenues from wine sales totaled $1.16 billion in 1990 (the most recent year for which data are available), down slightly from previous years.[39] State government tax revenues amounted to $732 million, or 63 percent of total taxes on wine in 1990 (figure 6). In the same year, the Federal Government collected 28 percent of the total, $319 million, and local tax revenues accounted for the remainder, $105 million. In 1990, Federal, State, and local excise taxes collected on wine sales, as a share of shipments, amounted to 22, 10, and 3 percent, respectively. In recent years, the Federal tax revenues on alcoholic beverages accounted for an estimated 17 percent of total Federal excise tax revenues.[40]

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[36] Ted Rieger, "POP Art," *Vineyard & Winery Management*, vol. 18, No. 1 (Jan./Feb. 1992), pp. 21–26.

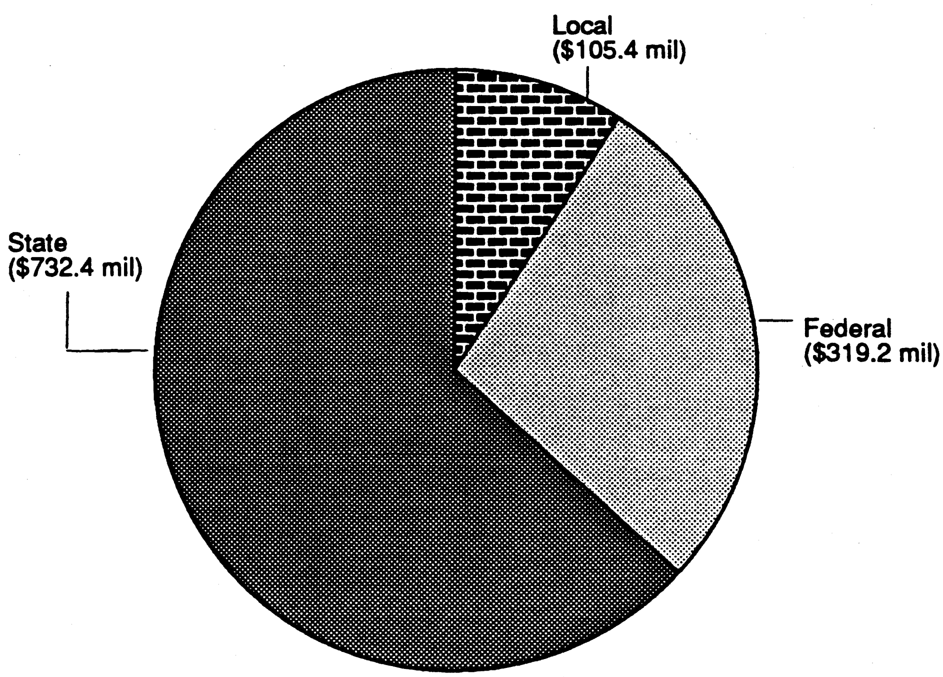
[37] Peter Fuhrman, "Drinking Your Profits Is the Best Revenge," *Forbes*, June 25, 1990, p. 270.

[38] "French Wine Traders Find U.S. Market Rewarding," *Journal of Commerce*, Sept. 11, 1990.

[39] "Public Revenues From Alcohol Beverages, 1990," *Distilled Spirits Council of the United States, Inc.*, Washington, DC, 20005, Feb. 12, 1992, table 7.

[40] "Excise Tax and Ad Ban Proposals Threaten U.S. Drinks Industry in '90," *Impact*, vol. 19, No. 22 (Nov. 15, 1989), pp. 1–6.

Figure 6
Excise taxes collected on wine shipments in 1990



Source: "Public Revenues From Alcohol Beverages, 1990", *Distilled Spirits Council of the United States*, Inc., Washington, DC 20005, Feb. 12, 1992.

Historically, Federal excise taxes on alcoholic beverages have resulted in the second largest share of total Federal excise tax revenue collected annually. Since 1987, a number of government "revenue enhancement" proposals have included additional taxes on alcoholic beverages.[41] Federal budget cuts in late 1989 as a result of enactment of the Gramm–Rudman–Hollings Act strengthened Congressional support for tax rate increases on alcoholic beverages. Subsequently, effective January 1, 1991, the Federal excise tax rate on wine (excluding champagne and other naturally sparkling wines) rose 23.8 cents per liter, as shown in the following tabulation (in cents per liter):

Type of business	Before Jan. 1, 1991	On or after Jan. 1, 1991
Still wine:		
Table wine[1]	4.5	28.3
Dessert wine[2]	17.7	41.5
Other wine[3]	59.4	83.2
Champagne and other naturally sparkling wines	89.8	89.8
Artificially carbonated wine	63.4	87.2

[1] Containing not more than 14 percent of alcohol by volume.
[2] Containing more than 14 percent and not exceeding 21 percent of alcohol by volume.
[3] Containing more than 21 percent and not exceeding 24 percent of alcohol by volume.

Small–volume producers (those firms producing up to 100,000 gallons) of all wines except champagne and sparkling wines are still taxed at pre–1991 rates.

Health and safety regulations

Both the BATF and the Food and Drug Administration (FDA) have shared the responsibility for regulatory actions regarding the health of wine consumers and safety of domestic and imported wines for a number of years. In recent years, actions were taken regarding imported wine contaminated with lead, certain pesticides, and other illegal chemicals. In early 1987, the BATF detained some wine shipments from Austria and Italy because of contamination from diethylene glycol, a poisonous chemical used to prevent wine from souring.[42] The detention involved limited entries over only a few months.

The BATF began testing beverages for the presence of lead in July 1989.[43] Results from these tests indicated that many wines sold in the United States contained lead in excess of the amount allowed for drinking water, 50 parts per billion (ppb). The lead contamination was found to occur in some wines whose bottles had been sealed with a lead capsule over the cork. Some of the wines, however, had high lead levels when sampled prior to contact with the lead capsule area and others with high lead levels had no lead caps.

In 1991, the FDA proposed a ban on the use of lead capsules on wine bottles, and it issued a temporary standard for lead content in wine not to exceed 300 ppb.[44] A permanent standard is expected to be established in the near future, probably within the 150 to 300 ppb range. By comparison, the current standard in France is 300 ppb and in Canada 200 ppb. The Wine Institute, the major trade association of the U.S. wine industry, recommended that producers phase out the use of lead capsules on wine bottles and many wineries have already complied.

The California attorney general filed a lawsuit in 1991 against 13 domestic and foreign wine firms and 100 unnamed producers, alleging that the wine companies disregarded a State mandate against lead contamination. Under this mandate, called Proposition 65, a wine company must warn persons of potential hazards before exposing them to lead. In a preliminary settlement agreement, contingent on judicial approval, those California wineries signing the agreement agreed to discontinue their use of lead capsules after December 31, 1991. These domestic firms also agreed to pay $200,000 in California State fines and to invest $700,000 in consumer education materials. Such materials would be provided to advise consumers to wipe the neck of a wine bottle before pouring so as to reduce the possibility of lead reaching the wine.[45] Imported wines had until April 1, 1992, to discontinue their use of lead capsules.

U.S. imports of certain wines from Europe were temporarily restricted in 1990 because of trace amounts of the fungicide procymidone found in about 20(wines imported from Italy and France. According to FDA sources, the wine contained amounts o procymidone that were within European toleranc levels, and thus posed no health threat to U.S consumers. This fungicide had also been approved fo use in Europe and by the World Health Organizatior

Procymidone was not officially registered for us on grape vines in the United States, however, and win containing even trace amounts of it therefore could nc be sold here. In 1990, the FDA ruled that futur shipments from those vintners identified as havin supplied the contaminated wine were required to b certified as fungicide–free. Consequently, som shipments were delayed while importers sougl assurances from their European suppliers that the wir was free of fungicide. According to U.S. industry ar European Community sources, European wines value at an estimated $100 million to $200 million we affected by the import ban during 1990. In early 199

[41] Ibid.
[42] BATF, telephone conversation with Commission staff, July 15, 1992.
[43] BATF, "Report of Analyses of Wines and Related Products to Determine Lead Content," June 1991.

[44] "Temporary Lead Standard In Wine Set By FDA," *Vineyard & Winery Management*, vol. 17, No. 6 (Nov./Dec. 1991), p. 6.
[45] "News Watch: Wineries Offered Settlement In California Lead Exposure Suit," *Market Watch*, vol. 11, No. 3 (Jan./Feb. 1992), pp. 97–98.

the EPA established an allowable level for procymidone in imported wines, thus permitting sales of wines containing traces of the fungicide within that level.

Since January 9, 1988, the BATF has required that wine containing sulfites be labeled with a declaration stating that the wine contains sulfites (27 CFR 4.33). Effective November 18, 1990, labels on domestically distributed alcoholic beverages (including wine) are also required to display a health warning.

Export promotion

U.S.-produced wines have been marketed in major foreign markets for many years. Recently, funding for export promotion has been provided under the U.S. Department of Agriculture's (USDA's) Market Promotion Program (MPP). The MPP provides funding for export promotion through the Wine Institute.[46] Funding for wine-related activities under the MPP has increased significantly in the last 2 years, as shown in the following tabulation (in millions of dollars):

Year	Amount
1987	0
1988	2.1
1989	5.3
1990	10.4
1991	17.0

Consumer Characteristics and Factors Affecting Demand

U.S. wine consumption has been declining in recent years. In 1990, the annual per-capita consumption of just below 8 liters was significantly lower than the amounts consumed in other countries where traditionally wine is consumed daily.[47] In the early 1980s, demand for wine rose as consumers shifted from consumption of higher alcohol-content beverages to lower alcohol wine[48] and wine coolers. Since 1987, however, wine has shared in the overall decline in alcoholic beverage consumption partly because of consumer concerns about substance abuse.

