When the Ball Drops on Bourbon: Distillers Face Looming Tariffs on U.S. Exports to EU

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Recent unparalleled growth and expansion in the distilled spirits industry in the United States could come crashing down like the Grinch that stole Christmas if negotiations on trade tariffs between the U.S. and the European Union do not yield a solution before January 1, 2024. On New Year's Day, the current suspension of EU tariffs is slated to expire and will double from 25% to 50% on American whiskey (bourbon, rye, Tennessee and other whiskeys).

During 2022 and 2023, distilleries in the United States invested remarkable sums in new and expanded distilleries, warehouses, and bottling facilities to take advantage of a boom in bourbon and distilled spirits in the United States and worldwide. Distilleries in Kentucky are currently projected to invest a staggering $5.2 billion in new capital investments from 2023 through 2026 to take advantage of the bourbon boom around the globe. For example, Sazerac made the largest distillery-related capital investment earlier this year with a $600 million warehousing project in Laurel County, KY, which upped their ante in total plans for capital investments to $1.2 billion.

A sample of other planned capital improvements in the Bluegrass State include:

- Campari/Wild Turkey – $161 million
- Jefferson's Bourbon – $250 million
- Willett – $93 million
- Heaven Hill – $125 million
- Four Roses – $23 million
- Bardstown Bourbon Company – $28.7 million;
- Eastern Light Distilling – $143.7 million
- Jim Beam – $400 million
- Jack Daniels – $140 million

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Distilleries have placed big bets on bourbon in an era of unprecedented demand for distilled spirits starting before the pandemic and only gaining momentum in recent years despite the effects of inflation and recession on the bourbon enthusiast's purse, suggesting to some that distilled spirits might be a better hedge against inflation than gold and silver. However, bourbon exports to EU countries experienced a dramatic downturn from 2018 through 2021 caused by the retaliatory 25% tariffs imposed by the European Union upon whiskey exports to the EU in 2021. In 2021, exports of American whiskey to the European Union countries decreased 20% from $552 million in 2018 to $440 million. In response to this dramatic decline, the U.S. and the European Union reached an agreement on October 31, 2021, related to the Section 232 tariffs imposed by President Trump on steel and aluminum, carving out exemptions for European Union steel and aluminum production, and in exchange the EU suspended the 25% retaliatory tariff on American whiskey for two years starting January 1, 2022.

On January 1, 2024, tariffs on the exports of American whiskey to EU countries are scheduled to increase to 50%, and other retaliatory responses related to the imports of foreign spirits will likely occur, making your favorite pour dramatically more expensive. No one can yet predict the outcome of this high-stakes international bourbon poker game. During the two-year tariff suspension, U.S. distilleries bet high on growth and exports in 2022 and 2023 fueled by unprecedented domestic and international demand for distilled spirits. Total distilled spirits exports quadrupled from $551 million in 2002 to over $2.1 billion in 2022. Total distilled spirits exports to EU countries increased from $1.5 billion in 2021 to over $2 billion in 2022. Total American whiskey exports to EU countries increased from $972 million in 2021 to $1.3 billion in 2022.

Fast forward to October 20, 2023, and all eyes were glued to the bourbon summit between U.S. President Joe Biden and E.U. President Ursula von der Leyen, who met in D.C. to negotiate either a permanent resolution or an extension to the current suspension to stave off the imposition of a 50% tariff on American whiskey exported to the European Union. After the conclusion of the D.C. bourbon summit, no resolution having been yet reached, Chris Swonger, president of DISCUS, stated that a 50% tariff "would be an

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utter disaster for the American whiskey industry here in the U.S. Nevertheless, the high stakes poker game will surely end one way or another when the ball drops on bourbon come January 1, 2024.

During the bourbon boom, small craft distillers in the United States looking to export distilled spirits to the European Union to leverage the growth of their distilleries were cautious as such moves might prove to be too risky given the current uncertainty in trade discussions. The founder of Koval Distillery in Chicago stated, "If tariffs are re-instituted, to the degree proposed, it will double our costs to remain in certain markets, creating an overwhelming financial burden to remain competitive." Brooke Glover, founder and owner of Swilled Dog Spirits in West Virginia recently stated, in response to a lack of resolution in the U.S. and the E.U. trade discussions, that continued tariffs of such magnitude would likely hurt exports from small distilleries, noting that, "We're just collateral damage."

While there might be a silver lining for small distilleries if the trade concessions are not resolved by New Years as noted below, one thing is for sure: if the tariff impasse is resolved, a chorus from Whoville to Louisville will be heard heralding the continued expansion of the bourbon industry. If the impasse is not resolved, there will be no joy in Whoville, and big bourbon will be hedging its New Year's resolutions by either diverting bourbon export sales to non-European Union countries, by holding their inventory until the tariff impasse is resolved, by flooding the U.S. markets with bourbon, or by diverting domestic inventory barrels to smaller craft distilleries in the United States while discussions continue. Each of these strategies has considerable advantages and disadvantages, and all eyes are upon big bourbon to see which hands are winners and losers.

In anticipation, American whiskey exports to the EU increased by 9% from 2017 to 2022, while American whiskey exports to countries outside of the EU and the UK increased by 30%. Likewise, the tightening availability of bourbon sold to small craft distilleries domestically has loosened for the time being, and the small craft breweries can celebrate continued growth in the United States during tariff discussions. Distributing the bourbon intended for sale

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in the E.U. to the U.S. markets might result in a drop in price (and many happy bourbon customers), while diverting bourbon barrels to small craft distilleries might minimize downward price pressures while loosening the noose for barrels stateside to the smaller craft distiller. Finally, holding bourbon barrels for longer periods might prove profitable in the long run, but it is noted that states like Kentucky and West Virginia create a downside by imposing an annual barrel tax on this inventory (although Kentucky is slowly phasing out its barrel tax by 2043, the tax does still remain). The total distilled spirits inventory in Kentucky is currently at 12 million barrels.

The future profitability of distilled spirits manufacturers is not all that is at stake. Distillers in Kentucky purchase 17 million bushels of corn from mostly local farmers each year, and cutting this off might trigger a farmer protest reminiscent of the 1794 Whiskey Rebellion. Construction jobs that have skyrocketed with the recent capital expansion might also fall to the tariff ax. Local and state governments that depend upon increased tax revenues to shore up economic development during recessionary times will also be placed in turmoil. The Kentucky Distillers Association estimates that for every distilling job, there are three other jobs created in Kentucky. If the United States and the European Union fail to resolve this tariff impasse before year-end, the bourbon and distilled spirits industries will experience a significant shockwave upon the imposition of a 50% tariff that might threaten the course of the current impending recovery.

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