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Introduction

When the Trump administration announced steep tariffs on steel and aluminum imports in January 2018, the affected countries (Canada, China, the EU, and Mexico, in particular) responded in kind, resulting in massive uncertainty regarding the ultimate impact on global markets. That uncertainty only seems to build with each passing news day, as more countries and companies announce strategic actions to deal with the potential fallout.

For example, while select US steelmakers stand to benefit greatly, US concerns that relied on lower-cost foreign steel and aluminum to manufacture end-use products (e.g., fasteners, motor vehicles, washing machines) will see higher costs. While foreign steel prices will spike due to tariffs, US steel is also expected to see price hikes over the longer term, as increased demand for the “tariff-free” domestic steel bids up its price.

As a result of these cost increases, some companies – including Harley-Davidson – are threatening to offshore production to either avoid the tariffs or more cost-effectively serve foreign markets that have enacted retaliatory duties, while others may simply pass those higher costs on to consumers.

Since US steelmakers do not make all types of steel, some domestic firms may be unable to rely on domestic steel to meet their production needs. As a result, more than 31,000 companies have applied for waivers from the tariffs, leading to a significant processing backlog. For example, if a company were to apply for a waiver now, it would be months or maybe even years before it could be granted – during which time the company would have no affordable access to materials crucial to its production.

The most recent tariffs were instituted by President Trump who, like any president, is allowed to impose tariffs due to national security concerns. However, other recent tariffs are targeted more at competitive factors. In the case of products like engineered stone, solar cells, or washing machines, a more formal review process is required through the International Trade Commission. Nevertheless, the president retains broad latitude in how he implements recommended actions.

Whatever the future holds, the anticipated effect of the recent tariffs is far-reaching – not only in terms of trade, but also, potentially, in stirring anti-American sentiment that could have a broad impact on the appeal of US goods overseas. Consider the tariffs Turkey announced in late June 2018 on $267 million in US-made products, citing the US’ trade surplus with Turkey in steel commerce as justification: “[O]ur American partners appear unwilling to consider the facts or the negative impact its tariffs will have on a great many US companies and workers,” the Turkish government said in a statement. In Canada, consumers are starting a grassroots “Buy Canadian” effort focused around the boycott of all US goods.
There is no doubt that global trade relations remain very much in flux as a result of the escalating rhetoric on tariffs, and the impact is still uncertain for many industries. Some US companies are already benefiting from recent actions, but others will be forced to raise prices, move production offshore, or – in some extreme cases – close up shop for good.

The Freedonia Group has a long history of analyzing US and global industries, as well as trends in international trade. In this white paper, Freedonia analysts sift through the conflicting information surrounding this topic to summarize the potential impact on affected industries.

**Industries Impacted by the Steel & Aluminum Tariff**

**Adhesives & Sealants**

While there are no specific tariffs on adhesives and sealants, this industry faces potential impacts nevertheless. For example, the Trump administration’s 25% tariff on steel imports and a 10% tariff on aluminum imports from the EU, Canada, and Mexico are expected to yield growth opportunities for domestic adhesives and sealants in motor vehicle, aerospace, and other manufacturing applications.

Facing higher costs as a result of other recently levied tariffs, US automakers may opt to use more cost-effective composite materials – which cannot be bonded using mechanical fasteners – and adhesives and sealants where steel and aluminum can be replaced.

However, these opportunities may be neutralized by an anticipated scaling back of Obama-era fuel economy regulations, which have supported gains for US adhesives and sealants since 2011. Nevertheless, specifying adhesives and sealants where possible would help automakers temper higher production costs.