U.S. demand for wine has been affected by such consumer characteristics as age, income, gender, and geographic location. According to a recent survey by NSO Research, Inc.,[49] U.S. wine consumers tend to be older and have a high income. The survey found that forty-seven percent of wine is consumed by people 50 years of age and older, with three-fifths of this group at least 60 years old. Wine coolers, on the other hand, are consumed principally by people between the ages of 20 and 39 years old. The survey also found that wine consumption is highly correlated with income—nearly three-fourths of the wine consumed in the survey was by people with incomes of $35,000 or more (the highest income category in the survey). Consumers of wine coolers, however, were found to include both people with incomes of $35,000 and over as well as people with incomes of less than $25,000. In addition, women consumed 46 percent by volume of wine in the survey, but 69 percent of all wine coolers.

In recent years, consumers apparently shifted their preference from consuming larger volumes of lower priced wines to consuming smaller overall amounts of higher priced premium wine. Sales of premium varietal wines rose during the late 1980s at the expense of lower priced generic wines.

A number of other patterns of wine consumption were reported. From the survey, about 80 percent of both wine and wine coolers are consumed at home, with most of consumption away from home taking place at nonfast food restaurants, parties, and bars or private clubs. Also, the time of day when people are most apt to consume wine and wine coolers is at dinner or in the evening.

FOREIGN INDUSTRY PROFILE

Many countries have a long tradition of wine-making and generally have industries comprising many small wineries. Certain wine-producing regions have gained international reputations as sources of top quality wines. In recent years, the most important producing areas have included certain countries in the European Community and South America. The leading producing countries are shown in table 1.

European Community

The European Community (EC) is the largest wine producing region in the world and includes the three largest wine-producing countries of France, Italy, and Spain. In recent years, the bulk of total EC production has been accounted for by production in these three countries (table 2). EC wine production increased steadily since 1988/89 following a period of global oversupply of wine in 1986/87 and 1987/88. Production in crop year 1990/91 was down 12 percent from the level of 1986/87.

About one-fourth of the wine produced in the EC is quality wine produced in specific regions. The rest of production is ordinary table wine. The wine industry benefits from a number of EC-sponsored assistance programs that were established under the EC's Common Agricultural Policy. These programs include the following: the use of common producer prices in all EC-member countries that are above equivalent world market prices; payments for private storage; the provision of financial aid to wine distillers

[46] "How Agriculture Can Help Wine," *Wines and Vines*, vol. 72, No. 12 (Dec. 1991), pp. 19-22.

[47] Wine Institute, *Wine Industry Statistical Report, 1990*, p. 38.

[48] USITC, *Summary of Trade and Tariff Information: Alcoholic Beverages*, USITC publication No. 841, Nov. 1984, p. 11.

[49] NSO Research Inc., Share of Intake Panel (SIP) study, as reported in "SIP Releases 1990 Beverage Consumption Data," *Impact*, vol. 21, Nos. 15 and 16 (Aug. 1 and 15, 1991), pp. 16-17.

Table 1
Wine: World production,[1] by primary producing countries, 1987–89[2]

(1,000 hectoliters)

Country	1987	1988	1989
France	69,440	57,530	60,818
Italy	75,875	61,010	59,800
Spain	40,222	22,252	28,955
Soviet Union	16,500	19,860	21,177
Argentina	20,629	20,629	20,318
United States	16,761	18,070	15,572
Germany	9,708	9,314	13,226
Romania	8,060	10,000	10,000
South Africa	8,023	8,465	9,670
Portugal	11,116	3,836	7,664
Australia	3,960	4,942	4,999
Greece	4,120	4,730	4,970
Yugoslavia	6,085	5,762	4,865
Hungary	4,707	4,707	3,711
Chile	4,227	4,227	3,900
Brazil.	2,417	3,762	2,981
Bulgaria	3,592	3,399	2,889

[1] Includes data for wine only; data on production of certain fermented beverages are not available.
[2] The most recent years for which data are available.

Note.—Data shown in this table are for calendar years and differ from data based on crop years shown in table 2.

Source: International Organization of Wine and Vine, *World Viticultural Situation*, 1990, p. 921.

Table 2
Wine: EC production, by selected member countries, crop years 1986/87 to 1990/91

(1,000 hectoliters)

Country	1986/87	1987/88	1988/89	1989/90	1990/91
France	72,764	68,285	57,170	60,508	65,529
Italy	76,262	75,122	60,360	59,727	59,000
Spain	35,872	40,222	22,252	31,276	37,000
Portugal	8,017	11,047	3,938	7,901	10,000
Germany	10,916	9,708	9,976	14,486	8,500
Greece	4,334	4,467	4,345	4,531	3,538
Luxembourg	160	142	142	232	190
United Kingdom	8	4	6	21	15
Total EC	208,333	208,997	158,189	178,682	183,772

Note.—Represents usable production. Most 1990/91 data are EC estimates.

Source: Eurostat, *Crop Production, Quarterly Statistics*, vol 2., 1991.

to encourage greater use of wine, wine byproducts, and grape must for making brandy or other flavored liqueurs; and the use of export refunds, import levies, and licenses for trade with countries outside the EC.[50] These programs protect the EC's domestic price structure for wine producers and control imports of lower priced wines. The EC has also taken measures to reduce surplus production through prohibitions on planting new vineyards and through payments to encourage abandonment of existing vineyards.[51]

[50] Agra Europe, *CAP Monitor*, update May 22, 1990.
[51] EC Commission, *XXIVth General Report on the Activities of the European Communities, 1990*, Brussels/Luxembourg, 1991, p. 190.

France

Known throughout the world for its high qualit and broad variety of wines, France is a major importe producer, and exporter of wine. Wine grapes a cultivated throughout most of France. Among the mo well known regions for producing wine for export a Bordeaux, Burgundy, and Champagne. Since t 1930s, the authenticity of a wine's origin, as stated c the label, together with any accompanying regi designation, has been guaranteed by governme regulations in France. Under one law, call *Appellation d'Origine Controlee*, the Government h set geographic limits for all of the maj wine-producing regions, thus assuring that only wine made from grapes grown within a certain region may be labeled as a product of that region. This law also sets the maximum quantity of quality wine that each vineyard may produce of a given vintage.[52]

Two-thirds of French wine exports in 1990 were quality wines from designated regions. The United Kingdom is France's largest export market in terms of value, with 21 percent of 1990 exports, followed by Germany, with 17 percent, and by the United States, with 10 percent. Eighty-one percent of French exports to the United States are quality wines, and 6 percent are champagne or sparkling wine.

Italy

As in France, wine grapes have been grown throughout most of Italy for centuries. Fertile soils and a favorable climate have favored the production of grapes in abundant quantities. Although historically somewhat lax in their production standards, particularly regarding the labeling of wines and the addition of sugar to increase the alcohol content of wine, government and industry leaders together have forged a policy of tighter control in recent years.[53] With the enactment of The Wine Law of 1963, stringent standards were established that prevent fraud and unfair competition through the protection of wine and grape must sources. Such standards also provide for government quality ratings and for inspections of production and bottling processes. All wine exports must comply with this law. Some of the more important growing regions in Italy are Piedmont, Lombardy, Veneto, Tuscany, and Umbria.[54]

Italy's wine exports are fairly evenly divided among the product types, with exports of bulk and generic wine nearly equal to the value of exports of quality wine from designated regions. The fruity, slightly bubbly Lambrusco-type wines, with an 8- to 9-percent alcohol content, were important export products from Italy to the United States in the early 1980s, but have lost substantial market share in recent years to other styles of wine. About one-fourth of Italian wine exports in 1990 were in the sparkling and effervescent wine category. The leading destinations for Italy's wine exports in 1990 were Germany, the United States, and the United Kingdom.

Germany

Wine production has taken place in Germany for nearly 1,200 years. Germany's vineyards are located principally in the Rhine Valley and its river valley tributaries, making Germany the northernmost major producing area in the world. Unlike growers in other major European producing countries, however, German growers face special challenges from their climate and weather.[55] Although their growing season has more frost-free days than most other producing areas, their season is characterized by low temperatures and highly variable weather, contributing to an unusually high incidence of naturally-occurring grape diseases. In addition, the topography is generally considered too steep and the soils shallow and rocky. The major producing areas include: the Rhine valley regions of the Rheingau, the Rheinhessen, and the Rheinpfalz; the Moselle valley; and the combined regions of Baden, Bodensee, and Wurttemburg.[56]

Since 1971, sales of all German wines have been subject to the German Wine Law, enacted to provide for industry controls similar to those in other major producing countries.[57] Under this law, all domestically-produced wines must meet certain labeling requirements which indicate where the grapes were grown or the wine produced, whether the grapes were of an approved variety, and the share of the total grapes crushed to make the wine accounted for by each grape variety. The Wine Law also contains regulations concerning the identification of the actual vintage year specified on the label, whether or not sugar may be added to raise the alcohol content, and the naturally-occurring sugar content of the grape must from which the wine is made. Germany's main export markets in recent years have included the United Kingdom and the United States. The bulk of U.S. imports from Germany are table wines, with limited amounts of champagne or sparkling wines, other special wines, and vermouth.

South America

Grape production and wine-making were introduced into South America in the 16th century by Spanish missionaries. Wines produced in South America have recently gained attention in the U.S. market for their quality and relatively low price as compared with products from Western Europe. Argentina, Chile, and Brazil have become significant wine producers in recent years.

