I want to thank Senator Wyden for convening this hearing and providing an opportunity for King Estate Winery to speak about opportunities and challenges with trade to Asia.

Pacific Northwest agricultural producers, including the wine industry, have benefitted immensely from exports to Asia. I anticipate continued growth in wine exports from the Pacific Northwest to Asian markets for many years to come. But this is not to suggest that trade with Asia is without significant challenges. In the remarks that follow, I intend to offer a brief summary of the present state of U.S. and Northwest wine trade to Asia and discuss the support and collaboration required to ensure that U.S. producers can compete on a level playing field.

Today's hearing is a great opportunity to identify and advance the linkages between the administration's National Export Initiative (NEI) and the goals and objectives of the Pacific Northwest wine industries. Exports are a vital part of the U.S. economic engine and agricultural exports are the most significant component. The goal of the National Export Initiative is to double U.S. exports over five years. The U.S. wine industry is poised to grow share and contribute significantly over the next five years with the right kind of industry plan, and government-funded market access assistance and support.

There are over 1,000 wineries in the Pacific Northwest the vast majority of which are small family wineries – in fact many of them are small family farms. Pacific Northwest wineries represent a vibrant business for states in the Pacific Northwest in terms of jobs creation, tax revenue, and domestic and international trade dollar growth. In Oregon a 2010 economic impact study found that the state's wine industry provided 14,000 jobs and $2.7 billion in total economic impact within the state. A 2007 economic impact study of the Washington state wine industry found that the industry directly provided 19,000 jobs in the state with an in-state economic impact of $3.3 billion. The numbers jump significantly when we add in the jobs and revenues created by these two industries across the nation.

Asia represents great trade opportunity for the U.S. wine industry. Three leading wine-producing states, California, Washington, and Oregon, lie on the Pacific Rim and already account for robust trade and export to Asia in other product categories. For many Asian consumers wine is increasingly seen as fashionable, healthy and a status symbol. Many Asian countries have dynamic economies increasingly engaged with U.S. industrial sectors ranging from high-tech to agriculture to consumer packaged goods. A substantial part of this commerce is currently conducted through West coast, Pacific Northwest, and Great Plains products, states, and ports-of-entry. Asian markets are seeing strong urbanization trends, discretionary income increases, and socio-economic growth with very favorable medium term demographics for the consumption of wine. Western hospitality companies from the hotel and restaurant industries are beginning to thrive throughout Asia.

As we see traditionally strong wine consumption in Europe decrease per capita we see per capita consumption in Asia increase with significant ongoing growth likely. Presently per capita consumption in France leads the world at 50L per capita and is falling. Per capita consumption in the U.S. and Japan is

15L and 2L per capita respectively, and increasing. Per capita consumption in China is presently a mere .5L per capita. A fast-growing mobile middle and upper-middle class in China leads us to be very optimistic over future wine consumption trends. While the birth rate in Western Europe, Japan and China is falling and the birth rate in the U.S. increases slightly, there are very favorable medium term birth rate trends specifically in China for the consumption of wine over the next 40-50 years. If peak wine consumption occurs between the ages of 30-69, 42% of China's 1.34 billion people are presently within that range. In 2050, even with declining population trends, 52% of China's 1.3 billion people project to be within that same key wine consumption age demographic.

In 2010 U.S. wine exports increased by 20% to an estimated $1.14 billion of winery revenue. In 2011 those exports rose to $1.4 billion, another 22% increase over 2010. US wineries produce approximately 10% of the world's wine, making it the fourth largest producer behind Italy (19%), France (15%) and Spain (12%). In the U.S. market wine imported from other countries has increased to over $4.3 billion with a market share of over 30%. The U.S. presently exports far less wine than it imports. Given this imbalance and the opportunities abroad it is very important for our industry to develop and grow new markets. The Asia Pacific region is the most attractive market for future growth for our wine industry exports.

