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American whiskey distillers are down $340 million thanks to Trump's trade wars

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London (CNN Business) US whiskey distillers have lost out on nearly $340 million in sales to the European Union over the past two years because of a tit-for-tat trade spat between Washington and Brussels.

Exports to the European Union of bourbon, Tennessee whiskey and rye whiskey have declined by a third since a 25% tariff went into effect in June 2018, according to a report released Monday by the Distilled Spirits Council of the United States.

"The tariffs have derailed a great American export success story," Chris Swonger, CEO of the Council, said in a statement. "American distillers enjoyed two decades of unparalleled growth in the EU prior to the implementation of these retaliatory tariffs," he added.

Tariffs act as a tax on exports and are either absorbed by producers in the form of reduced profits or passed on to consumers in higher prices. The European Union imposed tariffs in 2018 on $3 billion worth of US goods, including whiskey, motorcycles and denim, in response to US tariffs on EU steel and aluminum put in place by the

Trump administration. The tariffs temporarily boosted profits at American steelmakers, **but problems quickly returned to the industry and US Steel (X) announced plans to close a mill near Detroit late last year.**

"It's time for the United States and European Union to resolve trade issues and remove all spirits tariffs, so US and EU distillers can get back to building their businesses and supporting their local economies," said Swonger.

American whiskey exports to the European Union would have been $337 million higher over the past two years were it not for the tariffs, according to the report. US distillers have been unable to make up for lost EU exports in their home market, the Council said.

The European Union is the biggest overseas market for US spirits, accounting for more than half of all American whiskey exports last year. Whiskey exports to the bloc increased five-fold between January 1997, when most tariffs were eliminated, and June 2018, surging from $143 million to $750 million annually.

That figure fell to $514 million at the end of 2019, and has declined further this year due to the impact of the coronavirus pandemic on Europe's hospitality sector, according to the report. The pandemic has also made attempts to resolve the dispute more challenging, according to Swonger, who said there had been some "encouraging signs" of possible talks between Washington and Brussels.

Small distillers have been hardest hit. Amir Peay, the owner of James E. Pepper, said the distillery in Lexington, Kentucky has lost 50% of its EU business since the tariffs came into effect. "We were planning on doubling our business in Europe and made significant effects to that end, and then we got hit with the trade war," Peay said in a statement.

"We were off to a great start with some EU partners, but since the implementation of these retaliatory tariffs our European exports have been flat, at best," added Jeff Quint, the CEO of Cedar Ridge Distillery in Swisher, Iowa. "We are trying hard to maintain our EU business, but can't really grow it unless and until these tariffs go away," Quint said.

More American spirits at risk?

There are worries that the European Union could impose fresh tariffs on American spirits, such as gin and rum, as part of a separate trade tussle with the United States over aircraft subsidies.

"It would be a real shame if the European Union were to focus on more American spirits as a result of the World Trade Organization case against Boeing," Swonger told CNN Business. "We're caught up in two different trade disputes not even related to our industry."

The US government imposed a 25% tariff on imports of Scotch and Irish whiskies in October, as part of measures targeting $7.5 billion worth of European goods. The World Trade Organization ruled that the United States could target goods from EU nations because the bloc had failed to comply with an earlier ruling regarding government subsidies for Airbus (EADSY).

The Scotch Whisky Association said last month that exports of single malt to the United States fell 27% in the final quarter of 2019 because of those tariffs. The United States is Scotch whisky's most valuable market, worth over £1 billion ($1.2 billion) in 2019.

The European Union has asked the World Trade Organization for permission to impose countermeasures on US goods because of what the EU alleges are unfair subsidies to Boeing (BA). A ruling is expected in late June or early July, according to Swonger. A list of US goods to be considered for tariffs, published last April, includes certain spirits.

The Distilled Spirits Council, the Scotch Whisky Association and Spirits Europe are encouraging both sides to "find common ground," said Swonger. The removal of tariffs could help the industry and craft distillers in particular to survive the coronavirus crisis, he added.