Argentina

Argentina is the fifth largest wine producer in the world and the largest producer in South America,[58] with annual production of about 20 million hectoliters.[59] The principal producing regions include Mendoza, San Juan, and Rio Negro, which together account for about 95 percent of total production in Argentina. The bulk of production takes place in the Mendoza region, where about one-fourth of total production is accounted for by a dozen large wineries operating in similar fashion to those in California. At one time, some of the largest wineries and wine cellars in the world were found in the Mendoza area.[60]

[52] Grossman, p. 31.
[53] Ibid., p. 31.
[54] Ibid., pp. 98–115.
[55] Grossman, pp. 115–124.

[56] Grossman, pp. 125–132.
[57] Ibid.
[58] "The 48th Annual Statistical Survey," *Wines and Vines*, vol. 72, No. 7 (July 1991), pp. 16–43.
[59] A hectoliter equals 100 liters.
[60] Grossman, p. 244.

Wine production in Argentina includes all classes and types of wines, with premium wines produced both for domestic consumption and for export. Along with shipments of finished products, Argentina also exports bulk wine and grape must to Europe and Japan to be made into wine. In recent years, wine producers in Argentina have modified their techniques somewhat so as to produce wines which more closely resemble the finer wines of Europe and America.[61]

Chile

Chile produces about 4 million hectoliters of wine per year and exports about 8 percent of its output.[62] Although considered a small-volume producer as compared with Argentina, Chile is reported to be producing some of the finest quality wines in South America.[63] Unlike other wine-producing countries in South America, Chile benefits from a sunny climate, fertile soils, and practically disease-free vineyards. The principal wine-producing regions include the northern provinces of Atacama and Coquimbo, the central provinces from Aconcagua to Talca, and the Maule and Bio-Bio provinces in the South.[64]

All major classes and types of wine produced in Chile use wine production methods closely resembling those used in Europe. In recent years, the Chilean industry has produced greater quantities of quality wines that are intended for export than low-price table wines for domestic consumption.[65] Chile has emerged as one of the leading suppliers to the U.S. market in the past 5 years. Some Chilean exporters are targeting the U.S. market specifically by using "California style" production methods and packaging.[66] Chile also exports significant amounts of wine to Europe.

Brazil

Unlike its other South American competitors, the Brazilian wine industry has been in existence only for about 70 years. Most of the country is characterized by a tropical climate generally unfavorable for grape growing. The Rio Grande do Sul area in the more temperate south is the major production area, accounting for about 70 percent of domestic grape production in recent years. Limited production also takes place in the more northern States of Rio de Janeiro, Minas Gerais, Sao Paulo, and Santa Catarina.[67]

Wine production in Brazil was estimated at 3.1 million hectoliters in 1989. Faced with rather static consumption in recent years, Brazilian producers are looking to more aggressive marketing in both domestic and foreign markets to dispose of a recent record-crop production.[68] Brazilian wine exports to the United States have increased rapidly during the 1980s and are expected to continue at the current rate. Many of the largest Brazilian producers are subsidiaries of U.S. firms or have other affiliations with large U.S. companies, thus enhancing their access to U.S. distribution channels.

U.S. TRADE MEASURES

Tariff Measures

U.S. tariffs on wines are specific rates of duty, ranging from 0.4 cent to 30.9 cents per liter, as shown in table 3, with the bulk of the imports entered at duties ranging from 9.9 to 30.9 cents per liter. The lowest rates of duty are for vermouth, cider, and for other specialty products not traditionally produced in the United States. Because of the high value of many imported wines, even the highest specific duties shown in table 3 do not amount to a large percentage of value. Ad valorem equivalent rates of duty for major imported items are shown in table 4.

Nontariff Measures

The United States provides for a reduced excise ta: rate of 4.5 cents per liter to small domestic winerie: (those firms producing up to 100,000 gallons annually as compared with the regular rate of 28 cents per lite for larger volume wineries and for imports (importe wines are not eligible for the lower rate). In 1991 Canada challenged the authority for this exemptio under the General Agreement on Tariffs and Trad (GATT), alleging that this special rate along wit certain U.S. distribution regulations constituted barrie to free and fair trade.[69] In February 1992, the GAT panel found in favor of Canada in 55 out of 8 complaints originally filed. According to the rulin excise tax breaks for small U.S. wineries an breweries, as well as certain State laws on wholesalin and distribution, are in violation of the GATT.[70]

In April 1992, the Mexican exporter Corporacic de Exportaciones Mexicanas SA (CEMSA) announce its intention to petition for a constitutional change U.S. primary source laws applicable to alcohol beverages. Such laws currently prohibit U.

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[61] Ibid., p. 242.

[62] U.S. Department of Agriculture, Foreign Agricultural Service, "Wine: Chilean Wine Producers Are Concentrating Increasingly on Export Markets," *Horticultural Products Review,* FHORT 12-19 (Washington, DC: GPO, Dec. 1991), p. 11.

[63] Grossman, p. 246.

[64] Ibid.

[65] "Wine: Chilean Wine Producers Are Concentrating Increasingly on Export Markets," FAS Report FHORT 12-91, p. 11.

[66] *Wines and Vines,* Apr. 1990, p. 34.

[67] Grossman, pp. 245-246.

[68] U.S. Department of Agriculture, Foreign Agricultural Service, "Wine: Brazil Wine Industry Faces New Challenges," *Horticultural Products Review,* FHOR 12-90 (Washington, DC: GPO, Dec. 1990), pp. 9-11.

[69] "News: Canada Challenges Small Brewer Tax Exemptions," *Impact,* vol. 21, No. 11 (June 1, 1991), p. 28.

[70] "Industry News: GATT Panel Finds Against U.S. on a Number of Issues," *Brewers Digest,* vol. 67, No. 2 (Feb. 1992), pp. 8-9, and "Industry News: GATT Impact," *Brewers Digest,* vol. 67, No. 3 (Mar. 1, 1992), pp. 8-9.

Table 3
Wine and certain fermented beverages: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1992; U.S. exports, 1991; and U.S. imports, 1991

HTS subheading	Brief description	Col. 1 rate of duty as of Jan. 1, 1992 General	Col. 1 rate of duty as of Jan. 1, 1992 Special[1]	U.S. exports, 1991	U.S. imports, 1991
				— 1,000 dollars	—
	Wine of fresh grapes, including fortified wines; grape must other than that of heading 2009:				
2204.10.00	Sparkling wine	30.9¢/liter[2]	Free (E,IL)[2] 18.5¢/liter (CA)[2]	11,282	258,723
	Other wine; grape must with fermentation prevented or arrested by the addition of alcohol:				
	In containers holding 2 liters or less:				
2204.21.20	Effervescent wine	30.9¢/liter[2]	Free (E,IL)[2] 18.5¢/liter (CA)[2]	951	234
	Other:				
2204.21.40	Of an alcoholic strength by volume not over 14 percent vol	9.9¢/liter[2] 5.9¢/liter (CA)[2]	Free (E,IL)[2]	94,895	591,506
	Of an alcoholic strength by volume over 14 percent vol.:				
2204.21.60	If entitled under regulations of the United States Internal Revenue Service to a type designation which includes the name "Marsala" and if so designated on the approved label	8.3¢/liter[2]	Free (A,E,IL)[2] 4.9¢/liter (CA)[2]	0	2,411
2204.21.80	Other	26.4¢/liter[2]	Free (E,IL)[2] 15.8¢/liter (CA)[2]	3,539	26,379
	Other:				
	In containers holding over 2 liters but not over 4 liters:				
2204.29.20	Of an alcoholic strength by volume not over 14 percent vol	9.9¢/liter[2]	Free (E,IL)[2] 5.9¢/liter (CA)[2]	([3])	7,072
2204.29.40	Of an alcoholic strength by volume over 14 percent vol	26.4¢/liter[2]	Free (E,IL)[2] 15¢/liter (CA)[2]	([3])	275
	In containers holding over 4 liters:				
2204.29.60	Of an alcoholic strength by volume not over 14 percent vol	16.5¢/liter[2] 9.9¢/liter (CA)[2]	Free (E,IL)[2]	22,021	1,444
2204.29.80	Of an alcoholic strength by volume over 14 percent vol	26.4¢/liter[2]	Free (E,IL)[2] 15.8¢/liter (CA)[2]	1,407	64

Footnotes at end of table.

Table 3—Continued
Wine and certain fermented beverages: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1992; U.S. exports, 1991; and U.S. imports, 1991

HTS subheading	Brief description	Col. 1 rate of duty as of Jan. 1, 1992 — General	Special[1]	U.S. exports, 1991	U.S. imports, 1991
				— 1,000 dollars —	
2204.30.00	Other grape must	6.9¢/liter +49¢/proof liter[2]	Free (E,IL)[2] 4.1¢/liter +29.4¢/proof liter (CA)[2]	708	0
	Vermouth and other wine of fresh grapes flavored with plants or aromatic substances:				
	In containers holding 2 liters or less:				
2205.10.30	Vermouth	5.5¢/liter[2]	Free(A,E,IL)[2] 3.3¢/liter	757	16,010
2205.10.60	Other	6.6¢/liter[2]	Free(A,E,IL)[2] 3.9¢/liter (CA)[2]	([4])	1,226
	Other:				
	Vermouth:				
2205.90.20	In containers each holding over 2 liters but not over 4 liters	5.5¢/liter[2]	Free (A,E,IL)[2] 3.3¢/liter (CA)[2]	([3])	687
2205.90.40	In containers each holding over 4 liters	8.5¢/liter[2] 5.1¢/liter (CA)[2]	Free (E,IL)[2]	3,464	9
2205.90.60	Other	6.6¢/liter[2] 3.9¢/liter (CA)[2]	Free (A,E,IL)[2]	0	214
	Other fermented beverages (for example, cider, perry, mead):[5]				
2206.00.15	Cider, whether still or sparkling	0.4¢/liter[2] 0.2¢/liter (CA)[2]	Free (A,E,IL)[2]	416	1,641
2206.00.30	Prune wine	6.9¢/liter +49¢/proof liter on ethyl alcohol content[2]	Free (E,IL)[2] 4.1¢/liter +29.4¢/proof liter on ethyl alcohol content (CA)[2]	([4])	38
2206.00.45	Rice wine or sake	6.6¢/liter[6]	Free (A,E,IL)[6] 3.9¢/liter (CA)[6]	([4])	6,862
	Other:				
2206.00.60	Effervescent wine	30.9¢/liter[7]	Free (E,IL)[7] 18.5¢/liter (CA)[7]	([4])	76
2206.00.90	Other	6.6¢/liter[7,8]	Free (A,E,IL)[7] 3.9¢/liter (CA)[7]	([4])	5,389

Footnotes at end of table.