Total wine trade for the Asia Pacific Rim region was $18 billion in 2010 with U.S. exports to the region being just $243 million, a 39% increase over 2009. The Asia Pacific Rim is now the second largest export market for U.S. wine. 33% of U.S. exports to Asia were to Hong Kong a market seeing phenomenal growth in the brief period since tariffs were eliminated in 2008, Japan accounts for 31% of exports from the U.S., and China accounts for 14% of U.S. export share to Asia.

These numbers demonstrate that Asia is a critically important market for U.S. wineries. Persistence and collaboration will be required to ensure it stays that way. With regard to the export of Pacific Northwest wines to Asia, I would like to briefly outline three areas of concern and focus for our industry moving forward: 1) The need for continued funding for export assistance programs and greater collective export marketing cooperation among regional industries, 2) the pursuit of more favorable trade agreements and reduction of non-tariff trade barriers, and 3) greater harmonization, clarity, and ease of regulatory issues and processes for our exporting producers.

USDA export assistance programs have provided badly needed financial assistance for small wineries and American regions seeking to level the field against competition from other parts of the world. The USDA Market Access Program (MAP), Technical Assistance for Specialty Crops (TASC), the Specialty Crop Block Grant Program, and other export assistance grant programs administered by the USDA have become the backbone of wine export planning for most of the regions and wineries in the Pacific Northwest. The funding is modest but vital, and the investment is more than 50% matched by winery constituents, large and very small across the country.

Dollar investments alone are not a guarantor of success. Relative too many other wine export marketers U.S. trade policy is lagging in terms of removal of barriers to trade in Asia. The Pacific Northwest wine industry supports free trade agreements that improve market access and a level field for our industry.

The industry supports agreements such as the multilateral Trans Pacific Partnership, and the formation of Preferential Trade Agreements with high potential wine markets in Asia. High tariff rates presently constitute a significant barrier to U.S. exports in many markets. We must create a more viable environment for our new and developing agricultural growth industries to operate in and thrive internationally.

China is an example. China represents a market of untold potential for U.S. wine marketers. The market is in its most developmental stage right now even as top U.S. and international chefs open restaurants throughout the country's leading cities. Shanghai for example is quickly becoming the 'New York' of Asia with top name U.S. Chefs opening restaurants on a regular basis. The China market is growing at a rapid rate for wine imports. Domestic Chinese wine accounts for 90% of the volume consumed (a number falling) but just 60% of the dollar volume. There is a strong move to import wines of higher quality than what the domestic market can produce on its own. Wine imported into China is generally of much better quality than domestic Chinese wine and imported wine is capturing strong revenue growth for those countries taking a lead.

A study conducted in China in March of 2011, polled Chinese upper-middle class wine consumers on both awareness and penetration of imported wine from various regions. Awareness of French wine was 95% and penetration (percentage that drank wine from that region in the previous 6 months) was 83%. Awareness for California was 51% with 25% penetration. Awareness of other US wines was 34% with penetration of 11%. This study demonstrates that the U.S. wine industry, particularly the Pacific Northwest, has not been effective at making the Chinese consumer aware of our products and we are even less effective at getting our wines into their hands for consumption.

In 2004 Chile was the largest wine importer to China. Much of the wine being imported from Chile at that time was bulk wine which was often blended into lower quality Chinese domestically-produced wine. By 2009 Chile's share had fallen to just 10% with France up significantly to a 38% share while the US was just a 5.5% share of Chinese wine imports. In 2011 France had moved to a 52% share of the Chinese import market while the U.S. share had dropped from a 5.5% share in 2009 to just a 4% share in 2011. A Free Trade Agreement negotiated between China and Chile in 2004 and being phased in over ten years will reduce China's tariff on bottled Chilean wine from 14% in 2008 to 5.6% for 2010 and 0% in 2012. In the last two years China's imports from Chile have increased substantially, up 35% from 2010 to 2011. Chile is now the third largest importer to China behind France and Australia.