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**US & Retaliatory Tariffs: Impact on Adhesives & Sealants Industry**

- **Entity:** United States
- **Tariff:** 25% on steel imports; 10% on aluminum imports
- **Effective date:** June 2018 in Canada, Mexico, & the EU
- **In response to:** Withering US steel production
- **Selected companies impacted:**
  - 3M
  - Automotive & marine (left) & aerospace (below) adhesives & sealants by 3M
  - Artec Industries
  - HR Fuller
  - Lintec (MACta)
  - Momentive Performance Materials
  - 3M

Source: The Freedonia Group.
Impact Report: US Tariffs & Global Retaliations

**Aluminum**

The 10% tariff the US placed upon imports of aluminum products from Canada, the EU, and Mexico in June 2018 is expected to raise prices on related imports considerably, with the hoped-for effect being ramped-up capacity utilization and employment in US aluminum products manufacturing. Sectors that use aluminum as a key input include:

- containers
- electric equipment
- fabricated metal products
- transport equipment

Although intensive users of foreign aluminum may apply for exemption, concerns that do not qualify may move some or all production outside of the US, particularly for goods that are destined for sale to other countries, to curb costs.

Furthermore, the tariffs have galvanized impacted countries to take retaliatory action against the US, including by placing duties on billions of dollars of US-made goods. For example, the EU has raised tariffs on (among other things) US-produced motorcycles, including those made by Harley-Davidson, which has since announced plans to further offshore production to Mexico.

**US & Retaliatory Tariffs: Aluminum**

- **Entity:** United States
- **Tariff:** 10% on aluminum imports from Canada, the EU, & Mexico
- **Effective date:** June 2018
- **In response to:** Decreased capacity utilization & employment in US aluminum products manufacturing

**Selected companies impacted:**
- Rio Tinto (Canada)
- Alumierence Alouette (Canada)
- Alcoa Canada (Canada)
- RUSAL (Russia)

**Fasteners**

The steel and aluminum tariffs also carry significant implications for the US fasteners industry, which is an intensive user of foreign-made steel and aluminum. Because fastener companies primarily compete on the price of raw materials, US companies could lose share to foreign concerns as import costs for these metals continue to rise, or in some cases even go out of business.
In late June 2018, for example, Mid Continent Nail (Mid-Continent Steel & Wire), the largest nail manufacturer in the US, laid off 60 workers and announced the inevitability of its complete closure if it is not able to secure an exemption from the tariff, which – given the current backlog – could take months or years.

Further loss of business to foreign firms that can manufacture the same goods for lower costs is expected going forward, as is the continued offshoring of production operations currently based in the US. Mid-Continent Nail, for example, stated it is looking to relocate its manufacturing activities to Mexico, where it would evade impact of the tariffs.

<table>
<thead>
<tr>
<th>US &amp; Retaliatory Tariffs: Fasteners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity</strong>: United States</td>
</tr>
<tr>
<td><strong>Tariff</strong>: 25% on steel imports; 10% on aluminum imports</td>
</tr>
<tr>
<td><strong>Effective date</strong>: March 2018</td>
</tr>
<tr>
<td><strong>In response to</strong>: Withering US steel production</td>
</tr>
<tr>
<td><strong>Selected US companies impacted</strong>: Arrow Fastener</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: The Freedonia Group.

**Hand Tools**

As a result of the steel and aluminum tariffs, US-based hand tool manufacturers – particularly those that import these raw materials for manufacturing metal parts and tools but also including companies that specify US steel – will have to raise prices.

Accordingly, imported hand tools will become more competitive – especially given the commodity nature of most product types in this category and the associated low-cost considerations of most consumers specifying them.

Smaller domestic producers that rely on raw material imports will face significant challenges, with those unable to adjust their costs and prices expected to see losses, or shift operations overseas – something a number of US companies, including Batesville Tool & Die, are flirting with.

Indeed, 2018 hand tool imports are up drastically compared to 2017:

- 21.8% for saw blades and parts
• 31.5% for pliers (except slip joint)
• 25.8% for metal cutting shears and parts
• 25.3% for hammers and sledgehammers
• 41.1% for other aluminum hand tools and parts

However, the increase is also attributable to a longer-term trend of ramped-up hand tool imports due to the lower labor and production costs overseas, which makes foreign-made products more price competitive.

### US & Retaliatory Tariffs: Hand Tools

- **Entity:** United States
- **Tariff:** 25% on steel imports; 10% on aluminum imports
- **Effective date:** March 2018
- **In response to:** Withering US steel production

#### Selected companies impacted:
- AMES
- Batesville Tool & Die
- Caterpillar

Source: The Freedonia Group.