Table 3—Continued
Wine and certain fermented beverages: Harmonized Tariff Schedule subheading; description; U.S. col. 1 rate of duty as of Jan. 1, 1992; U.S. exports, 1991; and U.S. imports, 1991

HTS subheading	Brief description	Col. 1 rate of duty as of Jan. 1, 1992 General	Special[1]	U.S. exports, 1991	U.S. imports, 1991
				— 1,000 dollars —	
	Articles the product of the European Community (Belgium, Denmark, France, the Federal Republic of Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom):				
9903.23.25[9]	Other fermented alcoholic beverages, containing less than 7 percent alcohol by volume (provided for in subheading 2206.00.90)	100 %	No change	([4])	([4])

[1] Programs under which special tariff treatment may be provided, and the corresponding symbols for such programs as they are indicated in the "Special" subcolumn, are as follows: Generalized System of Preferences (A); Automotive Products Trade Act (B); Agreement on Trade in Civil Aircraft (C); United States–Canada Free–Trade Agreement (CA); Caribbean Basin Economic Recovery Act (E); and the United States–Israel Free–Trade Area (IL).

[2] Imports under this subheading may be subject to Federal Excise Tax (26 U.S.C. 5001 and 5041) as follows:
A) If containing distilled spirits, a tax of $13.50 per proof gallon and a proportionate tax at the like rate on all fractional parts of a proof gallon.
B) If containing wine, a tax of :
(1) $1.07 per wine gallon on still wines containing not more than 14 percent of alcohol by volume;
(2) $1.57 per wine gallon on still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume;
(3) $3.15 per wine gallon on still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume;
(4) $3.40 per wine gallon on champagne and other sparkling wines; and
(5) $3.30 per wine gallon on artificially carbonated wines.

[3] There is no corresponding export classification for this HTS subheading. Exports shown in the bulk classification below (in containers holding over 4 liters) are those classified under the export classification for product in containers holding over 2 liters.

[4] Not available.

[5] Exports of fermented beverages other than cider are not recorded separately. Exports of all other fermented beverages excluding cider were valued at $6,404,000 in 1991.

[6] Imports under this item are subject to a Federal Excise Tax (26 U.S.C. 5051) of $18 per barrel of 31 gallons and at a like rate for any other quantity or for fractional parts of a barrel.

[7] Imports under this subheading may be subject to Federal Excise Taxes (26 U.S.C. 5041 and 5051) as follows:
(1) If fermented from malt, a tax of $18 per barrel of 31 gallons and at the like rate for any other quantity or for fractional parts of a barrel;
(2) If fermented from other than malt, a tax at the rates shown in footnote 2 above.

[8] See subheading 9903.23.25.

[9] Temporary modification effective until suspended or terminated.

Source: HTS subheadings, product descriptions, and rates of duty are compiled by the Commission staff from the Harmonized Tariff Schedule of the United States (1992); U.S. exports and imports, from official statistics of the U.S. Department of Commerce.

Table 4
Wine and certain fermented beverages: Ad valorem equivalent rates of duty for selected imported items, 1991

HTS subheading	Description	Col. 1 rate of duty *as of Jan. 1, 1992* General	Ad valorem equivalent 1991
		Cents per liter	*Percent*
2204.10.00.60	Sparkling wine	30.9[1]	4.25
2204.21.40.30	Red table wine, bottled	9.9[1]	2.43
2204.21.40.45	White table wine, bottled	9.9[1]	3.13
2204.21.80.30	Sherry, bottled	26.4[1]	5.39
2205.10.30.00	Vermouth	5.5[1]	2.38
	All wine	([2])	3.71

[1] Imports under this subheading may be subject to Federal Excise Tax (26 U.S.C. 5001 and 5041) as follows:
A) If containing distilled spirits, a tax of $13.50 per proof gallon and a proportionate tax at the like rate on all fractional parts of a proof gallon.
B) If containing wine, a tax of:
(1) $1.07 per wine gallon (28.3 cents per liter) on still wines containing not more than 14 percent of alcohol by volume;
(2) $1.57 per wine gallon (41.5 cents per liter) on still wines containing more than 14 percent and not exceeding 21 percent of alcohol by volume;
(3) $3.15 per wine gallon (83.2 cents per liter) on still wines containing more than 21 percent and not exceeding 24 percent of alcohol by volume;
(4) $3.40 per wine gallon (89.8 cents per liter) on champagne and other sparkling wines; and
(5) $3.30 per wine gallon (87.2 cents per liter) on artificially carbonated wines.
[2] Not applicable.

Source: HTS subheadings, product descriptions, and rates of duty are compiled by the Commission staff from the Harmonized Tariff Schedule of the United States (1992); ad valorem-equivalent rates of duty based on U.S. imports are compiled from official statistics of the U.S. Department of Commerce.

distributors from purchasing alcoholic beverages from sources other than the product's U.S. designated agent or trademark owner.[71] These laws currently are in effect in virtually every State. CEMSA is reported to be seeking a Federal restraining order against any State government or importer that sues a U.S. distributor of its products.

According to some sources, U.S. health regulations have been viewed as barriers to imports of wine and certain fermented beverages in recent years. In early 1990, because traces of the fungicide procymidone were detected by the EPA in several imported wines from France, Italy, and Spain, the wines were detained at the customs port and refused entry.[72] At that time, there was no allowable tolerance level permitted by the EPA for the chemical. EC authorities stated that the ban was a trade barrier not based on potential health risks, since the chemical was not considered a health threat to humans. According to industry sources, U.S. wine importers lost more than $100 million in revenue during 1990–91, and European exporters lost an estimated $200 million.[73]

Any imported wines containing greater than 0.0: parts per million (ppm) were automatically detaine under the EPA–enforced import ban. U.S. win importers, together with government representative from France and Italy, petitioned the EPA for th establishment of a temporary tolerance level fo procymidone in wine of 0.10 ppm, the level currentl approved by various world health organizations. Th EPA refused to grant a temporary tolerance level i September 1990, but in early 1991, proposed a interim tolerance level of 0.07 ppm. In May 1992, th EPA announced that the 0.07 ppm level would remai in effect for 4 years, covering all wines made fro grapes grown before January 1, 1990.[74] Sumitom Chemical Corporation, the Japanese manufacturer c procymidone, has petitioned for a permanent toleran level and the EPA is expected to establish a permane level before the current 4–year interim level expires

U.S. Government Trade–Related Investigations

The Commission has conducted 10 trade–relat investigations with respect to wine in recent years, fi under the antidumping law[75] and five under t

[71] "News: Mexican Exporter To Challenge State Primary Source Laws," *Impact*, vol. 22, Nos. 7 and 8 (Apr. 1 and 15, 1992), p. 13.

[72] "News: U.S. Wine Importers Grapple With Fungicide Ban," *Impact*, vol. 20, No. 13 (July 1, 1990), pp. 9–10.

[73] "News: EPA Plans Interim Level For Procymidone In Wines," *Impact*, vol. 21, No. 5 (Mar. 1, 1991), p. 9.

[74] "News: EPA Issues Final Ruling On Procymidone Level," *Impact*, vol. 21, No. 11, June 1, 1991, pp. 26–2

[75] *U.S. Antidumping Law*, sec 731 et seq. of the Tar Act of 1930, 19 U.S.C. 1673 et seq. Petitions are filed simultaneously at the U.S. Department of Commerce an the U.S. International Trade Commission. If Commerce

countervailing duty statute.[76] Each of these investigations involved imports of table wine. The United States Trade Representative (USTR) conducted two investigations under section 301[77] of the Trade Act of 1974 with the objective of improving access to foreign markets for U.S. wines. Under the provisions of the Wine Equity and Export Expansion Act,[78] the USTR also has requested consultations with several countries to seek reduction of trade barriers on wine.

In January 1984, the U.S. Department of Commerce and the Commission instituted preliminary countervailing duty and antidumping investigations on certain table wine from France and Italy.[79] The Commission made negative determinations; as a result, proceedings at Commerce and the Commission were terminated without further findings and no countervailing duty or antidumping orders were issued. However, the petitioners then filed a complaint before the U.S. Court of International Trade (the Court) challenging the Commission's determinations. In July 1991, the Court remanded the case to the Commission for further consideration and determinations. In December 1991, the Commission reinstated its negative injury determinations.

