

LEGAL/PRIVACY

## US to impose 25% tax on French luxury goods

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*Louis Vuitton handbags are subject to a new tariff in the United States. Image credit: LVMH*

By DIANNA DILWORTH

The United States has announced plans to add an import tax to French beauty and luxury goods as part of its ongoing tax battle with France after the Gallic nation threatened U.S. tech companies with a digital services levy. The timing could not be worse.

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The U.S. Trade Representative's office recommended an additional 25 percent tariff on luxury products including lipstick, eye makeup and handbags, amounting to about \$1.3 billion-worth of goods a decision that will likely hit the bottom lines of small luxury brands as well as large conglomerates such as LVMH and Kering.

"Instead of diplomacy, this is the U.S. approach to negotiation," said Martin Shanker, founder/president of [Shanker Inc.](#), New York. "It was retaliation for France taxing the U.S. tech companies.

"It's my opinion that it's not likely to happen and my understanding is it would not happen until January," he said. "Therefore, 5.5 months to negotiate."



## Tumultuous history

France and the U.S. have been involved in a long-running dispute over digital taxes.

The Trump administration threatened to impose tariffs on French exports worth \$2.4 billion last December after a report concluded that France was unfairly targeting large U.S. tech companies with a new digital services tax.

The U.S. sought public comment for the earlier threat, with [37 witnesses providing testimony](#). Interested persons also filed nearly 3,800 written comments.

The U.S. Trade Representative reviewed the testimony and determined that the tariff action is appropriate in the investigation.

The latest threat could not come at a worse time.

The COVID-19 pandemic has hit the luxury business hard as store closures have kept people from shopping. Even affluent consumers are simplifying their priorities and focusing on health and basics.

"Imposing tariffs on French luxury brands at a time like this only hurts more, because we are seeing a lot of layoffs happening right now in the white-collar and professional class, which will already affect sales," said Milton Pedraza, founder/CEO of the [Luxury Institute](#), New York.

Even among those consumers who can spend, they may reconsider a luxury item with an additional 25 percent tax.

"Even the top 2 percent that are capable of sustaining the luxury market with their purchases would think twice about buying French luxury goods in the U.S.," said Thoma Serdari, director of fashion and luxury at [Brand\(x\)Lux](#) and professor at NYU Stern, New York.

"They could instead travel abroad and buy at the source," she said. "The aspirational consumer, on the other hand, will have a much harder time reaching that level of purchasing power both because the slow economy has impacted them directly and because the tariffs would make these luxury goods unattainable in the near future."

And this is happening when even the wealthiest of affluent consumers have challenges getting to the source, as travel restrictions for COVID-19 are keeping U.S. consumers from entering France for the time being.

As coronavirus cases continue to rise in the U.S., this travel ban will likely continue for the foreseeable future. This could hurt French luxury brands at home, as the U.S. is home to the most affluent and ultra-high-net-worth consumers in the world.

The biggest concern for French luxury brands will be the hit on sales in the U.S. market. But while it hurts French companies, it could benefit luxury goods from other countries that will appear appealing for being less expensive.

"Some of the capital that would have been spent on French brands may now shift to Italian brands," Ms. Serdari said. "There are a few contenders in that group, specifically Prada, Bottega Veneta and Dolce & Gabbana, for example."

"The tariffs target specifically leather bags that are made of reptile leather and, in that sense, target directly the top of the luxury pyramid," she said.

"To retain customers at that level, French luxury brands will have to increase their marketing budgets to delight these customers with other offerings of similar quality, even if of different types."

"In other words, the tariffs are not only impacting that specific product category, but have other ramifications for the way French luxury brands sell their products in the U.S."



*Moynat handbags will be more expensive in the United States thanks to a new proposed import tax on French luxury goods. Image credit: Moynat*

#### Outlook

France and the U.S. have some time to negotiate a better outcome. Plus, the current year is evidence that things can change dramatically.

The November election could bring a new administration and the situation could be renegotiated with diplomacy.

"We don't know yet for how long these tariffs will be in place and need to keep in mind that this is an election year," Ms. Serdari said. "We just don't know what the end of 2020 will bring.

"However, even with this type of uncertainty in mind, it is prudent for French luxury brands to re-strategize their marketing efforts since they rely on wealthy American consumers to recover from 2020's retail slump," she said.

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