### Metal Roofing

US-imposed steel tariffs will also impact the metal roofing industry, which relies heavily on imported commodity-type steel products. Accordingly, manufacturing costs will rise for firms that rely on lower-cost foreign metals in the near term.

In the steep-slope roofing segment, US demand for metal roofing – which is already more expensive than competitive products – is likely to suffer, as consumers opt for such items as laminated asphalt shingles or roofing tile, which boast similar wind- and impact-resistance properties to metal types.

In low-slope applications, plastic roofing and rubber membranes (while not as durable as metal) have lower prices and often meet cool roofing criteria.

While the tariffs will encourage broader use of US steel in domestic metal roofing production in the near term, domestic steel prices will eventually approximate those of steel produced in countries affected by the tariffs, as increased demand for the “tariff-free” domestic steel will bid up its price.
Impact Report: US Tariffs & Global Retaliations

Steel

The US tariff imposed on steel imports on Canada, the EU, and Mexico in June 2018 was intended to increase the price of imported steel and combat the low prices caused by the global overcapacity in steel production in order to:

- make US steelmakers more competitive
- mitigate the US trade deficit

Accordingly, a number of US-based steel producers announced plans to add shifts, expand production, and, in some cases, open new or mothballed facilities.

However, the effects of this action will span numerous US industries that rely on less expensive foreign steel to keep production costs down (e.g., automotive parts and vehicles, metal roofing, fasteners, hand tools), although exemptions are given to certain US concerns unable to implement a feasible alternative to foreign steel. Nevertheless, price hikes are expected for users of US steel as well, as a tariff on imported steel will tend to drive up the price of domestically produced steel.

Furthermore, the tariffs have galvanized impacted countries to take retaliatory action by placing tariffs of their own on billions of dollars worth of goods imported from the US. These entities include:

- Canada
- the EU
- Mexico
- Turkey
For example, Canada, the largest exporter of steel and aluminum to the US, said it would place counter-tariffs of 25% and 10% on about $13 billion worth of American goods.

The immediate effect of the steel tariffs is on the price of imported steel, which increases input costs for a large number of US manufacturers. If these producers do not absorb the higher costs by accepting lower profits, the longer-term result will be significant price increases for such end-use goods as motor vehicles and appliances – which in turn could lower demand for such goods produced in the US and negatively affect the US economy.

In addition, industries forced to pay more for steel may choose to offshore production, particularly for goods that are destined for sale in foreign markets. In fact, a number of companies have already expressed intent to shift production overseas.

<table>
<thead>
<tr>
<th>US &amp; Retaliatory Tariffs: Steel</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity:</strong> United States</td>
</tr>
<tr>
<td><strong>Tariff:</strong> 25% on steel imports from Canada, the EU, &amp; Mexico</td>
</tr>
<tr>
<td><strong>Effective date:</strong> January 2018</td>
</tr>
<tr>
<td><strong>In response to:</strong> Widening US trade deficit &amp; decline of domestic steel industry</td>
</tr>
<tr>
<td><strong>Selected companies impacted:</strong></td>
</tr>
<tr>
<td>ArcelorMittal (Luxembourg)</td>
</tr>
<tr>
<td>Baosteel (China)</td>
</tr>
<tr>
<td>Jiangsu Shagang Group (China)</td>
</tr>
<tr>
<td>Nippon Steel Corp (Japan)</td>
</tr>
<tr>
<td>POSCO (South Korea)</td>
</tr>
</tbody>
</table>

Source: The Freedonia Group.

**Industries Impacted by US Tariffs on Chinese Goods**

**Automotive Parts & Vehicles**

Uncertainty is disrupting the global automotive supply chain, with the US, China, the EU, and Turkey engaging in what may well be the opening salvos of an all-out trade war – or lodging what may turn out to be empty threats.

For example, in April, China threatened a 25% raise on tariffs for US automotive imports in response to the Trump administration’s proposed but unlevied tariffs on Chinese exports. A month later, China reversed course in a concession to US trade complaints, reducing import tariffs on motor vehicles from 25% to 15% and those on auto parts from 8-25% to 6%.