[75] *Continued*—finds that the merchandise in question is being or is likely to be sold in the United States at less than its fair value (LTFV) (dumped) *and* the Commission finds that a domestic industry is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of such merchandise, Commerce issues an antidumping duty order, and an antidumping duty in an amount equal to the margin of dumping is imposed on such merchandise.

[76] *U.S. Countervailing Duty Law.*, sec. 701 et seq. of the Tariff Act of 1930, 19 U.S.C. 1671 et seq. In general, petitions are filed simultaneously at the U.S. Department of Commerce and the U.S. International Trade Commission. If Commerce finds that the merchandise in question is being subsidized *and* the Commission finds that a domestic industry is materially injured or threatened with material injury, or the establishment of an industry in the United States is materially retarded, by reason of imports of that merchandise, Commerce issues a countervailing duty order, and a countervailing duty equal to the amount of the subsidy is imposed on such merchandise.

[77] *Section 301 of the Trade Act of 1974.* 19 U.S.C. 2411. Such investigations are conducted by the United States Trade Representative (USTR), either on the basis of a petition or on its own initiative, with respect to whether a foreign act, policy, or practice violates or is inconsistent with a trade agreement or is unjustifiable, or is unreasonable or discriminatory, and burdens or restricts U.S. commerce. If the USTR makes an affirmative determination, the USTR may suspend benefits of a trade agreement, impose duties or other import restrictions, enter into binding agreements that commit the foreign country to eliminate or phase out the action or burden or provide compensatory trade benefits, and take other actions within the President's authority, subject to the specific direction, if any, of the President.

[78] *Wine Equity and Export Expansion Act of 1984 (Title IX of the Trade and Tariff Act of 1984).* 19 U.S.C. 2801; P.L. 98-573, title IX. The Wine Equity and Export Expansion Act of 1984 requires the USTR to designate

In September 1985, Commerce and the Commission instituted preliminary countervailing duty and antidumping investigations regarding certain table wine from the Federal Republic of Germany, France, and Italy.[80] However, the Commission made negative determinations; as a result, proceedings at Commerce and the Commission were terminated without further findings and no countervailing duty or antidumping orders were issued.

The USTR designated Canada, South Korea, Japan, Jamaica, Mexico, and Taiwan as major wine trading countries under the Wine Equity and Export Expansion Act.[81] The USTR consulted with these countries and requested consultations with a number of other countries that maintain trade barriers to U.S. wine exports; however, there were no agreements on reducing trade barriers to U.S. wine exports as a direct result of these consultations.

In addition to the consultations that took place under the Wine Equity Act, the USTR conducted investigations concerning South Korea and Taiwan under section 301 of the Trade Act of 1974 with the objective of improving access to foreign markets for U.S. wines. In October 1986, the President determined that acts, policies, and practices of Taiwan regarding distribution and sale of U.S. beer, wine, and tobacco products were actionable under section 301 (Investigation No. 301-57). The President directed the USTR to propose retaliatory measures. In December 1986, Taiwan agreed to cease such practices, and the United States soon afterwards announced that retaliation would not be proposed.

In June 1988, the USTR instituted an investigation (Investigation No. 301-67) regarding policies and practices of the Korean Government on wine following the receipt of a petition from the Wine Institute and the Association of American Vintners. In January 1989, Korea agreed to provide nondiscriminatory access to its market for foreign manufacturers of wine.

FOREIGN TRADE MEASURES

Wines are subject to import duties in most countries (table 5). In addition, excise taxes are collected by many countries, thus increasing the tax burden for imports as compared with domestic wines. Such taxes are imposed on the value of the wine plus the import duty. Some countries also impose an additional value-added tax, which further deters imports. Other nontariff barriers of significance in

[78] *Continued*—those countries that are a potential significant market for U.S. wine and that maintain tariff or nontariff barriers to U.S. wine, to list their existing tariff or nontariff barriers to U.S. wine exports, and to consult with the designated countries to seek reduction or removal of the trade barriers.

[79] U.S. International Trade Commission, *Certain Table Wine From France and Italy* (investigations Nos. 701-TA-210 and 211 (preliminary)) and *Certain Table Wine From France and Italy* (investigations Nos. 731-TA-167 and 168 (preliminary)), USITC publication 1502, Mar. 1984.

[81] F.R. (July 18, 1985).

Table 5
Wine: Tariffs and major nontariff measures in selected foreign markets, 1991

Country	Tariff	Major nontariff measures
Japan	21.3%	High taxes, certification, food additives, distribution licensing
EC	$0.17–0.52/liter	High taxes, labeling, certification, export subsidies
Taiwan	$4.25/liter	High taxes, monopoly importer, documentation, retail markups, advertising, labeling
Mexico	20%	High taxes, certification, registration, licensing fees, labeling
Colombia	55%	High taxes, import licensing, low alcohol wines banned, certification, bottle sizes restricted, labeling

Source: Wine Institute and Association of American Vintners, "Priority Practices Under Section 301 of the Trade Act of 1974, as Amended," appendix to submission to USITC, for investigation No. 332–318, Jan. 31, 1992.

certain markets include import licensing requirements, registration and documentation procedures, restrictions on methods of production, and testing of wine by health authorities.

EC import levies are variable duties designed to allow wine to enter a member country only at a price above the internal price of ordinary table wine. Most U.S. wines exported to EC markets are of higher value than ordinary EC wines and, therefore, are not directly affected by the variable levies. Although the EC has a burdensome certification system that restricts imports of foreign wines,[82] the United States has had a temporary exemption from these certification requirements and from EC rules regarding wine-making techniques since the 1983 United States–European Community Wine Accord. Since then, the agreement has been extended on an annual basis every year, but U.S. negotiators are seeking permanent recognition of U.S. wine-making practices, along with permanent, simplified certification procedures to improve access to the EC market for U.S. wines.

U.S. MARKET

Consumption

Apparent U.S. consumption of wines has fallen steadily from $4.4 billion in 1988 to $3.8 billion in 1991 (figure 7 and table 6). Imports continue to supply a large share of U.S. apparent consumption, amounting to about 25 percent in 1991. A lack of growth in the domestic market has prompted greater U.S. industry activity aimed at increasing exports.[83] While U.S. exports, as a share of total industry shipments, have increased steadily since 1987, exports are still relatively small, accounting for only 5 percent of shipments in 1991.

The number of wine consumers in the United States declined over 3 percent in the late 1980s, according to Simmons Market Research, whereas the U.S. population grew by 13 million. U.S. consumers are believed to have shifted their consumption patterns to drinking better quality, higher value wines. Thus, the value of consumption has changed less when compared with the steady decline in per capita consumption, on a volume basis, since 1987.[84] During the 1987–91 period, the generic wine market in the United States declined, while higher priced varietal sales grew.[85] Varietals have captured a rising share of the California table wine market, accounting for a 41–percent market share in 1990, and they are expected to increase market share through 1991 and beyond.[86] Moderately priced varietals, selling for between $5 and $12 per 750–ml. bottle, outsell premium and ultra–premium varietals at over $15 per bottle.

The decline in apparent U.S. wine consumption has resulted also from faltering wine cooler sales in recent years. Although wine coolers are mixed with fruit juice, wine constitutes roughly 40 to 50 percent by volume of their contents. Sales of wine coolers rose dramatically shortly after their introduction in the early 1980s, then peaked at about 6 million hectoliters in 1986.[87] Volume in 1989 was down to an estimated 4 million hectoliters and is expected to fall even lower through 1992.

Production

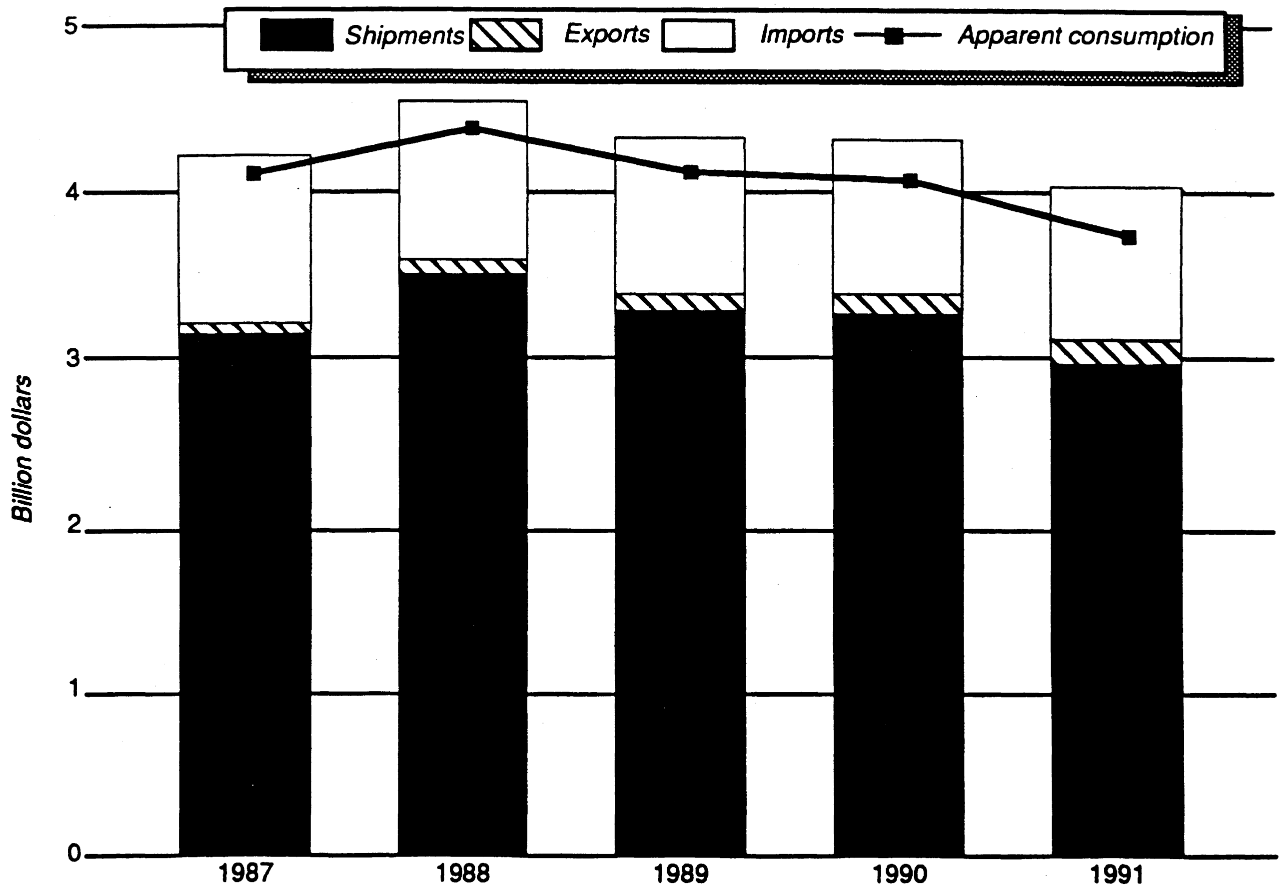
U.S. wine shipments fell 17 percent, from 18.: million hectoliters in 1987 to 15.3 million in 199 (table 7). Table wine production fell slightly durin the 5–year period while production in all othe categories fell dramatically. The largest shipmer declines were for dessert wines and the category tha includes wine coolers, special natural wines, an sangria.

