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Wine Tariffs: A Complicated Problem With Uncertain Outcomes

As the current term of the new administration begins, the wine industry finds itself bracing for the possibility of new tariffs on imported wines. While the idea of tariffs might sound abstract, their impact is anything but, as we saw during President Trump's previous administration. In October 2019, a 25 percent tariff was imposed on still wines under 14 percent alcohol by volume from France, Germany, Spain, and the United Kingdom, all stemming from a broader trade dispute with the European Union over aerospace subsidies. The result? Increased costs rippled through importers, distributors, and consumers, creating significant market disruptions.

Now, concerns are surfacing about a potential repeat scenario. Speculation is mounting that tariffs as high as 100 percent could be imposed on certain imports, though it is important to note that much of this remains speculative. While these measures are aimed at broader economic sectors, the wine industry is watching closely.

Any new tariffs could disrupt the balance of the three-tier system, affecting every level of the wine distribution system and, ultimately, the consumers who rely on their work.

"Producers, importers, and distributors worked hard the last time tariffs were implemented, reducing their own margins, to lessen the impact to consumers," says Alex Michas, president and COO of importer Vintus Wines. "Given the state of the industry today and the potential higher level of tariffs now, we can't expect that to happen. If 20 percent is the tariff imposed, then 20 percent is what consumers could expect to see on imported wines."

It's essential to break this down and focus on the facts. This is not a time to panic; rather, it's a time to prepare thoughtfully for what may lie ahead.

How Tariffs Could Affect the Three-Tier System and the Bottom Line

If implemented, tariffs could ripple through the intricate web of the three-tier system, altering the landscape for importers, distributors, and retailers while impacting European wineries and consumers. The three-tier system, which requires producers to sell to importers, importers to distributors, and distributors to retailers and restaurants, would bear the brunt of these changes. Simone Luchetti, President of Banville Wine Merchants, is concerned that tariffs could disrupt the entire wine ecosystem, amplifying costs and limiting consumer options.

"A 20% tariff increase at the importer level doesn't just stop there—it compounds through the supply chain. By the time it reaches the consumer, that 20% can turn into a 35% or more increase, which is significant," Luchetti explains.

That's because there's more to the cost of a bottle of wine than just the juice. Tariffs amplify every step in the chain, driving up prices for everyone. Here's a breakdown of the path a bottle of wine takes from producer to consumer:

- The producer makes and sells wine to a U.S. importer.
- The importer buys and ships the wine to the U.S., paying duties, storage, and transportation costs.
- From there, a distributor purchases the wine from the importer and sells it to restaurants and retailers.
- Finally, retailers or restaurants mark up the wine for consumers, reflecting the cumulative costs of the entire chain.

Luchetti explains that a wine purchased at €7 typically retails for $29.99 on the shelf or appears on a wine list for $80. If a 25% tariff is implemented, the shelf price would increase to $38.99, and the wine list price would rise to $110.

Disrupting the Ecosystem

Ben Aneff, managing partner of Tribeca Wine Merchants and president of the U.S. Wine Trade Alliance warns that wine tariffs would severely disrupt this structure. "For every $1.00 we send to a European producer, U.S. businesses make $4.52. This multiplier effect makes wine tariffs a uniquely poor tool to influence trade abroad."

Distributors are already struggling with tight margins, risk layoffs, and reduced capacity to support both imported and domestic wines. Restaurants and retailers that rely on imported wine for profitability would face price hikes that could further strain their operations.

For Banville Wine Merchants, the stakes are particularly high. About 95% of the products the company distributes nationally are imported, primarily from the EU. This dependency means tariffs wouldn't just impact their bottom line but could also ripple across their U.S. wholesale network, where imported wines make up over half of the portfolio.

"Tariffs disrupt more than just imports—they affect the entire wine ecosystem. If importers shrink their portfolios, it reduces consumer options and hurts U.S. wineries, which rely on healthy distributors to represent their products," Luchetti emphasizes.

Why 'Buy American' Isn't a Simple Solution

The 2019 tariffs weren't universally damaging. Some domestic wineries saw short-term boosts in sales as consumers sought lower-cost alternatives to imported wines. However, the long-term impacts were far less favorable. Many domestic producers rely on the health of distributors to bring their products to market. A shrinking availability in the foreign wine category ultimately means a shrinking distribution workforce, leaving less opportunity for domestic wines to find a home on a retail shelf or wine menu.

