

**U.S. - KOREA
(KORUS) FREE TRADE AGREEMENT:
BENEFITS TO THE U.S. SPIRITS INDUSTRY**

(September 2009)

The Distilled Spirits Council of the United States, Inc. is a national trade association representing U.S. producers, marketers and exporters of distilled spirits products. Its member companies export spirits products to more than 130 countries worldwide, including South Korea. In 2008, U.S. spirits exports to Korea were valued at \$7.5 million, representing a 12.8% increase over 2007. The Distilled Spirits Council and its member companies enthusiastically support the swift entry-into-force of the U.S. – Korea (KORUS) Free Trade Agreement (FTA), which will bring about significant and measurable benefits for U.S. spirits exporters to Korea.

Korea will eliminate its tariffs on the leading U.S. spirits exports immediately.

- Under the FTA, Korea will eliminate its import duty (currently 20 percent *ad valorem*) on Bourbon and Tennessee Whiskey immediately upon the Agreement's entry-into-force. In 2008, Bourbon and Tennessee Whiskey accounted for the vast majority (75% in value terms) of U.S. spirits exports to Korea.
- Korea's tariffs on all other categories of U.S. spirits, such as vodka, gin, rum, etc., (currently 20 percent *ad valorem* for all categories except grape brandy, which is 15 percent *ad valorem*) will be phased out over five years.

The FTA provides essential protections for Bourbon and Tennessee Whiskey.

- Korea has agreed to recognize Bourbon and Tennessee Whiskey (the largest U.S. spirits export category worldwide) as distinctive products of the United States.
- This recognition provides the industry with an important anti-counterfeiting tool because it ensures that only spirits produced in the United States, in accordance with the laws and regulations of the United States, may be sold in Korea as Bourbon and Tennessee Whiskey.

The FTA will enable U.S. spirits exports to break into Korea's vast spirits market.

- Korea's spirits market was valued at \$11 billion in 2008 (based on retail sales), and is dominated by whiskey and the domestically-produced spirit, soju. The whiskey category accounts for 49% (in value terms) of all spirits sales in Korea and only 2% of all spirits sales in volume terms. Thus, the whiskey category is comprised almost entirely of higher-priced premium and super premium imported brands. Nonetheless, sales of U.S. whiskeys remain relatively small, accounting for only 1% of total whiskey sales. U.S. exports of Bourbon and Tennessee Whiskey totaled over \$5.6 million (FAS value) in 2008.
- Due to the tariff provisions of the FTA, however, Bourbon and Tennessee Whiskey exporters will be able to enjoy a competitive advantage in Korea, which should pave the way for increased exports. The Distilled Spirits Council estimates that the tariff elimination for Bourbon and Tennessee Whiskey, combined with continued economic growth in Korea, could lead to U.S. exports to Korea of these products totaling approximately \$17.6 million annually by 2015.
- Given the conclusion of EU-Korea FTA negotiations, prompt Congressional approval of the Korea FTA is essential in order to ensure that U.S. spirits will be able to compete with EU-origin spirits, which currently account for the vast majority of whiskey sales in Korea.



U.S. Spirits Exports to Korea