France, Australia, Chile, and New Zealand take the greatest opportunity with the China market. New Zealand has also just negotiated a trade agreement with China which will eliminate tariffs for New Zealand wine beginning this year. One could argue that these markets have been particularly aggressive marketing on price to build market, not only in China but throughout the world. France must do so because of a declining birth and consumption rate and burgeoning production. E.U. countries benefit from subsidies such as the E.U. Export Rebate Program to compete aggressively on price in new markets in order to command market share. Australia and New Zealand must be aggressive trade competitors based on price and aggressive in negotiating trade agreements because of limited home markets for their industries. The governments of these three countries make exports a high priority for their support programs. The French wine industry using a combination of country focus, low price sometimes driven by subsidies, and the successful exercise of brand image has positioned their industry as the pinnacle of fine wine in the world in the mind of the Chinese consumer.

The U.S. is saddled with a tariff of 14% on exports into China and it is at a disadvantage in the China market in part because of poor tariff rates vis-à-vis many other wine exporters. There are other reasons why the U.S. wine industry is not as successful of a global competitor in Asia. We need to have better focus collectively across all regional wine groups in targeting and securing Asia wine trade. We should promote better coordination perhaps with a national branding strategy that would create more of an identity for U.S. wine in export markets. This is the approach that other successful countries such as France, Italy, Spain, Chile, Germany, and Austria take with their export strategy.

It is easy to see that the American wine industry is at a competitive disadvantage in the important future market of China for a number of reasons. Share of market will continue to slip without a more level playing field and greater collective industry focus and government sanctioned support. The U.S. home wine market is large and growing but it is critical that we be aggressive and coordinated in securing important future wine markets. Our need to compete more effectively is further reinforced by the substantial lead that the French wine industry has already gained and seems to be accelerating at our expense.

The Pacific Northwest wine industry can also benefit greatly from better clarification and standardization of regulatory issues. Many Asian countries require detailed lab analysis, certificate of origin, wine labeling regulations, port of entry customs clearances and other documentation that are often unclear, confusing, costly, and with little transparency or timeliness. Wine composition analysis is a particular problem with both Japan and China. Protection of intellectual property and protection from counterfeiting are sure to be emerging issues. Better harmonization of documentation, analysis, and labeling requirements would be a worthy goal for USDA assistance. Since wine is a highly perishable product we must also strive for greater transparency of customs and distribution processes. Unlike going to market in the U.S. exporting wine into China and other Asian countries, especially for small wineries, is often like entering a virtual black hole of distribution.

The U.S. wine industry has enjoyed dynamic growth over the last ten years. We now have wineries in every state. Our industry is heavily dominated by small family farms. U.S. wine production, substantially based in industries situated on the Pacific Rim in the states of California, Washington and Oregon, represents a vibrant growth driver for export revenue in the coming years. The market engine for world wine consumption is gradually shifting from Europe to Asia. The wine production engine of the world is gradually shifting from Europe to the west coast of the America's from Washington State in the North, through Oregon and California to the countries of Chile and Argentina in South America. Over the last four years the center of the fine wine universe, at least in terms of luxury wines from Bordeaux, Burgundy, and Champagne from France has arguably switched from London to Hong Kong. The West coast of the United States represents perhaps the highest volume and concentration of potential fine vineyard plantings in the world. Much of Asia is only marginally suited for fine wine production and with substantial quality limitations.

It is important that the U.S. government continue to work diligently to eliminate tariff and non-tariff trade barriers to markets for U.S. wine exports, especially on the Pacific Rim. We urge Congress to pursue Free Trade Agreements with markets that will form a much more level and sustainable playing field for U.S. and Pacific Northwest produced wines. The wine industry needs continued market access assistance through a variety of Programs administered by the USDA and other organizations. We urge congress to reauthorize Market Access Program (MAP) funding as part of the 2013 Farm Bill and that it continue to be fully funded at the $200 million dollar level. Other USDA export assistance programs, while smaller in budget, are equally important.

The wine production and consumption growth engines of the future may well lie on either side of the Pacific Rim. The U.S. wine industry has unique resources and potential access to markets that will insure that this industry is a winner for the U.S. economy. It is vital that the U.S. wine industry have the political and economic resources and advantages to be ahead of this curve.