

MEMORANDUM

TO: Dawson Hobbs
 FROM: John Dunham
 DATE: February 3, 2020
 RE: Economic Impact of Tariffs on Alcohol Imports

Last May, the World Trade Organization (WTO) ruled that the European Union failed to comply with a 2011 ruling to end subsidies for Airbus. This ruling allows the United States to place tariffs on goods originating in the EU.

The United States Trade Representative announced the imposition of 25 percent ad valorem tariffs on various products valued at \$7.5 billion annually from the European Union. These went into effect on October 18, 2019, and included tariffs on wine, whiskey and cordials from specific countries.¹

In the 12 months prior to September 2019, the United States imported nearly \$4.2 billion worth of wine, \$1.9 billion worth of cordials, and \$991.1 million worth of impacted whiskeys from producers in the impacted countries.² This would be equal to a total product value of \$6.9 billion after freight and insurance charges are deducted.³

These imports are about 37.1 percent of total wine imports and 6.1 percent of the entire wine market in the United States, and 29.9 percent of total spirits imports and 9.9 percent of the total spirits market.⁴ Under a 25 percent tariff prices will rise, and demand will begin to drop.

Table 1
Market and Import Data (12 Months Prior to September 2019)

	Impacted Imports	Total Imports	Impacted Percent	Total US Production	Total Imports and Production	Impacted Percent
Wine	\$ 1,538,925,533	\$ 4,152,535,079	37.1%	\$ 20,900,000,000	\$ 25,052,535,079	6.1%
Spirits	\$ 2,476,551,129	\$ 8,292,333,086	29.9%	\$ 16,700,000,000	\$ 24,992,333,086	9.9%
Total	\$ 4,015,476,662	\$ 12,444,868,165	32.3%	\$ 37,600,000,000	\$ 50,044,868,165	8.0%

Wine

A 25 percent tariff on wines from France, Germany, Spain and the United Kingdom would be equal to a price increase of \$374.0 million. Adding back the transportation margin, the increased cost to distributors would be \$384.7 million.

Based on a model developed for WSWA, this price increase will result in 5.9 million gallons of reduced sales.⁵ This is a reduction of about 0.6 percent in wine sales. Lower volumes will result in lost jobs as wholesalers need fewer truck drivers, clerks and warehouse staff. As the table below shows, nearly 109 alcohol distributor jobs could be lost because of higher prices resulting from tariffs. And this nets-out the increases in beer and spirits jobs that would come from substitution effects. Including all firms in the beverage alcohol industry, those that supply the industry and those who depend on re-spending by direct

¹ Tariffs were imposed on certain whiskies from Ireland and the UK, cordials from Germany, Ireland, Italy, Spain and the UK, and certain wines from France, Germany, Spain and the UK.
² Customs value (or CIF) for wine and spirits imported into the United States between 9/2018 and 8/2019. Source: US Department of Commerce, Bureau of the Census, *USATrade Online*, at: <https://usatrade.census.gov/>
³ Data on international shipping costs are not available. US shipping margins of 2.9 percent for wine and 3.1 percent for spirits which are the average margins for wine are used as a proxy. See: *Margins After Redefinitions 2007_2012_DET*, Industry Economic Accounts Directorate, Bureau of Economic Analysis (BEA), U.S. Department of Commerce.
⁴ Total wine imports were \$4.152 billion from USATrade Online. Domestic production of \$20.9 billion is from the US Department of Commerce, Bureau of Economic Analysis NIPA Tables. The corresponding figures for spirits are \$8.292 billion and \$16.7 billion.
⁵ Prepared for the Wine and Spirits Wholesalers of America by John Dunham & Associates, 2019.

and supplier firm employees, this would lead to a total of nearly 5,983 lost jobs and \$266.9 million in lost wages. On top of this, the cost to the American economy could be nearly \$732.5 million.

Table 2
Economic Impact of the Loss from a 25 Percent Tariff on Certain Imported Wine

	Jobs	Wages	Output
Direct	(3,166)	-\$110,109,000	-\$271,058,000
Beer	75	\$5,555,000	\$48,428,000
Wine	(446)	-\$29,904,000	-\$156,554,000
Spirits	27	\$2,649,000	\$37,034,000
Wholesale	(109)	-\$12,053,000	-\$37,704,000
Retail	(2,713)	-\$76,356,000	-\$162,264,000
Supplier	(1,147)	-\$70,619,000	-\$187,628,000
Induced	(1,670)	-\$86,123,000	-\$273,835,000
Total	(5,983)	-\$266,851,000	-\$732,521,000

This impact accounts only for the \$374.0 million cost of the import tax. The actual impact will likely be much larger. Economic theory suggests that when tariffs impose a price floor, that all trading partners price their products at least at that level. Since the domestic price of the imported product rises by at least the amount of the tariff, domestic producers competing with these imports can also raise their prices in line with the price of imports. In this case, it is generally expected that manufacturers exporting to the US from other countries will raise the prices of their products to levels set just under the tariff-imposed price floor.⁶ In addition, domestic manufacturers could raise prices in line with their share of the overall market.

Spirits

A 25 percent tariff on whiskey from Ireland and the United Kingdom, as well as on cordials from Germany, Ireland, Italy, Spain and the United Kingdom would be equal to a price increase of \$600.6 million. Adding back the transportation margin, the increased cost to distributors would be \$619.1 billion.

Table 3
Economic Impact of the Loss from a 25 Percent Tariff on Certain Imported Spirits

	Jobs	Wages	Output
Direct	(15,570)	-\$557,277,000	-\$1,955,717,000
Beer	(219)	-\$16,119,000	-\$140,535,000
Wine	109	\$7,298,000	\$38,207,000
Spirits	(510)	-\$50,458,000	-\$705,322,000
Wholesale	(1,322)	-\$104,461,000	-\$292,714,000
Retail	(13,628)	-\$393,537,000	-\$855,352,000
Supplier	(5,668)	-\$377,470,000	-\$1,256,055,000
Induced	(8,628)	-\$445,633,000	-\$1,417,424,000
Total	(29,866)	-\$1,380,380,000	-\$4,629,196,000

Based on a model developed for WSWA, this price increase will result in 13.8 million gallons of reduced sales.⁷ This is a reduction of about 2.5 percent in spirits sales. Lower volumes will result in lost jobs as wholesalers need fewer truck drivers, clerks and warehouse staff. As the table on the prior page shows, over 1,320 alcohol distributor jobs could be lost because of higher prices resulting from tariffs. And this nets-out the changes in beer and wine jobs that would come from substitution effects. Including all firms in the beverage alcohol industry, those that supply the industry and those who depend on re-spending by

⁶ This is general economic theory. Tariffs would have no impact on domestic firms were they not able to raise prices.

⁷ Prepared for the Wine and Spirits Wholesalers of America by John Dunham & Associates, 2019.

direct and supplier firm employees, this would lead to a total of nearly 29,870 lost jobs and \$1.4 billion in lost wages. On top of this, the cost to the American economy could be nearly \$4.6 billion.

The overall price increase would dampen sales of wine and spirits produced not only in France but in the US as well. These higher prices will reduce demand, which will, in turn, reduce sales and economic activity in the production, distribution and retailing sectors throughout the economy.