

GOVERNMENT

## Scotch whisky in crosshairs as US-EU trade dispute escalates

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*Glenfiddich is one of the Scotch whisky distillers that could be impacted if the tariffs go into effect. Image credit: Glenfiddich*

By SARAH JONES

Amid a lull in the ongoing trade war with China, the United States is threatening to raise tariffs on European goods worth \$4 billion.

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The potential tariff hike is intended to put pressure on Europe amid an ongoing World Trade Organization dispute about airplane subsidies. Included among the list of goods are food and beverage products such as Scotch whisky, which have a strong U.S. audience.

"Retaliatory tariffs, like the ones discussed, tend to target flagship products without hurting domestic consumers and/or voters too much," said Johan Gott, principal in the consumer and retail practice of [A.T. Kearney](#) and head of its Trade Wargaming initiative. "Hence luxury goods are perfect targets since they don't affect large consumer groups and have high brand recognition.

"Such a tariff will hit luxury companies directly," he said. "Whatever additional tariff will have to either come out of company margins or be passed onto consumers, which in most cases will hit revenue as consumers purchase less."

### Food fight

The U.S. is seeking to put pressure on the E.U. to end a 14-year dispute over subsidies given to airplane manufacturer Airbus. The nation claims that these subsidies are unfair to U.S.-based competitor Boeing, causing it to lose sales and market share.

In April, the U.S. Trade Representative proposed additional tariffs on a number of goods imported from Europe, in an effort to promote the nation's position in its longstanding aviation dispute with the WTO. The April list included about \$21 billion worth of goods, including wines, sweaters, handbags, silver, bedding and glassware.

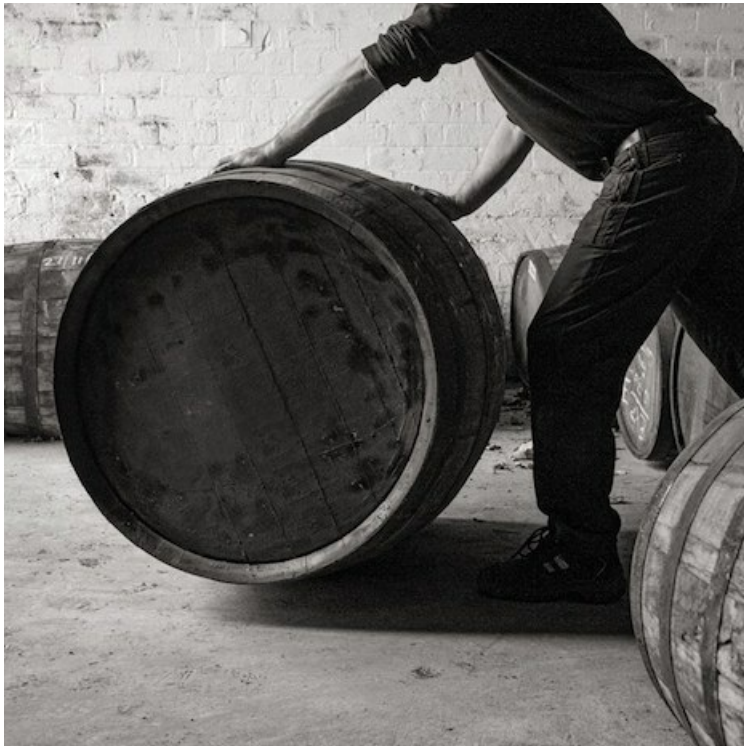
After hearing public comments on the proposal, the office is planning to extend the tariffs to additional product categories, including cheeses, olives, pasta and Scotch whisky.

U.S. Trade Representative Robert Lighthizer said in a statement from April that the U.S. duties would be lifted if and when the E.U. ends its "harmful subsidies" for Airbus.

"These proposed tariffs and those proposed on April 8 are countermeasures by the USA because of E.U. subsidies for Airbus," said Duncan Edwards, CEO of **BritishAmerican Business**. "Unlike the China-related tariffs, they are the result of a WTO-approved process. But that doesn't make them any more welcome.

"Imposing additional tariffs helps no one," he said. "Exporters will face challenges selling their products and consumers will have to pay more or switch to alternative products. The only good news is that these are still in the proposal stage, so we hope they don't come into effect."

According to the Scotch whisky association, the United States is the largest export market for the spirit by value. About 1.04 billion pounds, or \$1.3 billion, was exported to the U.S. in 2018.



*The U.S. is a key export market for Scotch whisky. Image credit: Johnnie Walker*

Scotch whisky also accounts for 12 percent of the total whiskey market in the United States.

In response to the proposed tariffs, the Scotch Whisky Association put out a statement, saying, "Exports of Scotch whisky to the U.S. have been zero tariff for 20 years, so it is disappointing that Scotch whisky has been drawn into this dispute. The Scotch whisky industry has consistently opposed the imposition of tariffs, which harms economies on both sides of the Atlantic, which depend on trade for their continued prosperity.

"There is a close relationship between the U.S. whiskies and Scotch whisky, not least due to the use of bourbon casks for maturation, which generates around 70 million pounds for the U.S. economy each year," it said. "We continue to urge the U.K. government, the E.U. and the U.S. government to resolve the Airbus-Boeing subsidies dispute without resorting to tariff retaliations for unrelated sectors."

In addition to Scotch whisky, the U.S. is the largest export market for cheese from the E.U. in terms of volume and value, according to trade organization Ecolait.

"Given that part of the appeal of these products is the location of production it is often impossible to mitigate these tariffs by diversifying production footprint," Mr. Gott said. "The only way to avoid the extra cost is to try to influence the U.S. government's product selection through lobbying before the fact."

#### Trade uncertainty

The threat of higher European import taxes for these additional goods comes as the U.S. and China continue talks to try to settle their trade dispute.

Over the weekend, President Trump announced that the U.S. would not be implementing higher taxes on Chinese imports as previously planned.

President Trump had originally decided to raise tariffs on Chinese imports from 10 percent to 25 percent, leading to

a retaliation from China ([see story](#)). The two nations have renewed negotiations to try to end the trade war.

"We would like to take the U.S. administration at its word that it believes in the principles of free trade and that the imposition of tariffs against China is a temporary measure which it's using to get China to change its behavior," Mr. Edwards said. "More broadly, we know that the U.S. administration feels that the tariff rates it and its trading partners are allowed to charge each other by the WTO need adjusting, and we have some sympathy with the U.S.' position.

"History suggests that trade disputes come and go, and we hope that this will be the case now," he said. "The movement towards freer and more open markets has been a vital part of global economic growth over the last 30 years and we would like to see more progress made in this area rather than a reversal of this positive trend."

Earlier this year, the president delayed a decision to impose tariffs on automobiles and automotive parts, prolonging uncertainty in the global automotive industry.

The Trump administration has cited national security concerns as justifications for the proposed 25 percent tariffs, drawing criticism from automakers in the U.S. and elsewhere. In May, the tariff decision was postponed for a six-month period as the White House attempts to negotiate trade deals with the European Union and Japan ([see story](#)).

"What makes tariffs such blunt policy tools is that they hit both the economy of the foreign country and the domestic economy," Mr. Gott said. "The tit-for-tat retaliation that almost always follows further increases that effect.

"With U.S. aggregated tariffs rising to levels not seen since the 1980s, this is now creating a drag on both the U.S. and global economy," he said.