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Tariff Wars Turn Into Global Food Fight



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There's been a lot of talk about the impact tariffs are having on American companies such as Harley-Davidson and car manufacturers, as other nations slap retaliatory tariffs on U.S. goods. But the fight is going beyond steel to soup and hitting big American food and beverage brands.

Even though the U.S. restricted its tariff tug-of-war largely to raw materials, the battle is turning into a full-scale global food fight. So who is getting caught in this trade war and how are they being affected?

Fitch Solutions Macro Research in a Jan. 14 report (not based on Fitch Ratings analysts) points out how retaliatory tariffs are impacting U.S. exports to China, Canada, Mexico and the European Union.

While U.S. tariffs are "primarily focused on materials and manufacturing products," Fitch Solutions said the pushback has hit different industries hard. Officials are aiming at big brands, including food and beverage.

European Commission President Jean-Claude Juncker last May said tariffs would target Harley-Davidson, Levi's and Brown-Forman, whose products include Jack Daniel's. "These are considered iconic brands for the U.S.," Fitch Solutions' report noted.

Europeans, the report added, can opt for Japanese or Scottish whiskey, potentially driving down Brown-Forman and other U.S. firms' global sales.

Suntory could see a spike, although Europeans may not be so quick to put down their Jack Daniel's.

Brown-Forman, though, doesn't want to take the risk of hiking prices due to tariffs. Fitch Solutions estimates that tariffs could bring Brown-Forman's operating margins down closer to 30 percent, where they had been as of fiscal 2014, before rising above 45 percent.

While tariffs on U.S. brands are bad news at any time, they may be a bigger deal today than a decade ago. U.S. companies are more vulnerable to foreign tariffs as they become more global. They have big tariff targets on their backs.

Brown-Forman sells products in more than 170 countries with 53 percent of its sales abroad compared to 47 percent in the United States in fiscal 2018.

What countries have the biggest thirst for Jack Daniel's and other Brown-Forman brands? The firm's biggest international markets are the United Kingdom, Australia, Mexico, Germany, France, Poland, Russia, Brazil and Canada.

Ocean Spray, PepsiCo (which owns Tropicana), J.M. Smucker and Campbell's Soup all have found themselves caught in the line of fire.

Canada imposed tariffs, including a 10 percent tax on soup, and Mexico hiked tariffs on foods such as cheese and pork. The EU hit U.S. peanut butter with a 25 percent tax, while Canada opted for a slightly different approach: it taxed strawberry jam.

Campbell Soup. Co. soups may be "mmm, mmm good," but the firm likely looks at tariffs as distasteful: Campbell's also got hit by U.S. tariffs, adding costs to its cans.

Still, the United States-Mexico-Canada Agreement, replacing NAFTA, brings some good news for those caught in the food fight. The retaliatory tariffs haven't gone away, but some doors have opened wider for U.S. firms.

Canada will let the United States export more milk protein concentrate, skim milk powder and infant formula and ease access to chicken, eggs and turkey, according to National Hog Farmer.

Thanksgiving may be a U.S. tradition, but the National Turkey Federation expects to see exports to Canada rise by 29 percent. More turkeys will be turning up on Canadian, as well as on U.S., tables.

But tariffs may have a silver lining, as stores boosted backlogs.

"Brown-Forman did report that retailers bought additional inventory in preparation," according to Fitch Solutions.

When you were a child and had a food fight, you got a time out. Perhaps we need a global time out in food and beverage.