California has accounted for about 90 percent of a U.S.–produced wine shipments each year since 198 although production in California has decline somewhat in recent years. Gallo is by far the large U.S. winery, with sales exceeding $1 billion in 1990.[88]

[82] *U.S. Industrial Outlook, 1992*, p. 32–34.
[83] "USDA Works With Wine in Many Ways," *Wines and Vines*, vol. 72, No. 12 (Dec. 1991), pp. 28–29.

[84] Wine Institute, *1990 Wine Industry Statistical Report*, p. 38.
[85] "Select Varietals Outperform 1991 U.S. Wine Market," *Impact*, vol. 22, No. 4 (Feb. 15, 1992), p. 4.
[86] "Wine: Varietals Continue to Gain Market Share," *Market Watch*, vol. 11, No. 3 (Jan./Feb. 1992), pp. 90–9
[87] "Seagram, B&J Live on in Fizzing Cooler Market," *Market Watch*, vol. 9, No. 1 (Mar. 1990), p. 15.
[88] *Beverage World*, vol. 110, No. 1494 (July 1991), pp. 22–30.

Figure 7
Wine and certain fermented beverages: U.S. shipments, exports of domestic merchandise, imports for consumption, and apparent consumption, 1987-91



Source: Shipments, estimated by Commission staff; exports and imports, compiled from official statistics of the U.S. Department of Commerce.

Table 6
Wine and certain fermented beverages: U.S. shipments,[1] exports of domestic merchandise, imports for consumption, and apparent consumption, 1987–91

Year	Shipments	Exports	Imports	Apparent consumption	Ratio of imports to consumption
	Million dollars				Percent
1986	2,155	18	677	2,814	24.1
1987	3,162	61	1,018	4,119	24.7
1988	3,523	86	955	4,392	21.7
1989	3,301	99	937	4,139	22.6
1990	3,284	127	924	4,081	22.6
1991	2,981	147	920	3,754	24.5

[1] Estimated by Commission staff.

Source: Compiled from official statistics of the U.S. Department of Commerce, except as noted.

Other large California firms, including such wine producers as Vintners International, Glen Ellen, and Guild, each had sales of between $80 million and $240 million in 1990.

New York State ranks second among all States in wine production, accounting for between 6 and 7 percent of total annual U.S. production since 1991.

Table 7
Wine and certain fermented beverages: U.S. shipments, by selected product types, 1987–91

(1,000 hectoliters)

Product type	1987	1988	1989	1990	1991[1]
Table wine	10,323	10,595	10,326	10,373	10,178
Sparkling wine	1,082	1,055	1,006	962	908
Dessert wine	1,251	1,164	1,177	1,086	777
All other[2]	5,687	4,993	4,464	4,308	3,426
Total	18,343	17,807	16,973	16,729	15,289

[1] Preliminary.
[2] Includes vermouth, other special natural (flavored) wine, and wine coolers.
Source: "The 49th Annual Statistical Survey," *Wines and Vines*, vol. 73, No. 7 (July 1992), pp. 19–24.

New York State production declined in recent years to an estimated 1.0 million hectoliters in 1990. With sales of $180 million in 1990, Canandaigua Wine Co. is the leading producer in New York State.[89]

Wine production in Washington State has increased rapidly since 1987. Washington State has accounted for about 1 percent of total U.S. production of wine in recent years. The leading firm in the Washington State wine industry is Stimson Lane Wine and Spirits, Ltd., a subsidiary of U.S. Tobacco, which owns Chateau Ste. Michelle, Columbia Crest, and Snoqualmie wineries.[90] These 3 wineries together account for over one–half of Washington State production; the remainder of the State's production is shared by about 100 other operations. Chateau Ste. Michelle and Columbia Crest together had sales of $57.5 million in 1990.

Imports

U.S. imports of wine and certain fermented beverages fell steadily from 3.0 million hectoliters, valued at $955 million, in 1988 to 2.3 million hectoliters in 1991, valued at $920 million (table 8). The 10–percent decline in import value during the 5–year period resulted in part from currency exchange rate fluctuations and from an overall decline in U.S. wine consumption. Imports amounted to 2.7 million hectoliters, valued at $1.1 billion, in 1992, up 16 percent by volume (19 percent by value) as compared with levels in 1991.

Bottled table wine was the leading wine product imported in 1991, accounting for 67 percent by value of all U.S. wine imports in that year. Sparkling wine imports were the next most important category, accounting for 28 percent of all wine imports in 1991. Since 1987, the United States has imported little wine in bulk (less than 1 percent of the total in 1991) and only small amounts of dessert wines (3 percent of all wine imports in 1991).

There is a wide variability in the value of imported wines as a result of quality differences and reputations for quality associated with certain supplying countries. Fine wines and champagnes from France, for example, are considered to be higher value products; thus, France ranks as the leading source for U.S. imports when measured in value. In 1991, France supplied 48 percent by value of total U.S. wine imports, but only 27 percent of the total by volume. Italy, however, was the leading supplier of wine to the United States in terms of quantity, providing 41 percent of the total quantity of wine imports in 1991 but only 29 percent of the total by value.

[89] Ibid., p. 30.
[90] "The Goliath of Grapes," *Market Watch*, vol. 11, No. 1 (Nov. 1991), pp. 58–65.

FOREIGN MARKETS

Annual per capita consumption of wine is th highest in those countries with long traditions o wine–making and, in general, with strong domesti industries (table 9). For a variety of reasons, many c these countries do not present significant marke potential for U.S. exports. Other countries, includin Japan, the United Kingdom, and other develope countries with the resources to purchase high qualit wines, generally are not noted for wine–making; thu they import a large share of their consumption. U.S wines face obstacles to consumer acceptance in suc markets relative to other foreign high–priced, premiu types of wine. In addition, access to significant forei markets has been limited by trade barriers ar significant tax burdens. Nonetheless, market acce and consumer acceptance for U.S. wines overseas ha improved, leading to rapid increases in U.S. exports recent years.

Foreign Market Profile

Canada

U.S. wine products have accounted for less thar 10 percent share by value of the Canadian market 1 imported wine in recent years. British Columb Ontario, and Quebec are the principal consumi Provinces because of their large populations and clc proximity to leading U.S.–producing Stat Provincial government policies have negativ affected distribution channels for U.S. wine and ha been the subject of trade disputes between Canada a the United States.

Table 8
Wine and certain fermented beverages: U.S. imports for consumption, by principal sources, 1987–91

Source	1987	1988	1989	1990	1991
	Quantity *(1,000 liters)*				
France	87,298	83,541	84,621	68,335	63,065
Italy	44,727	125,786	119,298	108,331	94,685
Spain	25,182	24,343	23,097	22,218	18,261
Germany[1]	27,292	22,970	19,707	15,488	12,189
Australia	4,760	4,267	3,890	4,581	6,591
Portugal	15,151	13,147	11,164	8,308	7,060
Chile	2,010	2,877	5,319	8,341	12,169
Japan	3,038	2,870	3,327	3,668	3,115
All other	14,134	16,239	18,218	15,964	16,332
Total	223,592	296,040	288,641	255,234	233,467
	Value *(1,000 dollars)*				
France	478,058	468,061	471,402	431,941	442,084
Italy	309,951	264,196	256,202	280,621	268,783
Spain	73,626	76,426	69,663	73,929	67,049
Germany[1]	64,263	54,890	48,079	44,391	37,144
Australia	16,076	16,737	16,201	19,141	25,042
Portugal	34,964	32,763	29,050	25,574	21,797
Chile	3,994	4,899	9,495	14,730	21,263
Japan	9,678	9,713	8,395	9,015	8,299
All other	27,093	27,277	28,215	24,691	28,802
Total	1,017,703	954,962	936,702	924,033	920,263
	Unit value *(per liter)*				
France	$5.48	$5.60	$5.57	$6.32	$7.01
Italy	2.14	2.10	2.15	2.59	2.84
Spain	2.92	3.14	3.02	3.33	3.67
Germany[1]	2.35	2.39	2.44	2.87	3.05
Australia	3.38	3.92	4.16	4.18	3.80
Portugal	2.31	2.49	2.60	3.08	3.09
Chile	1.99	1.70	1.78	1.77	1.75
Japan	3.19	3.38	2.52	2.46	2.66
All other	3.15	1.68	1.55	1.55	1.76
Average	3.15	3.23	3.25	3.62	3.94

[1] Data for U.S. trade with East Germany are not included here.