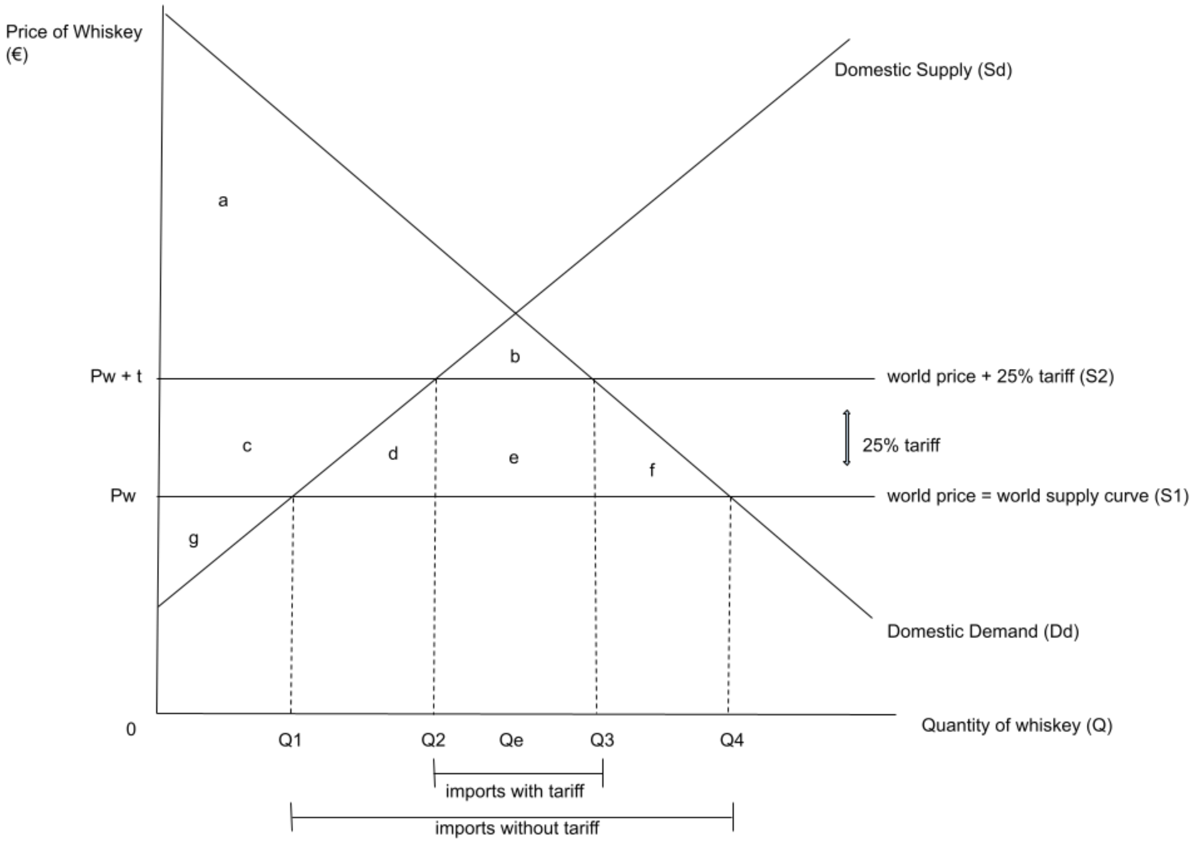
"The Scotch whisky and American whiskey industries want exactly the same thing — for both EU and US tariffs on our products to be removed as soon as possible," said CEO of the Scotch Whisky Association, Karen Betts.

https://edition.cnn.com/2020/06/22/business/american-whiskey-exports-eu-tariffs/index.html

Commentary

This article discusses the imposition of a 25% **tariff** by the European Union against the United States' whiskey market in response US tariffs on "EU steel and aluminum", acting as a **trade barrier** to reduce imports, increasing costs of importing whiskey into the EU.

