ALUMINUM TARIFFS & TRADE WARS
IMPACT ON THE BEER INDUSTRY, AND PERHAPS MUCH MORE

By
Richard M. Blau, Chairman
Nationwide Alcohol Industry Team

GRAY | ROBINSON
ATTORNEYS AT LAW

The current administration in Washington D.C. has promised to impose new tariffs on imported steel and aluminum. Current reports suggest a twenty-five percent (25%) tariff will be imposed on imported steel, with a ten percent (10%) tariff added to the cost of imported aluminum. Enterprising pundits are atwitter over the prospect of a devastating impact that an aluminum tariff could have on one of America's favorite beverages – beer!

Is there cause for concern? Yes, but perhaps not for the reasons cited by the beer industry.

The Beer Facts

Given that more than half the beer produced in America today is packaged in aluminum, it is not surprising that the nation's beer industry has responded negatively to the proposed tariffs. According to The Beer Institute, the 10% aluminum tariff would amount to a $347,700,000 tax on beverages sold in cans. Moreover, in a statement released on March 1, 2018, that same beer industry trade association predicted that the aluminum tariff would result in the loss of more than 20,000 American jobs. Against these concerns, many Americans are wondering whether the country's favorite pastime beverage will become unaffordable.

Misgivings about an aluminum tariff are justified, but should be understood in proper context. At the end of 2016 (the last full year for which the federal government has published industry statistics), more than 5300 breweries operated across America. Our nation's beer industry produced over 190 million barrels, sold over a $100 billion worth of beer, and employed either directly or through related service providers over 69,000 employees. Perhaps most relevant to the issue of an aluminum tariff, approximately sixty percent of all the beer sold by American brewers is packaged in aluminum. In this context, a ten percent tariff on imported aluminum certainly is going to have an impact on America's beer industry. But how much of an impact?

Currently, the United States imports fifty-two percent (52%) of all the aluminum used in this country for manufacturing. That said, focusing specifically on the beer industry, production data indicate that it costs the larger brewers, *e.g.*, Anheuser-Busch InBev, Miller-Coors, Heineken USA, approximately ten cents ($.10) to produce an aluminum can for beer. The ten percent tariff on aluminum, if imposed, would add an additional one cent ($.01) to production costs involving imported aluminum.

However, an often under-reported fact is that Americans are very good at recycling, and aluminum is one of the most successfully recycled products in the United States. According to current industry data, beer cans produced in America today typically contain approximately seventy percent (70%) recycled aluminum. Consequently, the true impact to the end-use consumer of a ten percent tariff on imported aluminum – at least in the context of beer production in this country – may be smaller than once cent per can. Recycled materials may reduce the added cost of production to the point that the marginal increase amounts to one-third of a penny per can, or two cents ($.02) per six pack. Given the current average cost of beer in America today, this represents a relatively small "added tax" to the consumer. In contrast, the burden on drinkers of soda is proportionally much higher, given the relatively lower unit cost of non-alcohol beverage products.

Is the beer industry overreacting? What harm can a few pennies per six-pack cause?

A consumer-focused analysis does not tell the whole story. For example, looking at the production side, beer industry analysts predict that the tariff will amount to a $347,700,000 tax on beverages sold in cans, and will result in the loss of tens of thousands of jobs. How can those effects result from a tariff that raises the consumer's cost by mere pennies?

Consider this: Anheuser-Busch InBev is recognized as the largest beer producer in the world. That company estimates that a quarter of its cost base in the United States is related to the purchase of new aluminum. A ten percent increase in new aluminum costs, directed at an expense category that accounts for twenty-five percent of overall production costs, becomes a much more significant hit to the economics of the situation. Those are the numbers that lead to concerns about raising prices and cutting jobs.

Where the Greater Impact May Lie

Of even greater concern to Americans overall are the impacts that the proposed steel and aluminum tariffs will have beyond the beer industry. Tariffs and trade wars between nations have a long, and often sad, history. Experience shows that the unilateral imposition of tariffs such as those proposed by the current administration are likely to lead to tariff retaliation from those nations that are affected.

News media are reporting (accurately) that the immediate and greatest impact of the proposed tariffs will not fall on market wrongdoers who abuse free trade policies to engage in unfair competition. Rather, in the current case, the steel and aluminum tariffs are likely to impact America's closest allies, *i.e.*, Canada and key members of the European Union.

History shows that the typical reaction to unilaterally-imposed tariffs will be retaliation from the affected countries. Unfortunately, history also shows that retaliatory tariffs rarely apply to the same categories of goods. So, instead of imposing counter-tariffs on U.S.-produced steel and aluminum, retaliating countries are more likely to impose their import taxes on unrelated products, such as wine, American automobiles, and especially agricultural commodities. These are the products that are among the most impactful to the United States economy.

Tariffs, and the concomitant tariff retaliation, could have disastrous consequences for the U.S. economy. America’s tariffs are likely to increase prices. While the analysis above suggests that the increases to consumers for canned beer will be relatively low, the same cannot be said for products that contain significant amounts of imported steel, such as automobiles, kitchen appliances, heavy equipment, and a host of other product categories. Resulting price increases are likely to spur inflation at a time when economists already are concerned about inflationary risks resulting from the huge corporate tax cut and the growth in federal spending that will go into effect this year.

Moreover, retaliatory tariffs from nations such as Canada, China and the EU are likely to depress economic activity in the affected product sectors. For example, if agricultural products are targeted for retaliatory tariffs, they will become more expensive for overseas markets, and therefore more difficult for American farmers to export. Reductions in export sales will translate into lost profits, and potentially even lost jobs as well. Thus, America will face the situation where many of its imported goods are more expensive, while the ability to profitably export *Made in America* goods decreases. The resulting whipsaw effect potentially may eliminate any progress made towards real wage growth for the majority of Americans.

Where the GREATEST Impact May Lie

Will the beer industry, as a slice of the American economy, survive the imposition of tariffs on steel and aluminum? Without a doubt, although adjustment to the tariffs may be a painful process resulting in higher costs of production and the loss of jobs in a time that otherwise would have been an economic renaissance for the beer industry.

What about the rest of the economy, and America as a whole? That is a far more problematic question to answer. The risk of inflationary pressures increasing costs of production and resulting price increases may cause the federal reserve to raise interest rates on a faster schedule than originally intended. Rising interest rates will make the value of the American dollar greater but not stronger. In other words, the dollar will represent a greater value because the federal government is willing to pay more interest to attract lenders; it will not be stronger because of any improved means of production, expansion of resources, or development of additional value.

However, perhaps the greatest downside to all of this lies beyond the economics. Igniting trade wars represents one more example of America's new attitude – an “*America First*” approach that many of our traditional allies across the border and around the globe are translating to mean that

America prefers to "go it alone." Such a concept may have been viable in previous centuries. Not today. Changes in technology, a globalized economy, and shifting international relations render such attitudes not only unrealistic, but dangerous to America and its longer term interests.

Conclusion

Tariffs are the economic equivalent of weapons of mass destruction -- WMDs. As such, they should be deployed cautiously, carefully and with a deliberate purpose directed to address specific market wrong-doing. Whether the steel and aluminum tariffs recently proposed by the current administration meet those criteria appears to be far from clear.

Will America's beer industry suffer from the fallout of their deployment? Probably not in any catastrophic way (*although it's pretty catastrophic if you are one of the 20,000 projected to lose a job as a result of their imposition*).

Will the greater (or greatest) impacts come to pass? THAT is the far more important question.