Between the US and the European Union, the trade conflict continues to intensify, with the Trump administration threatening to raise tariffs on European motor vehicle imports from
2.5% to 20% if the EU does not remove import duties and other barriers to US goods. As the European Commissioner has stated, somewhat vaguely, the EU will react if the US carries out its plan, but the very possibility has sent shockwaves through global markets, causing volatility in the implicated automakers’ stocks.

Despite the Trump administration’s intention to support domestic motor vehicle production, these tariffs may undermine it. Not only will consumers absorb the higher costs associated with imports of motor vehicles and parts, automakers will also feel the heat at the production level, with tariffs on steel and aluminum imports driving costs for US-made vehicles even higher. This may translate to:

- fewer vehicle sales
- increased offshoring of production by domestic automakers
- potential layoffs on US assembly lines

### US & Retaliatory Tariffs: Automotive Parts & Vehicles

- **Entity:** United States
- **Tariff:** Suggested 20% on motor vehicle imports from the EU, but not yet scheduled to take effect
- **Effective date:** TBD
- **In response to:** EU retaliatory duties on $3 billion in US products
- **Potential impact on US automakers:**
  - Fewer vehicle sales
  - Increased offshoring of production

**Source:** The Freedonia Group.

### Construction Machinery

In July 2018, the US levied a 25% tariff on $50 billion in Chinese goods, including construction machinery (e.g., cranes, dozers, boring machines). As a result, imports of construction machinery are expected to decline and equipment prices in the US will rise.

Longer-term, production in the large Chinese construction machinery industry will take a hit as cost-effective export to the US market becomes more difficult.

Furthermore, foreign multinationals that want to serve the US market will be discouraged from building plants in China, where low labor and production costs have historically incentivized offshoring.
In addition to Chinese construction machinery manufacturers, US producers with plants in China (e.g., Caterpillar, Deere) and suppliers from other countries with plants in China (e.g., Doosan Infracore, Hitachi) will face challenges going forward.

In response to US tariffs, China and Turkey have proposed their own actions. As China has the largest construction market in the world, Chinese tariffs would have a noticeable impact on certain US companies, including:

- small producers of specialty equipment
- larger producers who manufacture a key type of construction machinery at US plants and nowhere else in the world

These companies would not be able to easily shift production to lower costs and would therefore be less competitive in an important growth market.

### US & Retaliatory Tariffs: Construction Machinery

- **Entity:** United States
- **Tariff:** 25% on $50 billion worth of Chinese goods
- **Effective date:** July 2018
- **In response to:** Trade deficit with China
- **Companies impacted:**
  - Chinese producers (e.g., ZOOMLION)
  - US producers with Chinese plants (e.g., Caterpillar, Deere)
  - Other foreign suppliers with Chinese operations (e.g., Doosan Infracore, Hitachi)

Source: The Freedonia Group.

### LEDs

In July 2018, the US imposed a 25% duty on Chinese imports of light emitting diodes (LEDs) – which totaled $637 million in 2017 (a paltry sum compared to other markets) – along with $50 billion worth of other Chinese goods. The tariffs aim to compensate for the US trade deficit with China and to combat China’s “Made in China 2025” policy to achieve global economic leadership in advanced technologies, but the effect will be limited, since most Chinese-made LEDs enter the US as parts of other end-use products, such as:

- light bulbs and fixtures
- electronics
- motor vehicle parts
Notably, however, a number of these products (motor vehicle parts in particular) are subject to tariffs of their own.

Nevertheless, even if prices on impacted end-use products rise, the leading brands of LED-based products (e.g., GE, Philips) will emerge mostly unscathed, since these products tend to be produced outside of the US. However, US-based LEDVANCE, producer of SYLVANIA LED lightbulbs, may face complexities going forward, as it was acquired by China's MLS Company, a global leader in LED manufacturing, in April 2018.

Conversely, given China's dominance in LED production, prices are extremely low, and US companies that currently rely on Chinese LEDs to manufacture end-use products will be hard-pressed to find a similarly low-cost supply elsewhere, making it more difficult to remain competitive.