Note.—Because of rounding, figures may not add to totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 9
Wine: Annual per capita consumption, by selected countries, 1990[1]

(Liters)

Country	Per capita consumption	Country	Per capita consumption
France	73.4	Spain	46.9
Italy	70.8	Germany	26.0
Luxembourg	58.2	Canada	9.1
Argentina	54.4	United States	7.8
Portugal	50.0	Brazil	1.8
Switzerland	47.4	Japan[2]	1.1

[1] The most recent year for which data are available; preliminary.

[2] Excludes sáke.

Source: "The 49th Annual Statistical Survey," *Wines and Vines*, vol. 732, No. 7 (July 1992), p. 42.

The Canadian wine market is primarily a bulk market wherein U.S. wines are used for blending and bottling. This explains the smaller unit value of U.S. exports to Canada relative to most other countries, since bulk wines are typically lower priced than bottled wine. Bulk shipments made up about one–third of U.S. wine exports to Canada in the mid–1980s. Since then, bulk wine shipments as a share of total U.S. exports have declined and bottled table wine exports have risen. Canada, however, is still the only major U.S. trading partner that imports more wine in bulk lots than bottled. In 1991, 48 percent of U.S. wine export volume, but only 19 percent of the value, to Canada was of bulk shipments. In contrast, bottled table wine shipments accounted for 36 percent by quantity but 73 percent of the value in 1991.

United Kingdom

UK imports of wine have risen considerably in recent years, indicating an expanding total market for wine consumption unusual among developed countries. Although the United States ranks behind France, Italy, and Germany as a supplier of wine to the United Kingdom, the United Kingdom is a growing market for U.S. wine. The United States had a 12 percent share of the British market for imported wine in 1990,[91] according to United Nations statistics, up from less than 1 percent a few years ago. However, U.S. wine exports to the United Kingdom are affected by various EC regulations, taxes, and customs duties, which do not impede British imports from traditional European suppliers. The United Kingdom also assesses excise taxes and value–added taxes on wine from non–EC suppliers.

Japan

Japan was the leading export market by value for U.S. wine and certain fermented beverages prior to 1991, with U.S. exports to Japan more than doubling in quantity since 1987. A generic California wine, made by Vintners International, is the leading U.S. brand in Japan, sold under the Kirin Wine Club label. Sales of this product were nearly 1 million liters in 1989. The high end of the Japanese wine market is more dominated by the French.[92]

Trade sources suggest that much of the U.S. wine shipped to Japan does not enter normal trade channels. This wine is purchased in quantity by major companies that export other products to the United States. Such purchases have been referred to as "token purchases" or as a "political gesture" made in response to U.S. concerns about the existing U.S. trade deficit with Japan.[93] Thus, export statistics may not reflect the true market demand for U.S. wine in Japan. Other U.S. industry sources express a more optimistic view of the Japanese market, with one U.S. firm, currently exporting to Japan, forecasting that the Japanese market for imported wine could exceed 100 million liters by 1995.[94]

Japanese domestic demand for wine was estimated at about 84 million liters in 1983. High quality bottled imports accounted for about 20 percent of total shipments, with about one–third of consumption accounted for by wine made from bulk imports. Women, especially young, single, and affluent, account for 40 percent of wine consumption in Japan and are the fastest growing consumer group for wine.

Korea

Korea is considered a growing market for greater future sales of U.S.–produced wines. According to government sources, Korean grape wine production is insufficient to meet the growing local demand for wine.[95] Under the U.S.–Korea Wine Agreement of 1989, Korea agreed to provide improved market access for U.S. wines by increasing quotas on wine in 1989 and eliminating quotas altogether in 1990.[96] This agreement resolved a dispute between the United States and Korea, which had resulted in a U.S. investigation under section 301 of the Trade Act. Korea also agreed to reduce duties on wine to 25 percent in January 1991, followed by a further reduction to 15 percent in January 1993.[97] When further negotiations between the United States and Korea resulted in an agreement for changes to Korea's excise taxes on wine, the excise tax went up to 30 percent. But, because a liquor tax multiplier was eliminated, the total taxes on imported wines were reduced.

Taiwan

Taiwan is another potential export market fc U.S.–produced wines. Recent trade negotiation between the United States and Taiwan have succeede in opening the Taiwan market to U.S. wine export Previously, the Taiwan Tobacco and Wine Monopol Bureau had controlled imports and distribution (wine. Following the conclusion of U.S.–Taiwan trac negotiations in the mid–1980s, Taiwan agreed t eliminate the control of the Tobacco and Wir Monopoly Bureau over wine imports and distributic in exchange for placing high taxes and duties on wi imports, which together amounted to about 400 perce of c.i.f. value. However, Taiwan agreed to open a distribution outlets to U.S. wine, limit the total mark on U.S. wine to that for domestic products, and perm agents to promote imported products to ret establishments.[98]

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[91] The most recent year for which data are available.

[92] Carol Eusterbrock, "Asia Demand Lifts Exports of U.S. Alcoholic Beverages," *Impact*, vol. 21, Nos. 15 and 16 (Aug. 1 and 15), 1991, pp. 1–17.

[93] Ibid., pp. 1–17.

[94] "Focus: Impact on the Ginza," *Market Watch*, vo 10, No. 7 (June 1991), pp. 12–15.

[95] U.S. State Department, cable, Oct. 23, 1987.

[96] USTR, *1989 National Trade Estimate Report on Foreign Trade Barriers*, p. 117.

[97] USDA, FAS, *Horticultural Products Review*, Jan. 1991, p. 10.

[98] U.S. State Department, cable, Dec. 1985.

Mexico

Mexico appears to be another potential export market for U.S. wines. Until 1986, Mexico effectively restrained imports of wine through import quotas. Market access for U.S. wines improved significantly, however, as a result of negotiations held under the U.S.–Mexico trade and investment framework agreement.[99] As a result, U.S. exports of wine to Mexico rose from 1.6 million liters in 1989 to 6.8 million liters in 1991, a fourfold increase. The U.S. wine industry considers the Mexican market to be in need of further liberalization, however, in spite of recent improvements. Although the 50–percent tariff on wine was reduced to 20 percent, industry sources consider certification and registration requirements for imports to be significant barriers to trade. Such requirements normally take from 6 to 18 months to complete and involve some of the highest fees of any country in the world.

U.S. Export Products, Levels, and Trends

The product mix of U.S. wine exports has changed somewhat in recent years, with bottled table wine exports increasing at a faster rate than bulk table wines. Thus, a greater share of U.S. exports are of premium–type wines than had been the case in past years. In 1987, bulk and bottled table wine each accounted for an estimated one–fourth by value of total wine exports.[100] By 1991, however, bottled table wine exports grew to about two–thirds of total wine exports by value, far surpassing the share of total exports accounted for by bulk table wine exports at about 15 percent. Bulk table wine shipments, although increasing in value since 1987, have accounted for a declining share of total exports. Bulk wine exports are generally lower priced wines used for blending and bottling in the importing country.

U.S. exports of wine and certain fermented beverages increased about 140 percent from $60.9 million in 1987 to $147.2 million in 1991 (table 10). Exports rose to $175.6 million in 1992. Despite the substantial increase since 1987, U.S. exports remain low as compared with exports by other major producing countries and with U.S. imports. Moreover, exports accounted for less than 4 percent of total U.S. industry shipments in 1991. According to some industry sources, [101] recent U.S. success in export markets has resulted from consumers' perceptions that U.S. wines are of comparable quality to European wines. Other sources, however, believe that California wines are still trying to overcome their past reputation as low–quality, low–priced, jug wines.[101]

Canada, the United Kingdom, and Japan are the leading export markets for U.S. wines and certain fermented beverages. In 1991, Canada accounted for nearly one–fourth by value of U.S. wine exports, with the United Kingdom and Japan each receiving almost one–fifth of total exports. Although U.S. wine exports have risen considerably to all three countries since 1987, the importance of each market in total U.S. wine exports has changed, particularly when exports are measured on a value basis (table 10). The percentage of U.S. wine exports destined for Canada has risen steadily since 1987, whereas the percent destined for the United Kingdom has remained about the same. The percentage of U.S. wine exports sold to Japan, however, has been falling steadily since 1988 because U.S. exports to that market largely consist of lower priced wines. Other significant, but small markets, for U.S. exports of wine and certain fermented beverages include the Netherlands, Mexico, and Switzerland in recent years.

U.S. TRADE BALANCE

Since 1987, the United States has had a substantial, although declining, negative trade balance in wine and certain fermented beverages. The deficit fell from $957 million in 1987 to $773 million in 1991, with a 10–percent decline in imports more than offsetting a 141–percent rise in exports (table 11). The deficit rose to $918 million in 1992, however, following a sharp rise in imports of bottled table wine. The countries with which the United States has had the greatest trade deficits in recent years are France, Italy, Spain, Germany, and Australia.

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[99] See Wine Institute submission to USITC, investigation No. 332–318, Jan. 31, 1992, p. 5.

[100] The percentages based on quantity are similar.

