# Steady the Nerves: Trump's Tariffs and Whisky exports

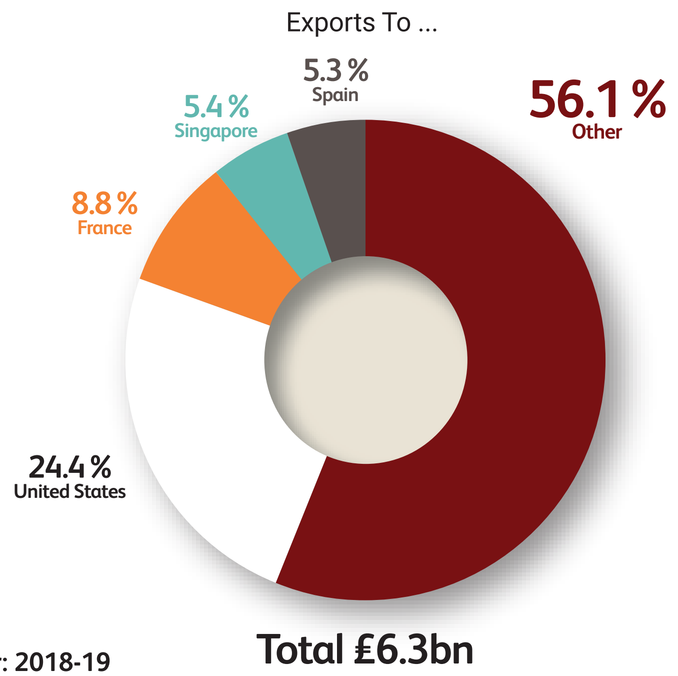
Alexander Green and Gaetana Mak, July 2019

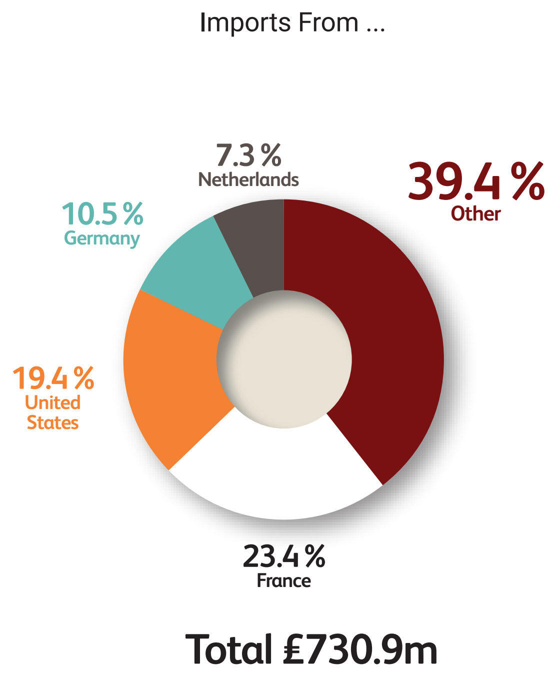
## The latest raft of tariff proposals from the United States target a range of additional categories, including the lucrative Irish and UK Spirits industries

The United Kingdom may be the United States' seventh-largest supplier of imported goods, and the US has also been a profitable market for a number of Irish industries. This well-developed trading relationship has not prevented a number of products coming under threat from an ongoing escalation in the US-EU trade dispute. Most critically, the latest series of proposed measures on 89 separate tariff subheadings with an approximate trade value of $4 billion include HTS (Harmonized Tariff Schedule of the United States) subheadings 2208.30.30 - Irish and Scotch whiskies, and 2208.30.60 - Whiskies, other than Irish and Scotch whiskies. For the past two decades, these products have been exported to the United States under a zero-tariff regime.

Last year, the US implemented a 25% tariff on imported steel and a 10% tariff on imported aluminium, a move widely decried by the beleaguered British steel industry, as part of a range of measures aimed at perceived unfair competition from the European Union, Mexico and Canada. As the transatlantic dispute continued, the US proposed tariffs on $21 billion of EU goods in April, with the US Trade Representative estimating that EU subsidies to Airbus cause $11 billion in 'economic harm' to the US annually.

### Free flowing: UK Spirit Industry International Trade




Year: 2018-19

SIZE OF CHARTS DOES NOT REPRESENT ACTUAL DATA

SOURCE: USITC

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## United Kingdom

The spirits sector has performed well in both the UK and Ireland over the past five years, with numerous export milestones underlying good revenue performance and this latest threat, coming at a time of considerable existing trade uncertainty, could be highly disruptive. The Scotch Whisky Association has been quick to criticise the proposed tariff list, stating that 'it is disappointing that it has been drawn into this dispute'.

The United States is the largest single goods export market across all UK industries, accounting for £49.2 billion in 2018, 13.5% of total UK exports. The leading categories were vehicles (£8.3 billion), machinery (£7 billion), special other [returns] (£4 billion), pharmaceuticals (£3.8 billion) and mineral fuels (£3.2 billion). However, spirits exports were not far behind, having enjoyed three consecutive years of rising export growth through 2018-19.

