DISTILLED SPIRITS COUNCIL
OF THE UNITED STATES

Impact of EU Retaliatory Tariffs on American Whiskey Exports

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The European Union (EU) imposed a retaliatory tariff of 25% on American Whiskeys on June 22, 2018 in response to U.S. tariffs on imported steel and aluminum. This report analyzes the impact that these retaliatory tariffs have had on U.S. exports of whiskey to the EU. It makes the following points:

- American Whiskey, including Bourbon, Tennessee Whiskey and American Rye Whiskey are distinctly American spirits that may only be produced in the United States. In fact, Bourbon and Tennessee Whiskey are officially recognized as distinctive products in many key export markets, including in all EU member countries.
- American Whiskeys have only a 20% market share in the EU whiskey market. Thus, there is plenty of room for export growth. The EU is the single largest American Whiskey export market and, in 2019, accounted for 52% of global American Whiskey exports.
- In 1997, the U.S. and EU eliminated tariffs on the majority of spirits. As a result, American distillers invested in marketing and promotional resources in the EU. This investment has allowed American whiskey exports to the EU to grow fivefold between January 1997 and June 2018 to $757 million annually.
- Since the imposition of tariffs in June 2018, American Whiskey exports to the EU have declined by 33%, reducing exports by $256 million from their peak levels.
- Actual losses are much greater than $256 million. American whiskey exports were reasonably expected to grow at a 5.2% annual rate. Thus, current exports are $337 million lower than what we would have expected in the absence of the tariffs.
- For American Whiskeys to fulfill their potential in the EU, tariffs must be removed to make American Whiskey competitive again.

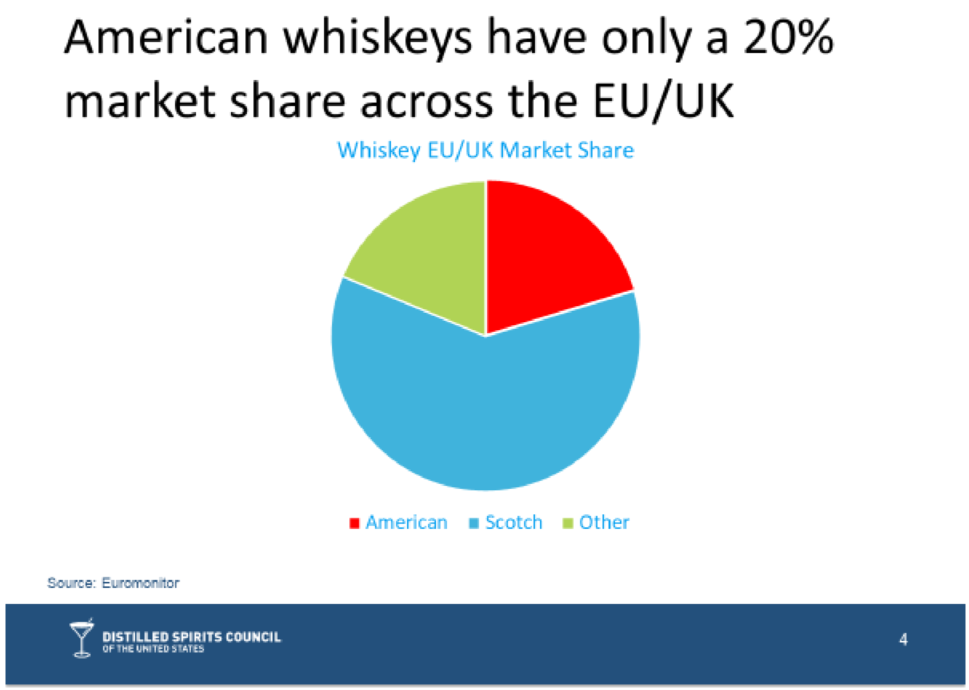
EU market has great potential for American Whiskeys

The United States produces several types of American Whiskeys, including Bourbon, Tennessee Whiskey, American Rye Whiskey and American Single Malt Whiskey. Bourbon and Tennessee Whiskey, in particular, currently enjoy distinctive product status in 44 countries, including all of the EU member countries. Bourbon, Tennessee Whiskey, American Rye Whiskey and American Single Malt Whisky all were developed in the United States, have unique flavor characteristics, and can only be produced in the United States according to the standards of identity as delineated by the U.S. Treasury Department's Alcohol and Tobacco Tax and Trade Bureau.

In 1994, the U.S. and EU signed an exchange of letters under which the EU agreed to recognize and protect "Bourbon," "Bourbon Whiskey" and "Tennessee Whiskey" as distinctive products of the U.S. In return, the U.S. agreed to recognize and protect "Scotch Whisky," "Irish Whiskey," "Cognac," "Armagnac," "Calvados," and "Brandy de Jerez."

Traditionally, when consumers outside the U.S. consume whiskey, the whiskey consumed has been Scotch, which can only be produced in Scotland. Thus, for the U.S. to be competitive in the world whiskey market, American Whiskey exporters had to get non-Americans interested in American Whiskeys.