"Wine is sold by distributors that carry both imported and domestic wines, and restaurants and retailers that carry both imported and domestic wines. We've seen this year how single digit decreases in industry sales have wreaked havoc across the market in the way of personnel cuts, restaurant closings, etc.," says Vintus' Michas. "The entire alcohol beverage industry, hospitality, and travel industries will suffer if a tariff is applied."

In addition Aneff emphasizes that wines are not fungible, meaning one wine cannot simply replace another without a loss of value or context. He highlights that products like Barolo from Italy or Champagne from France have no true substitutes in the U.S. market, as they cater to specific occasions and customer preferences.

"When someone wants a Champagne, they want a Champagne. When someone wants Napa Valley Cabernet, they want Napa Valley Cabernet," he says.

This lack of interchangeability reinforces tariffs' unique challenges to the wine industry, where imported and domestic wines fulfill distinct roles rather than competing directly. Luchetti echoes this sentiment, pointing out that imported wines represent the heritage and identity of the regions they come from.

"You can't go to an Italian restaurant, order a bistecca alla Fiorentina, and expect a Napa Cabernet to pair like a Chianti Classico or Brunello di Montalcino would. These wines are part of the cultural fabric of those cuisines," he notes.

Timing and Challenges for Domestic Producers

While U.S. businesses are the most directly affected, European wineries will also face significant challenges. Tariffs on French wine during the Airbus dispute led to substantial drops in U.S. exports.

"If tariffs are placed on Italian wine, for instance, you would see exports to the United States drop significantly," Aneff notes. "Even though there's no substitute for Italian wines, the price sensitivity of U.S. consumers would cause fewer purchases."

Timing will also be critical as the 2025 shipping season approaches. Importers, who finalized their 2025 orders in October 2024, risk paying tariffs on shipments in transit should duties be imposed mid-shipment.

"Importers will be at the mercy of the timing of tariffs. If they're imposed while shipments are at sea, the resulting price hikes could be significant," Luchetti explains.

Challenges for domestic producers also loom large in the event of new tariffs. A significant percentage of wine bottles used in the U.S. are imported, particularly from Europe and China. Tariffs on glass imports would raise production costs for domestic wineries. Similarly, corks and closures sourced from Portugal and Spain could face higher costs, as could high-quality labels and packaging materials often sourced from Europe. These increased costs would impact production across all price ranges, creating additional financial strain for domestic producers.

Supply chain disruptions, including delays and logistical challenges from tariff-related bureaucratic hurdles, could further complicate production schedules, particularly during peak bottling seasons. With limited domestic alternatives for some materials, wineries may find themselves forced to absorb higher costs or explore less traditional options like alternative packaging formats—each with its own limitations.

A Way Forward: Advocacy and Awareness

Major domestic wine organizations, such as WineAmerica, the Wine Institute, and the Napa Valley Vintners, recognize that tariffs on imported wines harm the entire ecosystem. When distributors struggle under the financial burden of tariffs, their capacity to support smaller or new domestic producers diminishes, leaving these wineries without critical market access.

Groups like the U.S. Wine Trade Alliance have worked to mitigate the potential fallout. They encourage importers, distributors, and retailers to proactively share their stories with elected officials, emphasizing that tariffs harm U.S. businesses far more than their intended foreign targets.

"Wine tariffs do more damage here at home, so the government should focus on products that minimize domestic harm," Aneff says. "When you show members of Congress how tariffs harm small businesses in every congressional district, you can make a real impact."

The Message to the Industry: Stay Informed, but Don't Panic

While speculation runs high, the reality is that no tariffs have been imposed yet, and the future remains uncertain.

"The tariffs applied to wine five years ago were incredibly painful for our industry, from every dimension," says Michas adding that while we wait and see, it's important to remember that, "U.S. businesses are not in the crosshairs, and the administration's main objectives we hope can be achieved without the wine business becoming collateral damage."

For now, the wine industry's focus should remain on advocacy, preparation, and maintaining clear communication with policymakers. By staying engaged and aware, the industry can better navigate any potential challenges ahead without succumbing to unnecessary panic. For now, it's a waiting game, but one that highlights the wine trade's resilience and adaptability.