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In early October 2019 the WTO published rulings on a long-running dispute between the United States and the European Union over subsidies to aircraft manufacturing. The rulings allow the US to impose tariffs on annual imports of EU products worth up to US$7.5 billion. The US has since imposed tariffs on a wide range of EU goods (USTR 2019). They include an additional 25% tariff on still bottled wines with no more than 14% alcohol from France, Germany, Spain and the United Kingdom, and on Scottish and Irish whiskys, thereby hurting countries that have enjoyed the benefits of EU subsidies to Airbus. Italy and other wine exporters not benefiting from those subsidies are exempt from these new US tariff measures. Champagne and other sparkling wines, high-alcohol (e.g. fortified) wines, and bulk wines in containers greater than two litres, also are exempt even from the targeted countries.

Such very specific targeting of products that have close subsitutes within the beverage group in the targeted countries, and from similar products of other countries, is bound to lead to trade diversion within and across countries. It will benefit some firms while hurting others. Some may be able to legally re-label their wines as having, say, 14.5% alcohol, and thereby avoid the extra tariff. Another example of a firm that will benefit is Florida Caribbean Distillers, as it imports bulk wine from France and bottles it as French rosé for the fast-growing US market for that style: competing bottles imported directly from France will now be relatively dearer (https://www.npr.org/2019/10/25/773380390/where-theres-a-wine-there-s-a-way). Other firms may follow this example and import bulk rather than bottled wine from targeted countries and bottle it on arrival in the US. Some US importers or retailers may have absorbed the tariff hike during the holiday season, but are likely to start raising prices from January 2020.

Thus US consumers will face higher beverage prices on average, and so will lower the quantity they buy. Exporters in the targeted countries not only will sell smaller volumes but also will receive lower prices for targeted products, so the value of their exports will fall more than their volume.

But will this boost exports of other countries, and of substitute products of targetted countries? The answer, as with many economic questions, is that it depends. In this case it depends on whether the dampening effect of this extra set of taxes on global alcohol consumption more or less than offsets the positive effects through trade diversion on consumption of non-targeted products and countries. Those effects in turn depend on national shares of US wine imports and US shares of national wine exports. Table 1 reveals that these

targeted contries account for two-fifths of the value of US wine imports, and the US accounts for 16% of global wine imports.

Furthermore, since these new tariffs are percentage rather than volumetric ($/litre) taxes, they raise the price of affected imported products by more the higher their pre-tax selling price. How important are fine wines in a country's total still bottled wines also matters, therefore. The stronger impact on premium wines means prices of grapes will be impacted more in countries exporting mainly high-priced wines. It also means some US consumers will shift not just to wines at the lower end of the price range and/or to other beverages, but also to fine wines from non-targeted countries.

An empirical model of global alcohol markets is needed, therefore, to estimate these potentially diverse effects. Moreover, the model needs to distinguish still wines by quality/price/container size, and to separate out sparkling wines. We have recently constructed such a model (Wittwer and Anderson 2019), building on an earlier model just for wine markets (Wittwer, Berger and Anderson 2003). We use it here to estimate the producer price, consumer volume and international trade consequences of these new US tariffs on beverages. The model is based on data for 2016-18 (from an updated version of Anderson, Nelgen and Pinilla 2017), just prior to the imposition of the additional 25% tariffs on selected US imports.

Producer price and consumer volume effects

The raising of those selected tariffs by 25% is estimated to raise US prices of winegrapes by an average of 2.6%, and producer prices of bottled still wines by 1.1%. Since sparkling wines are a substitute for still wines, their average price also rises (by 0.2%), as does the average price of distilled spirits (by 0.1%). Volumes of alcohol consumed in the US therefore drop, by 1.0% for bottled still wine.