[101] Carol Eusterbrock, "Asia Demand Lifts Exports of U.S. Alcoholic Beverages," *Impact*, vol. 21, Nos. 15 and 16 (Aug. 1 and 15, 1991), pp. 8–9.

[102] Ibid.

Table 10
Wine and certain fermented beverages: U.S. exports of domestic merchandise, by principal markets, 1987–91

Market	1987	1988	1989	1990	1991
			Quantity *(1,000 liters)*		
Canada	12,502	15,429	21,918	25,074	31,482
United Kingdom	7,127	11,957	12,037	14,252	18,541
Japan	8,563	15,017	21,951	20,049	21,586
Netherlands	394	336	910	1,272	2,898
Mexico	409	632	1,654	2,889	6,832
Switzerland	1,142	1,164	1,782	2,617	2,639
Sweden	1,260	3,021	3,054	4,767	4,683
Denmark	1,078	1,951	2,289	3,377	3,498
All other	12,542	14,793	20,621	28,468	27,913
Total	45,017	64,300	86,216	102,765	120,072
			Value *(1,000 dollars)*		
Canada	10,949	13,451	18,776	27,302	34,965
United Kingdom	10,682	17,132	17,324	21,481	28,146
Japan	14,042	23,056	25,499	27,942	25,936
Netherlands	643	619	1,564	1,833	4,955
Mexico	465	1,116	1,543	2,381	4,195
Switzerland	1,853	2,718	2,763	4,244	4,184
Sweden	1,491	3,013	3,702	5,117	4,094
Denmark	1,494	2,424	2,435	3,907	4,030
All other	19,273	22,021	25,550	33,080	35,729
Total	60,892	85,550	99,156	127,287	147,234
			Unit value *(per liter)*		
Canada	$0.88	$0.87	$0.86	$1.09	$1.11
United Kingdom	1.50	1.43	1.44	1.51	1.52
Japan	1.64	1.54	1.16	1.39	1.20
Netherlands	1.63	1.84	1.72	1.44	1.71
Mexico	1.14	1.76	.93	.82	.61
Switzerland	1.62	2.33	1.55	1.62	1.59
Sweden	1.18	1.00	1.21	1.07	0.87
Denmark	1.39	1.24	1.06	1.16	1.15
All other	1.54	1.49	1.24	1.16	1.28
Average	1.35	1.33	1.15	1.24	1.23

Note.—Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 11
Wine and certain fermented beverages: U.S. exports of domestic merchandise, imports for consumption, and merchandise trade balance, by selected countries and country group, 1987-91[1]

(Million dollars)

Item	1987	1988	1989	1990	1991
U.S. exports of domestic merchandise:					
Canada	11	13	19	27	35
United Kingdom	11	17	17	21	28
Japan	14	23	25	28	26
Netherlands	1	1	2	2	5
Mexico	([2])	1	2	2	4
France	1	2	2	4	4
Italy	1	([2])	([2])	([2])	([2])
Spain	([2])	([2])	([2])	([2])	([2])
All other	22	29	32	43	45
Total	61	86	99	127	147
EC-12	16	27	29	39	49
U.S. imports for consumption:					
Canada	([2])	([2])	([2])	([2])	([2])
United Kingdom	5	4	4	3	4
Japan	10	10	8	9	8
Netherlands	2	1	([2])	([2])	([2])
Mexico	1	1	([2])	([2])	([2])
France	478	468	471	432	442
Italy	310	264	256	281	269
Spain	74	76	70	74	67
All other	138	131	128	125	130
Total	1,018	955	937	924	920
EC-12	971	905	882	863	845
U.S. merchandise trade balance:					
Canada	11	13	19	27	35
United Kingdom.	6	13	13	18	24
Japan	4	13	17	19	18
Netherlands.	-1	0	2	2	5
Mexico	-1	0	2	2	4
France	-477	-466	-469	-428	-438
Italy	-309	-264	-256	-281	-269
Spain	-74	-76	-70	-74	-67
All other	-117	-102	-96	-82	-85
Total	-957	-869	-838	-797	-773
EC-12	-955	-878	-853	-824	-796

[1] Export values are based on f.a.s. value, U.S. port of export; import values are based on customs value.
[2] Less than $500,000.

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX A
EXPLANATION OF TARIFF AND TRADE AGREEMENT TERMS

TARIFF AND TRADE AGREEMENT TERMS

The *Harmonized Tariff Schedule of the United States* (HTS) replaced the *Tariff Schedules of the United States* (TSUS) effective January 1, 1989. Chapters 1 through 97 are based on the internationally adopted Harmonized Commodity Description and Coding System through the six-digit level of product description, with additional U.S. product subdivisions at the eight-digit level. Chapters 98 and 99 contain special U.S. classification provisions and temporary rate provisions, respectively.

Rates of duty in the ***general*** subcolumn of HTS column 1 are most-favored-nation (MFN) rates; for the most part, they represent the final concession rate from the Tokyo Round of Multilateral Trade Negotiations. Column 1-general duty rates are applicable to imported goods from all countries except those enumerated in general note 3(b) to the HTS, whose products are dutied at the rates set forth in ***column 2***. Goods from Armenia, Bulgaria, the People's Republic of China, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Moldova, Mongolia, Poland, Russia, and the Ukraine are currently eligible for MFN treatment. Among articles dutiable at column 1-general rates, particular products of enumerated countries may be eligible for reduced rates of duty or for duty-free entry under one or more preferential tariff programs. Such tariff treatment is set forth in the ***special*** subcolumn of HTS column 1. Where eligibility for special tariff treatment is not claimed or established, goods are dutiable at column 1-general rates.

The ***Generalized System of Preferences*** (GSP) affords nonreciprocal tariff preferences to developing countries to aid their economic development and to diversify and expand their production and exports. The U.S. GSP, enacted in title V of the Trade Act of 1974 and renewed in the Trade and Tariff Act of 1984, applies to merchandise imported on or after January 1, 1976, and before July 4, 1993. Indicated by the symbol "A" or "A*" in the special subcolumn of column 1, the GSP provides duty-free entry to eligible articles which are the product of and imported directly from designated-beneficiary developing countries, as set forth in general note 3(c)(ii) to the HTS.

The ***Caribbean Basin Economic Recovery Ac*** (CBERA) affords nonreciprocal tariff preference to developing countries in the Caribbean Basi area to aid their economic development and to di versify and expand their production and exports The CBERA, enacted in title II of Public La 98-67, implemented by Presidential Proclamatio 5133 of November 30, 1983, and amended by th Customs and Trade Act of 1990, applies to me chandise entered, or withdrawn from warehous for consumption, on or after January 1, 1984. Thi tariff preference program has no expiration dat Indicated by the symbol "E" or "E*" in the sp cial subcolumn of column 1, the CBERA provide duty-free entry to eligible articles, and reduce duty treatment to certain other articles, which a the product of and imported directly from desi nated countries, as set forth in general no 3(c)(v) to the HTS.

Preferential rates of duty in the special subcolum of column 1 followed by the symbol "IL" are a plicable to products of Israel under the ***Unit States-Israel Free Trade Area Implementatio Act*** of 1985 (IFTA), as provided in general no 3(c)(vi) of the HTS. Where no rate of duty is pr vided for products of Israel in the special subc lumn for a particular provision, the rate of duty the general subcolumn of column 1 applies.

Preferential rates of duty in the special subcolun of column 1 followed by the symbol "CA" a applicable to eligible goods originating in the te ritory of Canada under the ***United States-Cana Free-Trade Agreement*** (CFTA), as provided general note 3(c)(vii) to the HTS.

Preferential nonreciprocal duty-free or reduce duty treatment in the special subcolumn of c umn 1 followed by the symbol "J" or "J*" in p rentheses is afforded to eligible articles the pr uct of designated-beneficiary countries under t ***Andean Trade Preference Act*** (ATPA), enacted title II of Public Law 102-182 and implemen by Presidential Proclamation 6455 of July 2, 19 (effective July 22, 1992), as set forth in gene note 3(c)(ix) to the HTS.

Other special tariff treatment applies to particu ***products of insular possessions*** (general n 3(a)(iv)), goods covered by the ***Automo***

Products Trade Act (APTA) (general note 3(c)(iii)) and the ***Agreement on Trade in Civil Aircraft*** (ATCA) (general note 3(c)(iv)), and ***articles imported from freely associated states*** (general note 3(c)(viii)).

The ***General Agreement on Tariffs and Trade*** (GATT) (61 Stat. (pt. 5) A58; 8 UST (pt. 2) 1786) is the multilateral agreement setting forth basic principles governing international trade among its more than 90 signatories. The GATT's main obligations relate to most-favored-nation treatment, the maintenance of scheduled concession rates of duty, and national (nondiscriminatory) treatment for imported products. The GATT also provides the legal framework for customs valuation standards, "escape clause" (emergency) actions, antidumping and countervailing duties, and other measures. Results of GATT-sponsored multilateral tariff negotiations are set forth by way of separate schedules of concessions for each participating contracting party, with the U.S. schedule designated as schedule XX.

Officially known as "The Arrangement Regarding International Trade in Textiles," the ***Multifiber Arrangement*** (MFA) provides a framework for the negotiation of bilateral agreements between importing and producing countries, or for unilateral action by importing countries in the absence of an agreement. These bilateral agreements establish quantitative limits on imports of textiles and apparel, of cotton and other vegetable fibers; and of wool, man-made fibers, and silk blends, in order to prevent market disruption in the importing countries—restrictions that would otherwise be a departure from GATT provisions. The United States has bilateral agreements with more than 30 supplying countries, including the four largest suppliers: China, Hong Kong, the Republic of Korea, and Taiwan.