What the Wine World Stands to Lose in the Face of Proposed Tariffs (Ongoing Coverage)

Across the U.S., wine professionals and restaurateurs predict catastrophe for their businesses and slim choice for consumers should new tariffs on European wine take hold

Source: https://www.wsj.com/

By Lettie Teague

Jan. 8, 2020

WHAT IF YOUR favorite Prosecco suddenly shot up to $30 a bottle, your weeknight Côtes du Rhône doubled in price or that biodynamic Beaujolais you favor disappeared altogether, along with just about every reasonably priced natural wine?

A series of proposed and imposed tariffs has the wine world on edge. It started in October, when the Office of the U.S. Trade Representative (USTR) announced a 25% tariff on several items, including certain wines from France, Germany, Spain and the U.K. That tariff was levied in response to EU subsidies granted to the aerospace company Airbus. In early December, the USTR proposed tariffs of up to 100% on French sparkling wine (excluded from the October tariff) and other items, in response to the French digital services tax, which, a USTR investigation concluded, "discriminates against U.S. digital companies, such as Google, Apple, Facebook, and Amazon. " Then on Dec. 12, the USTR said it could expand the October tariffs to additional products, including putting levies of as high as 100% on nearly all wine from Europe.

There is no timeline for when these tariffs might go into effect, and the USTR didn't respond to repeated queries.

Every wine professional I spoke with was in a state of near-panic."

Why does this matter to American wine drinkers? A 100% tariff on European wine would cripple the wine importing and distribution business and also harm wine retailers. American wineries would be affected, too, if their distributors go out of business and retailers and restaurants close.

Distributors sell both imported and American wines, and their fortunes depend on a healthy market for both. Harmon Skurnik, president of Skurnik Wines & Spirits, a New York-based importer and national distributor, said the measures proposed by the USTR would have a big impact on his business. Though he distributes a number of American wines, his portfolio is over 50% European. "I would have to lay off a significant number of staff if the 100% tariffs went into effect," he said. If wholesalers like him have to reduce ranks, that means there will be fewer salespeople to sell all wines, both imported and American. Furthermore, Mr. Skurnik added, if a number of small and midsize distributors go out of business, there will be fewer wholesale options for American wineries, too.

While every wine professional I spoke with in recent weeks was in a state of near-panic over the prospect of these tariffs, many wine drinkers are still unaware of their potential impact. Gary Fisch, Proprietor of Gary's Wine & Marketplace in Wayne, N.J., told me he'd yet to meet a customer who knew about the tariffs. He's been buttonholing every shopper he meets. "I've been telling customers that the price of European wines could rise by as much as 100%," he said.

Some wine professionals have even toted up the tariffs' potential cost. "You are looking at up to 10,000 layoffs at just the distributor and wholesaler level, and up to $1 billion in lost payroll and $400 million in lost liquor taxes," speculated Constance Oehmler, COO and CFO of Monsieur Touton, a Manhattan-based wine distributor with a national network and a portfolio of wines that is 85% European. She questioned the efficacy of wine as a tool of negotiation, as it represents less than 1% of all European imports.

While larger companies like Monsieur Touton might limp along for a while under punitive tariffs, the repercussions for small importers, such as Brooklyn-based Zev Rovine Selections, would likely be more dire. Owner Zev Rovine's take was blunt: "I think I'm one of the many who could go out of business."

Mr. Rovine specializes in natural wines from Europe. His producers rely on the American market; if he goes out of business, some of his producers might, too. "We are the biggest client for our producers," he said. "They're really scared." Mr. Rovine further predicted a swift impact on consumers. "There will be no more natural wine under $20-that's completely gone," he said. "The cheapest natural wine you will find will be $30-40." He believes bars and stores specializing in natural wines would close, as well.

The effect on restaurants would certainly be significant, as most rely on large wine markups to cover staffing and food costs. Jeff Solsby, vice-president of advocacy communications for the National Restaurant Association, noted in an email that the tariffs would have "serious and long-lasting consequences" for member restaurants.

Even established retailers such as Mr. Fisch would take a hit. And substituting wines from other places isn't a realistic option. "You can't just replace French Burgundy with domestic Pinot Noir. It's a different consumer," he said, adding that a large price increase on European wines would depress wine sales overall. Jonathan Bennett, , executive vice-president of merchandising and supply chain at Total Wine & More, the largest independent wine retailer in the U.S., noted that domestic producers could be harmed if retaliatory tariffs were placed on American wines.

Steve Edmunds, owner and winemaker of Edmunds St. John wines in Berkeley Calif., posted on Facebook the letter he sent to the USTR detailing his opposition to the tariffs. "If the distributors and retailers can't afford to buy [European wines], and can't continue to offer their customers value comparable to that currently being offered, their businesses will suffer, and, in far too many cases, cease to exist," he wrote "And so would mine."

For Nola Palomar in Dayton, Ohio, the tariffs could be crushing. She produces wine and olive oil in Granada, Spain, under the Veleta label, and she imports them into the U.S. herself. "There is absolutely no way I can afford 100% tax on my wines," said Ms. Palomar, who is looking into alternate markets, including Canada-which will take money and time. "I'm a single mother with a daughter going to college. This is not what I have in my business plan," she said.

The U.S. is now the world's largest market for wine. That transformation took decades and the work of importers, distributors, retailers and restaurateurs-passionate people who introduced Americans to wines from all over the world.

When David Waldenberg, president of BNP Distributing Company, testified before the USTR on Tuesday of this week about potential effects of 100% tariffs on French sparkling wine, he noted that the tariffs would impact "small family-owned U.S. businesses as much or more than their French counterparts" and render French sparkling wine "unsalable" by American distributors and importers. "This makes tariffs punitive for American businesses, not French," he concluded.

The USTR is accepting comments on the tariffs connected to the Large Civil Aircraft Dispute until Jan. 13. Wine lovers who want to weigh in can do so here: beta.regulations.gov/comment/USTR-2019-0003-2518.