In the targeted countries of France, Germany and Spain (the UK is only a tiny exporter of wine and mostly sparkling), we estimate that average national winegrape prices will fall by between 1.3% and 2.3%, and producer prices of bottled still wines by between 1.3% and 2.1%. Because of the fall in winegrape prices, non-premium and sparkling wine prices also fall in these countries (by up to 0.2%). The volume of domestic consumption of bottled still wines also therefore falls in these countries, by between 0.3% and 0.7% in the case of super premium still wines.

In untargeted Italy, by contrast, winegrape prices rise by 1.1%. That helps to raise producer prices of their bottled still wine by 0.7% and to lower their domestic consumption by 0.2%.

Among the New World countries, the estimated impacts differ according to the importance of the US market to their exports and the quality of the wines they sell in that now-more-protected market. Australia's average grape price rises by 0.3% but New Zeaalnd's rises by 1.4%, and the producer price of bottled still wine rises by 0.2% in Australia and 0.8% in New Zealand. The reason for the larger price rises in New Zealand than in Australia is because New Zealand's exports to the US account for 33% of New

Zealand's total bottled exports compared with only 19% for Australia's exports. Also, New Zealand's exports to the US have higher a higher average unit value than Australia's, and so are a closer substitute for the relatively highly priced EU wines that are now being hit with higher tariffs.

Effects on international trade

The tariffs reduce world trade in wine by $588 million per year (a fall of 1.6%). Of that total, $491 million is the drop in US wine imports (8.1%). As well, US exports of wine fall by $185 million (11%) as US consumers substitute away from dearer imported wines in favour of domestic brands.

Most of the net loss in global wine trade (over $300 million) is French fine still wine. Spain has a net export loss of $98 million, while Germany's net export loss amounts to $19 million per year. These targeted countries reduce their exports to the US by much more than these amounts, but expand their exports to other countries, thereby adding to competition elsewhere for countries such as Australia. Untargetted Italy, by contrast, enjoys a net export increase of $68 million, almost all fine wine; and it sells much more to the US but largely at the expense of sales to other countries.(Table 1).

Also reported in Table 1 are the impacts of those targeted tariffs on the value of Australian and other New World wine exports net of their imports. As with EU countries, these countries sell much less to the US, because wines there are now more expensive so consumption has fallen, and they sell more to the rest of the world.

However, only three of those five New World countries shown in Table 1 enjoy an increase in their total net exports of wine. As foreshadowed above, even non-targeted countries can be worse off from targeted tariffs if those tariffs reduce global consumption sufficiently. In this case, it appears Australian wine exporters will be only slightly better off: they sell US$96 million more to the US and $91 million less to other countries such that their export earnings are raised by just $5 million per year. New Zealand and Argentina enjoy somewhat larger gains, while Chile and South Africa lose slightly. The latter lose because a smaller proportion of their wine exports to the US are fine wines and so they less-easily displace targeted EU fine wines than do Australian, New Zealand and Argentinean exports.

This small result for Australia and the negative results for Chile and South Africa are reminders of the possible effects of Brexit: it has been estimated that even with a no-deal exit of the UK from the EU, the beneficial effect to Australia of reduced competition from EU suppliers in the UK wine market would be more than offset for Australia by the overall reduction in wine consumption in the UK because of the falls in UK incomes and the value of sterling (Anderson and Wittwer 2018a, 2018b).

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Table 1: Impact of new 25% US wine import tariffs on the national value wine exports net of imports, selected countries (US$ million per year)

	US share of national wine export value (%, 2017)	*National share of US wine import value (% 2017)*	Change in net exports to the US	Change in net exports to rest of the world	Change in total net exports
France	*16*	*31*	-966	640	-326
Spain	*10*	*6*	-284	186	-98
Germany	*17*	*2*	-74	56	-19
Italy	*26*	*32*	447	-379	68
Australia	*18*	*6*	96	-91	5
New Zealand	*30*	*7*	95	-79	16
Argentina	*35*	*5*	72	-41	31
Chile	*14*	*5*	68	-70	-2
South Africa	*8*	*1*	20	-23	-2
WORLD	*16*	*100*			

Source: Authors' model results.