According to the latest figures from HM Revenue and Customs, the United States became the first overseas market for scotch to hit the £1 billion mark, with the value of scotch exports rising by 7.8% over 2018. Although India and Mexico have proven to be substantial growth markets, the US is by far the most important, particularly following an anti-extravagance drive in China in 2012-13, which prompted a restructuring of spirit export activity. The United States now accounts for almost one-quarter of the £6.6 billion UK spirit export market, with blended and single malt whisky comprising 78.7% of UK Spirit Production revenue.

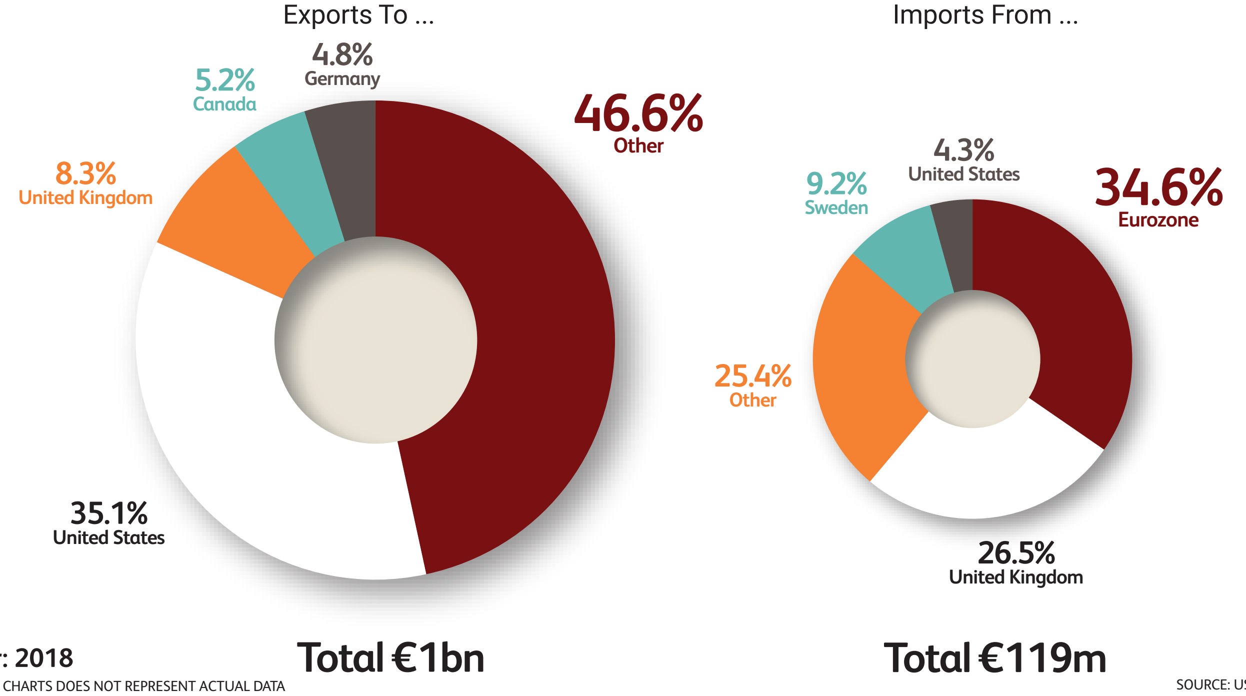
## Ireland

In Ireland, whiskey makes up 54.4% of the overall Spirit Production industry, and the 'whiskey renaissance' has driven considerable recent growth. In 2013, there were only four distilleries on the island of Ireland, three of which were located in the Republic. This rose to 18 by 2017, with at least 16 more in the pipeline, with a considerable degree of this performance supported by exports. Indeed, the value of Irish spirit exports rose at a compound annual rate of 8.3% over the five years through 2018, breaking the €1 billion barrier.

In terms of the volume of nine-litre cases sold, the top five overseas markets for Ireland's Geographical Indication spirits in 2017, led by whiskey, were the United States (6 million), the United Kingdom (1.4 million), Canada (890,300), Germany (820,400), and France (539,000). In terms of value, the United States accounts for 35.1% of Irish spirit exports, whilst in 2018, Bord Bia stated that whiskey represented 60% of the €567 million in beverage exports to the US, up 9% on the previous year.

Whilst Bord Bia had forecast that growth in whiskey exports to the United States 'shows no signs of abating',

Uisce business: Irish Spirit Industry International Trade

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the imposition of tariffs along the lines of those implemented by the US in June last year (which ranged from 10% to 50%) would certainly dampen the impressive export performance enjoyed by Irish distillers as part of the island's 'whiskey renaissance'.

### Future clarity

The level of trade retaliation will be determined by World Trade Organisation arbitrators, with a decision regarding the US's dispute with Airbus expected over the summer, and one on the EU's case against Boeing next year. Consequently, the final figures are likely to be substantially lower than the $21 billion quoted by the USTR, or the tariff proposals of the European Union. Within this broader picture, however, industry-focused tariffs could be considerably more disruptive.

The UK and Irish spirits industries are particularly exposed to the US market, and calls have been made for the UK and Irish governments to work with EU to avoid 'collateral damage' from the US-EU dispute undermining the strong recent performance of whisky producers. With the United Kingdom yet to hammer out its future relationship with the European Union, and continuity arrangements yet to be agreed with 27% of trade partners currently covered by EU agreements, the spirits sector is at least well placed for something to steady the nerves.