<table>
<thead>
<tr>
<th>US &amp; Retaliatory Tariffs: LEDs</th>
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</thead>
<tbody>
<tr>
<td><strong>Entity:</strong> United States</td>
</tr>
<tr>
<td><strong>Tariff:</strong> 25% on $50 billion worth of Chinese goods</td>
</tr>
<tr>
<td><strong>Effective date:</strong> July 2018</td>
</tr>
<tr>
<td><strong>In response to:</strong> Trade deficit with China</td>
</tr>
<tr>
<td><strong>Selected companies impacted:</strong></td>
</tr>
<tr>
<td>LEDVANCE (MLS Company - China)</td>
</tr>
<tr>
<td>US producers of end-use products that use LEDs</td>
</tr>
</tbody>
</table>

Source: The Freedonia Group.

**Pharmaceuticals**

The US also proposed tariffs against China's pharmaceutical industry in response to the country's unreasonable or discriminatory practices related to technology transfer, intellectual property, and innovation.

Although deemed anticompetitive by the World Trade Organization and subsequently tabled in June 2018, the duty remains a possibility for the Trump administration, especially if trade tensions with China continue to escalate.

However, if enacted, such duties may yield long-term adverse effects for US pharmaceutical companies, particularly their intellectual property rights. For example, foreign countries may win compulsory licenses to copy, sell, and export pharmaceuticals patented in the US they decide to retaliate by revoking patents for US products, thereby freeing domestic
firms to produce them instead – which some countries, including Canada, have expressed a willingness to do in response to US-imposed tariffs.

Although this tariff stands to undermine Chinese pharmaceutical firms, the consequences to US patent-holders such as Johnson & Johnson, Merck & Co., and Pfizer may outweigh the potential benefits.

### Solar Panels & Solar Roofing

Unfair pricing is again the crux of the Trump administration's reasoning for imposing tariffs on the photovoltaic (PV) module imports from China that are used to make solar panels. Low-cost Chinese imports, the administration claims, hinder the ability of domestic manufacturers to effectively compete, so the tariffs are expected to help US PV module suppliers to maintain and even expand market share in this burgeoning industry – while reducing China's role in the US market.

In lockstep with these trends, prices are expected to rise, which will restrain demand gains somewhat as more cost-conscious consumers delay solar panel purchases.

However, since most solar roofing manufacturers in the US (e.g., Tesla) already use domestically manufactured PV modules in their products, they are expected to become more cost-competitive with producers of roof-mounted solar panels.
Industries Impacted by Other Recent US Tariffs

**Engineered Quartz Countertops**

While not specifically impacted by the Trump tariffs, the US countertop industry has had its own issues with China.

For example, in late May 2018, the US International Trade Commission found that the US quartz countertop industry is anticompetitive due to low-cost Chinese imports being sold at less than fair values. As a result, the US Department of Commerce is expected to impose a preliminary countervailing duty on July 11, 2018 and a preliminary antidumping duty on September 24, 2018.

China is a major supplier of the quartz slab used in the fabrication of engineered stone countertops to the US market, with imports surging since 2012, in line with robust growth in the US engineered stone countertop market.

The anticipated tariffs aim to protect the domestic quartz surface industry from low-cost imports. However, with quartz prices expected to rise considerably, there is potential for a significant, near-term slowdown in US demand for engineered stone countertops as:

- consumers opt for more affordable alternative materials
- opportunities expand for other major national suppliers (e.g., India, Vietnam, and other low-cost Asian markets) to supplant China’s role in the US market
Lumber

In November 2017, the Trump administration levied a 20.83% tariff on Canadian softwood imports (including pine, spruce, and fir), attributing the decision to claims by US lumber producers that their Canadian competitors, due to Canadian government subsidies, possess an unfair pricing advantage that undermines competition. (Canada is currently appealing the tariffs through the World Trade Organization.)

Immediately after the tariff took effect, softwood lumber prices jumped, and they have remained high since. Longer-term anticipated results include:

- an estimated 7% increase in the cost of new home construction in the US (according to the National Association of Home Builders)
- surging profits for US lumber producers, such as Georgia-Pacific

In May 2018, for example, the Random Lengths Framing Lumber Index hit the highest level since its inception in 1995, rising 30% from the previous year.

