Latest Tariff Threat Could Double Prices of European Wines and Whiskies (Additional Coverage)

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The latest salvo in the trade battle between the U.S. and the European Union over EU aircraft subsidies to the Netherlands-based Airbus could spike tariffs on a wide range of European wine, whiskies, and cheeses to 100%, a potentially crippling blow.

"100% tariffs would be devastating, absolutely devastating," says Robert Tobiassen, president of the National Association of Beverage Importers. "This is a civil aeronautics dispute. We encourage the [Office of the U.S. Trade Representative] to revisit the 10% tariff on aircraft that went into effect. We believe the more appropriate resolution is an increase of those tariffs."

On Oct. 18, the U.S. imposed tariffs of 10% on large aircraft exports and levies of 25% on US$7.5 billion of products chiefly from France, Germany, Spain, and the U.K., the countries chiefly responsible for the subsidies, according to the USTR. The tariffs were a response to an Oct. 2 ruling by the WTO in favor of the U.S.

The products covered by the October levies included still wines from France and Spain, single-malt Scotch and Irish whiskey from Northern Ireland, and cheeses from France and Italy, but they spared a number of products that had appeared on preliminary lists, including sparkling wine, brandies, and non-alcoholic beer. Italian wine was also added to the newest list.

But now the USTR is considering boosting the 25% tariff to 100% and broadening the products covered by tariffs to include wine produced in any EU country, wines with an alcoholic content above 14%, and sparkling wines produced throughout Europe-all of which was not subjected to the earlier levies. Non-alcoholic beer, brandies, and whiskies produced in any EU country are now swept into the mix, too.

This latest tariff threat comes on the heels of a Dec. 2 decision by a World Trade Organization panel rejecting an EU appeal claiming it had addressed the WTO concerns.

"The EU's frivolous case proves that strong action is needed to convince the EU that its interests lie in eliminating these market-distorting subsidies now and in the future, so that our industries can compete on a level playing field," U.S. Trade Representative Robert Lighthizer said in a Dec. 2 statement.

Comments on the proposed tariff increases, and the list of products to be affected, can be filed with the USTR until Jan. 13.

The 25% tariffs that went into effect on Oct. 18 are just starting to be felt in the marketplace, although many small importers are already feeling the hit, with some laying off employees as a result.

"It's a lot of small importers who don't have a wide inventory who are being hurt. Large and medium-size importers are also facing challenges to manage the additional tariffs and still keep prices at a level where their products in the marketplace can maintain their market share at the retail level," Tobiassen says. "Jobs are being lost as we speak."

To get a sense of the dent tariffs can make, Chris Swonger, president and CEO of the Distilled Spirits Council of the United States (DISCUS), points out that EU tariffs of 25% imposed in June 2018 on whiskey imported from the U.S has already led to a 28% drop in U.S. exports.

"We've been in high-anxiety mode since the spring of 2018, when these [Airbus-related] tariffs were even being considered," Swonger says. "The news of last week just makes us even that much more anxious."

The distilled spirits business on both sides of the Atlantic has grown at least 400% in a zero-tariff environment since 1997. Currently, trade groups in the U.S. and Europe are working together to encourage both the U.S. and the EU to negotiate to stem any further decline.

"The U.S. and the EU distillers are in lock-step," Swonger says. "We want toasts not tariffs."

Representatives from DISCUS are planning to go to Brussels at the end of January to meet with the new EU leadership, and Swonger is encouraged by recent trade agreements with China as well as Mexico and Canada. The likelihood of a bilateral agreement between the U.S. and U.K. also could create opportunities, he says.

Concerning fine wine, the U.S. depends on imports from Italy and France. Imports of sparkling wine from France alone-which also faces a separate, potential 100% tariff in response to a digital-services tax imposed in Europe-accounted for 12.14% of total wine imports in 2018, and 2.76% of the entire wine market in the U.S., according to Michael Bilello, a spokesman for the Wine & Spirits Wholesalers of America.

Given that 100% tariffs will essentially double the cost of French sparkling wine for consumers, "demand will begin to drop," Bilello says.

Rocco Lombardo, president of Wilson Daniels, a California importer of fine European wines, put it bluntly: "If 100% tariffs went into place, it would be catastrophic for the wine industry in America."

As a major importer, Wilson Daniels has been able to soften the blow so far from the 25% tariffs imposed in October with agreements from its winery partners. Also, "the dollar has been fairly strong against the Euro, [so] we made a decision to go ahead and mitigate the remainder of the tariff with compressed margins," Lombardo says. "It's certainly not ideal. But it is a way that we can maintain price stability in the marketplace."

The firm is also investing in inventory to hedge the possibility of further tariffs.

"We're looking at investing up to 12 months of floor stock inventory just so that we can hopefully see this to an end where both both sides find an amicable resolution, where tariffs are not a part of doing business," Lombardo says.