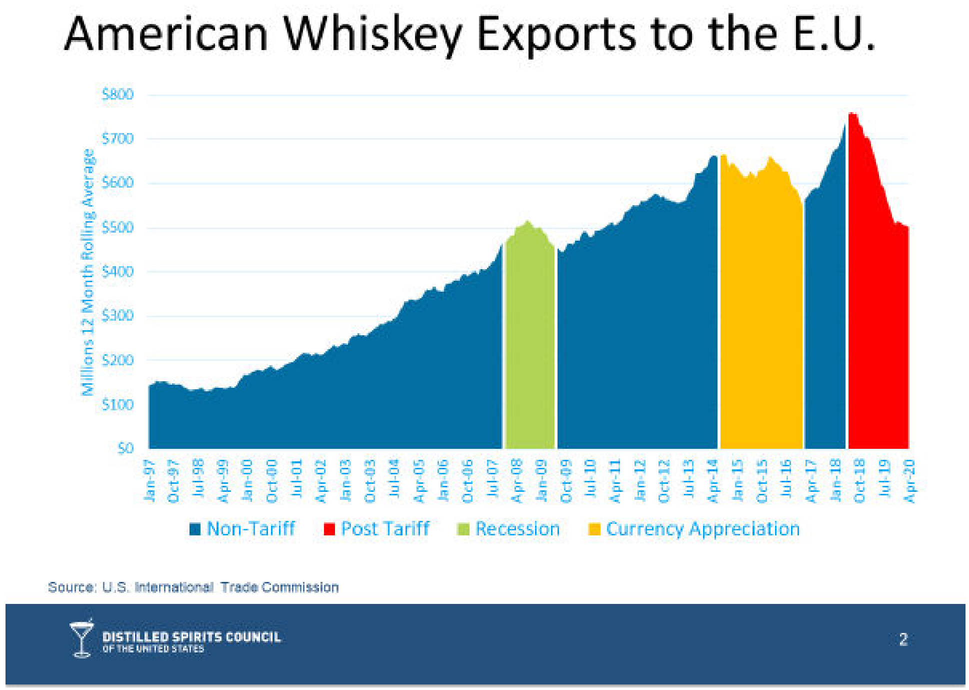
Globally the U.S. exported $955 million of American Whiskey in 2019, but there is great potential to increase exports, particularly into Europe. In the EU, American Whiskeys have just a 20% market share of the total whiskey market when measured at retail. Even a small percentage gain would mean millions of dollars in new export revenue.



American Whiskeys saw fivefold growth in the EU prior to the imposition of tariffs

In 1997, the U.S. and the EU mutually agreed to eliminate tariffs on practically all distilled spirits. Due in part to the reduction in tariffs and distinctive product recognition for Bourbon and Tennessee Whiskey, American distillers invested a vast amount of marketing and promotional resources in foreign markets in order to grow exports. Their investment and efforts were paying off, particularly in the EU.

Between January 1997 and June 2018 (when tariffs were implemented), American Whiskey exports to the EU grew from $143 million to $757 million, a fivefold increase. As noted below, the growth in U.S. whiskey exports to the EU was remarkably steady. Except for the 2008/09 recession and a period in 2015/16 when appreciation in the dollar made American Whiskeys less price competitive, growth was constant.



Tariffs have caused American Whiskey exports to the EU to decline by 33%

Unfortunately, this constant growth came to a sudden end in June 2018 when the EU imposed a 25% tariff on American Whiskey. This tariff was in retaliation for U.S. tariffs on EU steel and aluminum exports to the U.S.

Tariffs act as a tax on exports, which are ultimately paid by the consumer. When faced with a tariff, generally producers have two options. If producers pass along the cost of the tariff to the customers, their products will become less price competitive and sales will be lost.

Alternatively, a producer can absorb tariff costs if able to do so. Exporters will sometimes absorb the cost of the tariff to protect their market share. But, doing so is usually not a long-term solution as the increased cost could make the exported product non-profitable.

As to which option a distiller chooses will depend upon the individual company. However, both options cause total exports decline. When the EU's tariffs went into effect, American Whiskey exports began to fall immediately.

Between June 2018 and April 2020, the last month for which export data is available, American Whiskey exports declined from $757 million to $501 million – a decline of $256 million, or 33%.[i]

U.S. American Whiskey Exports to EU (12-Month Rolling Totals)	
Date	Exports (Millions)
Jun-18	$757
Jul-18	$761
Aug-18	$757
Sep-18	$759
Oct-18	$734
Nov-18	$728
Dec-18	$704
Jan-19	$705
Feb-19	$696
Mar-19	$674
Apr-19	$648
May-19	$626
Jun-19	$597
Jul-19	$591
Aug-19	$568
Sep-19	$545
Oct-19	$527
Nov-19	$507
Dec-19	$514
Jan-20	$511
Feb-20	$507
Mar-20	$505
Apr-20	$501
Source: US International Trade Commission	

American Whiskey exports to the EU are $337 million less than expected

In fact, total lost exports were even greater. Given the dominant market share enjoyed by Scotch, American Whiskey would have been expected to continue to grow. Had exports merely grown at the pre-tariff rate (5.2%) American Whiskey exports to the EU would have reached $838 million by June 2020. Thus, the tariffs on American Whiskey have reduced U.S. whiskey exports by an estimated $337 million.

Conclusion: The EU retaliatory tariffs on American Whiskey have reduced U.S. exports by an estimated $337 million. American Whiskeys are well positioned to grow into the EU market. The unique flavor profiles offered by Bourbon, Tennessee Whiskey and American Rye Whiskeys make American Whiskeys appealing to various demographics. Rapid growth in exports to the EU since the late 1990's shows the strong interest that Europeans have in American Whiskeys. As the EU tariffs continue to reduce American exports, EU consumers will turn to other products and American Whiskeys will be forgotten by many Europeans. To fulfill their potential, EU tariffs must be removed in order to make American Whiskeys competitive again in the EU market.

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[i] June 2018 was the date that the tariffs went into effect. April 2020 is the last month for which data is available. Reflects the value of exports for the 12 month rolling periods July 2017-June 2018 ($757M) and May 2019 – April 2020 ($504M).