Nevertheless, according to a May 2018 survey, 31% of single-family homebuilders reported a framing lumber shortage.

Furthermore, as the additional costs are passed on, prospective home buyers in the US are expected to either postpone construction, opt for a smaller home, or buy an existing home instead of building, which will have an adverse effect on new housing construction.

But the effects transcend housing construction alone, with remodelers and manufacturers of flooring, cabinets, and related building and construction products purchased by both
professionals and DIYers worried about the longer-term effects. For example, consumers may not be as willing to finance lumber-intensive home renovations given the higher costs.

**US & Retaliatory Tariffs: Lumber**

**Entity:** United States  
**Tariff:** 20.83% on Canadian softwood  
**Effective date:** November 2017  
**In response to:** claims of unfair pricing advantages  
**Selected companies impacted:**  
- DR Horton  
- KB Home  
- Lennar  
- Toll Brothers

Source: The Freedonia Group.

**Washing Machines**

In January 2018, a tariff on washing machine imports specifically targeting South Korean companies LG and Samsung took effect, with the first 1.2 million imports receiving a 20% duty and subsequent imports a 50% duty. US-based Whirlpool had argued that the two companies had used unfair pricing practices to gain an advantage in the US market, undermining competition.

The tariff brought an immediate decline in imports, followed by a rebound in March as retailers stocked up on inventory before being hit by price hikes, which took effect in April. In turn, Whirlpool raised prices on its US-produced washing machines.

According to some estimates, the average cost of washing machines shot up 17% since April 2018. In June 2018, Credit Suisse upgraded Whirlpool’s stock from “neutral” to “outperform”, projecting a strong year for the US manufacturer as a result of the tariffs.

Despite leveling the playing field somewhat in terms of pricing, foreign concerns like LG and Samsung will continue to ramp up US production operations to avoid the tariffs. In fact, both companies have opened or plan to open new US plants in 2018.
Impact Report: US Tariffs & Global Retaliations

Industries Impacted by Retaliatory Tariffs

Cheese

In retaliation against US-imposed steel and aluminum tariffs, Mexico placed tariffs on $3 billion worth of US-made goods, including a 25% duty on hard, semi-hard, and grated cheese and a 20% tariff on grated, shredded, and powdered cheese.

As a result, US cheese prices will rise in the Mexican market, and the US will face increased competition from more affordable foreign substitutes. This disadvantage will be exacerbated by an April 2018 agreement between Mexico and the EU that is expected to result in reduced Mexican tariffs on European dairy products.

The longer-term effects include:

- acceleration in closures of already-struggling US dairy farms
- loss of US cheesemaker brand name recognition and market penetration in Mexico, which generated $400 million in US cheese sales in 2017

In response, more than 60 US dairy associations and cheese makers have called on the Trump administration to end tariffs on Mexican imports, including:

- National Milk Producers Federation
- US Dairy Export Council
- International Dairy Foods Association

Source: The Freedonia Group.
Motorcycles

In June 2018, the EU increased the tariff on imported US motorcycles from 6% to 31% - which is expected to add more than $2,000 to the final cost.

Companies that manufacture motorcycles in the US will be less viable in the EU as a result due to associated declines in European demand, the largest non-domestic market for upscale US brands such as Harley-Davidson.

As Harley-Davidson generates a significant portion of its revenues in the EU, the company announced further offshoring of its manufacturing operations, including plans to shift some of its US production to facilities in Mexico.

Offshoring will not only help US suppliers like Harley-Davidson evade the EU-imposed duty, but also enable them to use non-US steel and aluminum products without incurring the additional costs associated with the Trump administration’s steel and aluminum tariffs.

Source: The Freedonia Group.
Recreational Boats

In response to steel and aluminum tariffs imposed by the US in June 2018, the EU, Canada, and Mexico levied tariffs of 25%, 10%, and 15%, respectively, on imports of US-made recreational boats, effective early July 2018.

As these regions receive the large majority of US boat exports, canceled orders and overall sales decreases are expected in the near term, with suppliers fearing production cuts and layoffs in the longer term.

