



Your fancy European wine and cheese may get more pricey — but don't blame Trump

For some companies, tariffs are a golden opportunity to raise prices and blame someone else for it, economists say.



Some cheese and wine from a specific region of France or Italy can only be made in that area. Since there is no way for producers to avoid tariffs, they would have to pass on the additional cost to the consumer.
David Silverman / Getty Images

July 12, 2019 - By Erik Sherman

The United States is in for another trade war, this time with the European Union, involving tariffs on about \$15 billion a year in imported goods. But, unlike previous fights with Mexico and Canada, and the ongoing one with China, this isn't a whim on the part of President Donald Trump. Instead, it's a dispute over aircraft sales that goes back to the administration of President George W. Bush.

But it will still mean money out of the pockets of Americans.

The genesis of the new tariffs is an old dispute between the U.S. and four E.U. member states: France, Germany, Spain and the United Kingdom.

Airbus, which is about to overtake Boeing as the largest aircraft manufacturer in the world — in large part because of the 737 Max problems — was trying to gain a stronger foothold in the market. The U.S. claimed the four E.U. countries provided subsidies that were illegal under World Trade Organization rules.

Events developed to a point where the U.S. filed a formal complaint with the WTO, with the E.U. following up by filing its own series of charges over American subsidies.

"There's always been sort of a back and forth between the U.S. and E.U. for subsidies for Boeing and Airbus," Matt Thomas, a partner in the international trade group at law firm Blank Rome, said. After years, the WTO found that portions of each side's claims were valid, "although the findings against Airbus are much more substantial than against Boeing," Thomas told NBC News.

That's where the tariffs come in, although the process can clearly take a long time. "With these kinds of WTO cases, if there's a finding against a WTO member for providing the kinds of subsidies that aren't allowed, the country that's injured by that can respond by imposing tariffs on goods from the other country," Thomas said.

The list of potential tariff targets at this point includes a wide variety of foods and wines, handbags, books, clothing, metals, knives and tools, art and cosmetic brushes, tableware and helicopters.

The targets are largely "goods that don't have an easy way of moving around" for production in another country not facing tariffs, according to John Monarch, chief executive officer of supply chain software company ShipChain.

That's why there's such an emphasis on foods such as cheeses and olive oils. Often, part of the marketing cachet is the origin of the product, such as a cheese or olive oil from a specific region of France or Italy. If it must be made in that area, there is no way for producers to avoid tariffs and they would, in theory, put pressure on their governments to solve the problem.

However, the impact of tariffs is indirect as they are essentially a consumption tax imposed on the importers and passed along, presumably, to consumers. Producers are hurt because the ultimate buyers face higher prices, which discourages purchases.

In other words, don't be surprised if the price of Roquefort cheese goes rogue. But tariffs alone won't be to blame.

"The additional management behind those tariffs will take extra human resources, extra management and paperwork, and will drive the cost of trade up," Monarch said. Then there's the profiteering. "A lot of [companies] use the tariffs not as an excuse but as a scapegoat for

increasing prices beyond them. Maybe they were already planning a price increase in the future. This is an opportunity to do it now and blame someone else for it."

"China's an easy target, but Europe's a tougher one," said Michael Wade, professor of innovation and strategy at private business school IMD Switzerland. "They don't seem like they're too foreign or the enemy." And then there's the reaction overseas. "In the E.U., [Trump] has an image of being the American bully and the Europeans are a proud people. They aren't going to bow down."

As the fight continues, there could also be unexpected blowback. Airbus is a large employer in the U.S., as well as in Europe.

"A couple of years ago, the most trophy manufacturing project [for an area to get] was the Airbus facility that went to Alabama," said John Boyd, principal of location consultants The Boyd Company, which has Airbus as a client.

"I think it's important to keep in mind that punishing Airbus, per se, while government bureaucrats may do that, will have a real effect on our economy," he said.