

Tariff wars not good news for Irish spirits



Vincent McGovern, Head of Spirits at Drinks Ireland.

Vincent McGovern, Head of Spirits at Drinks Ireland, discusses the EU's Section 232 'rebalancing' tariffs on bourbon and US whiskey, why its automatic redoubling would not be a good thing for transatlantic relations and ultimately for Irish spirits and liqueurs.

In April 2017, the US Commerce Department launched an investigation on the impact of the import of aluminium and steel into the US for national security. The outcome of that investigation resulted in then President Trump, under Section 232 of the Trade Expansion Act, applying 25% import duties on steel and 10% on aluminium from all foreign producers, including those based in the European Union.

The EU responded, threatened and in the end went ahead with retaliation by way of 'rebalancing' tariffs of 25% on popular American brands and products such as Harley Davidson motorbikes, Levi's jeans and most damaging to many Drinks Ireland member companies, along with US whiskey and bourbon.

Inbuilt into the regulation imposing these European tariffs on US goods was a trigger which would automatically double the European tariffs to 50% on June 1, 2021, if no resolution was found.

The trouble with tariffs

Since the application of tariffs, exports of US whiskey and bourbon have dramatically reduced to Ireland and Europe. In the first two years of these tariffs, the value of US exports fell from \$757 million in June 2018 to circa \$500 million in June 2020. Exports

have continued to fall since then. In turn, these tariffs have directly contributed to US tariffs of 25% being placed on Irish Cream and other Irish liqueurs and a wide variety of other European spirits products in the Airbus /Boeing dispute.

At the heart of this dispute was the US concern that Chinese steel and aluminium is entering the US and undercutting domestic producers. Many in Ireland and Europe believe that European steel and aluminium exports are not a threat to US national security in the way that Chinese products are and were only subjected to the Section 232 tariff because of former President Trump's hostile attitude towards the EU.

A way to work together?

In light of this, we are of the opinion that there should be a way for the EU and the US to work together to resolve this dispute and face the common challenge we have in China. In an ideal scenario, both sides would suspend their tariffs while the EU works with the US to demonstrate its steel and aluminium is not a threat to US jobs and that it has the ability to prevent trans-shipments of Chinese products to the US.

Non-stop transatlantic trade wars over the last number of years have harmed consumers, farming families, cooperages, glass and other suppliers, and the distilling and spirits industry in the US, Ireland and the EU.

Ongoing reset of transatlantic trade relations

We believe that the automatic doubling of EU tariffs on bourbon and US whiskey, had it happened, would have had a damaging impact on the ongoing reset of transatlantic trade relations with the Biden Administration. It would have been viewed in the US as an escalation by the EU, risking further US tariffs on EU spirits and other exports from other sectors.

The decision to postpone the automatic doubling of these European tariffs to the start of December is a significant positive gesture intended to help de-escalate and resolve this dispute. It is in keeping with the spirit of transatlantic cooperation already demonstrated by the initial four-month temporary suspension and subsequent five year suspension of all countermeasure tariffs



in the separate Airbus /Boeing trade dispute which has seen European, and Irish, spirits hit with 25% US tariffs. And it moves the responsibility for resolving this trade dispute to where it lies, in other words to the US, where the Section 232 tariffs on EU steel and aluminium that have caused this dispute, originate.

An opportunity to resolve differences

Automatic doubling of these Section 232 rebalancing tariffs would have, to say the very least, called into question a full and lasting reset between Europe and the United States on tariffs applied in unrelated sectors. As a result of the EU's considerate decision, there is now a six-month window during which both sides have the opportunity to resolve their differences regarding the US steel and aluminium tariffs and the EU's rebalancing tariffs.

This is a more challenging dispute, given US voting patterns in the most recent Presidential election (i.e. steel producing states' and trade unions' support for President Biden) but let us hope that this opportunity is taken. As has been proven with the Airbus / Boeing dispute and the recently announced five-year truce to facilitate further negotiations at the WTO level, compromise is not impossible.