In addition to losing historically steadfast export opportunities, the US recreational boating industry could also face higher production costs stemming from a 25% tariff the Trump administration placed on Chinese goods, including such marine products as engines and navigational equipment. These costs will likely be passed on to US consumers, who may forgo the purchase due to the higher price.

As such, the impact of higher prices at home and fewer export opportunities abroad will be felt industry-wide.

Source: The Freedonia Group.

Whiskey (including Bourbon, excluding Scotch)

After the Trump administration increased tariffs on certain steel and aluminum imports, the European Union retaliated with new tariffs on US whiskey (including bourbon and excluding Scotch), which took effect in late June 2018. Around the same time, Turkey also announced new tariffs against US whiskey imports.

The 25% additional duty from the EU will be passed on, in part, to consumers, with incremental price increases expected as distributors in the EU draw down on pre-tariff stocks, imports for which ramped up considerably compared to last year.
As there is no risk of “American whiskey” production moving abroad – the moniker reflects a legally defined geographic appellation – cost-conscious Europeans will increasingly opt for lower-priced foreign whiskeys, constraining US exports and forcing US producers to cut production.

Due to the 2- to 10-year lag in whiskey production – during which the liquor matures – supply shortages or gluts may result if producers misjudge tariff longevity. Given the current level of uncertainty, such misjudgment is more than likely to yield long-term effects.

### US & Retaliatory Tariffs: Whiskey (including Bourbon, excluding Scotch)

<table>
<thead>
<tr>
<th>Entity</th>
<th>European Union</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff</td>
<td>25% additional duty on American whiskey imports</td>
</tr>
<tr>
<td>Effective date</td>
<td>June 20, 2018</td>
</tr>
<tr>
<td>In response to</td>
<td>US tariffs on steel &amp; aluminum imports</td>
</tr>
<tr>
<td>Selected companies impacted:</td>
<td></td>
</tr>
<tr>
<td>Beam Suntory (e.g., Jim Beam)</td>
<td></td>
</tr>
<tr>
<td>Browne-Farrar (e.g., Jack Daniel’s)</td>
<td></td>
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<tr>
<td>Campbell (e.g., Wild Turkey)</td>
<td></td>
</tr>
<tr>
<td>Sazerac (e.g., Buffalo Trace)</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Freedonia Group.

### Wine

In April 2018, the Chinese government announced an additional 15-25% tariff on a range of US-made goods, including a 15% duty on wine products, in retaliation for US-imposed steel and aluminum tariffs. US wine imports to China already face steep tariffs, and this addendum stands to raise the total tariff to about 65%.

The move does immediate harm to the competitiveness of American wines in the Chinese market, where other heavy exporters of wine may not be required to pay tariffs, including:

- Australia (pending ongoing deal negotiations)
- Chile
- New Zealand

Although the wine market in China is mostly geared toward the affluent few – who do not tend to be especially price-conscious – consumers may nevertheless move to less costly alternatives.

US wine exporters hope the tariffs are a short-lived spat and not the new status quo. But if
this ends up being a protracted battle – or escalates into an all-out trade war – the US could miss out on the maturation of a large and significant market for wine.

<table>
<thead>
<tr>
<th>US &amp; Retaliatory Tariffs: Wine</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Entity:</strong> China</td>
</tr>
<tr>
<td><strong>Tariff:</strong> Additional 15% on US wine imports (raises total tax to 65%)</td>
</tr>
<tr>
<td><strong>Date announced:</strong> April 2018</td>
</tr>
<tr>
<td><strong>In response to:</strong> US-imposed steel &amp; aluminum tariffs</td>
</tr>
<tr>
<td><strong>Selected companies impacted:</strong></td>
</tr>
<tr>
<td>Constellation Brands</td>
</tr>
<tr>
<td>Coppola Winery</td>
</tr>
<tr>
<td>E&amp;J Gallo</td>
</tr>
<tr>
<td>Marimar Estate</td>
</tr>
<tr>
<td>Napa Reserve Fine Wines (other larger distributors)</td>
</tr>
<tr>
<td>St. Michelle Estates</td>
</tr>
</tbody>
</table>

Source: The Freedonia Group.

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