Figure 1: Effects of imposed tariffs on US whiskey in the EU whiskey market



Per Figure 1, the supply curve for American whiskey producers shifts upwards ($P_w \rightarrow$

P_w + t, $S_1 \rightarrow S_2$). Imposed tariffs raise import prices and decrease the amount of imports (Q_3 - Q_2), artificially reducing their **international competitiveness**. Importers absorb the higher costs or pass them onto consumers via raising prices. Conversely, the **domestic supply** of whiskey in the EU increases ($Q_1 \rightarrow Q_2$) due to increased competitiveness, with **domestic producers** setting higher prices for their products (P_w + t). However, **domestic quantity demanded** would fall ($Q_4 \rightarrow Q_3$).

Regarding stakeholders, higher whiskey prices lead to a reduction **in consumer surplus** (a + b + c + d + e + f) → (a + b) - consumers are worse off. However, **producer surplus** increases (g) → (c + g), indicating that producers are better off due to charging higher prices, having incentive to increase their supply in the market. Resultant of the tariff, the government receives tariff **revenue** (e) where income from consumers transfers to the government, and regions “d” and “f” represent society’s **welfare loss**.

In the short term, domestic firms producing whiskey in the EU may benefit from the tariffs due to increased revenue received, potentially leading to expansions of businesses and more jobs created, potentially reducing **unemployment** levels in the EU and raising **living standards** of workers. Additionally, by reducing the amount of whiskey imports, the EU may be able to offset the **deficit** derived from exporting less steel and aluminum products caused by “US tariffs on EU steel”, improving the **current account** on the **balance of payments**. Furthermore, **government revenue** gained from tariffs may be used for **government expenditure** to “support... local economies” and invest in **merit goods** like infrastructure, healthcare, and education.

However, in the long term, **protectionist** measures like tariffs may bring disadvantages; a tariff is a type of **regressive tax**. In the long term, this may lead to worsened **income distribution** within society, increasing the financial burden on low-income groups, lowering their standard of living. Furthermore, tariffs may stifle consumer choice and substitutes for products; consumers will consume more domestically produced whiskey, discouraging competition between companies due to limited choices. This may lead to product quality decreasing in the long-term, fostered by lack of incentive to innovate, hurting the domestic sector’s international competitiveness. Job opportunities may also be reduced in the long-term, with tariffs only “temporarily boost[ing] profits” and “problems quickly return[ing] to the industry”. Trade barriers protect the inefficient domestic sector from market competition, encouraging further **allocative inefficiencies**.

The demand for American whiskey is rather **price elastic**. The article states that a US distillery “lost 50% of its EU business” since tariffs took effect, demonstrating that consumers are willing to consume less imported whiskey when prices of whiskey are artificially inflated by tariffs both globally and domestically. Furthermore, firms may make workers redundant resulting from reduced demand from consumers, as shown by “US steel announc[ing] plans to close a mill” despite the US implementing tariffs against “EU steel and aluminum”. The tariffs only serve to prolong the decline of the non-competitive domestic US steel firm in the short term, with long-term problems unable to be resolved. This scenario may be mirrored in the EU's whiskey market in the future.

Moreover, as the EU imposed tariffs on US whiskey in retaliation to US tariffs on EU steel and aluminum, the “tit-for-tat trade spat[s]” between the US and EU may lead to more drastic and frequent retaliatory tariffs, eventually leading to a **trade war**. This may cause a knock-off effect where “trade disputes not even related to [the] industry” are introduced, compounding the detrimental effects on **foreign producers**, increasing allocative inefficiency. Goods produced by the inefficient domestic sector are consumed over the more efficient foreign sector, hindering the **economic growth** of both economies, causing long-term complications.

In conclusion, the imposition of a 25% tariff may be successful in generating government revenue and protecting the domestic sector from competition in the short-run. However, negative consequences like allocative inefficiency may result in the hindrance of economic growth to both countries in the long run. Governments may opt to use alternative methods like **subsidizing** the domestic industry and **administrative barriers** to protect their markets and prevent trade wars.