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TRADE WAR 2.0: Implications for the U.S. Distilled Spirits Sector

We often see imports as something that could otherwise be produced in the U.S. This overlooks critical aspects of imports and their significance to the U.S. economy.

Andrew Muhammad

On March 4, 2025, President Trump followed through on a pre-inauguration promise to impose 25 percent tariffs on our largest trading partners: Canada and Mexico. The likelihood of achieving their stated intention - to incentivize those countries' governments to step up efforts to curb drug trafficking and illegal immigration - is uncertain.

What is certain is that tariffs will have a significant impact on both U.S. imports and U.S. exports if Canada and Mexico retaliate. Canada and Mexico are the top two destinations for U.S. exports and are the third and first largest foreign suppliers to the U.S. A trade war with these countries would have a significant impact on the U.S. economy.

As an agricultural economist specializing in international trade, I am often asked about the impacts of retaliatory tariffs on U.S. agricultural exports. Rarely am I asked about the negative impacts of tariffs on imports. However, international trade is not simply a matter of "exports are good, imports are bad."

We often see imports through a competitive lens, as something that could otherwise be produced in the U.S. This overlooks critical aspects of imports and their significance to the U.S. economy. First, imports satisfy demand beyond what we are able to produce. Thus, taxing imports often leads to decreased benefits for consumers that outweigh potential gains for domestic producers. Second – and more importantly – some of the items we import are intermediate goods for domestic production. In the case of agriculture, we import machinery and equipment, as well as fertilizers and chemicals that the U.S. does not or cannot produce.

KEY TAKEAWAYS

- More than half of the **distilled spirits imported by the U.S.** come from Mexico and Canada. Tequila alone accounted for over $5 billion in imports in 2024.
- Recent research shows the 25% tariff charged on Mexican and Canadian goods could generate $1.06 billion in tariff revenue from imported distilled spirits. However, revenue gains are **significantly outweighed** by the $1.23 billion decrease in imports.
- U.S. financial impacts include a **reduction in income for American businesses** who market, distribute, and sell distilled spirits in stores, restaurants, and bars.
- Since products like tequila, Canadian or Scotch whisky, and French cognac **have no direct domestic substitutes**, these are also real losses to consumers.
- When considering tariffs, policymakers should think about whether selected imports fill needs that cannot be met domestically. They should also weigh the cost to intermediate U.S. activities like distribution and retail.

Even in cases where we import final goods (i.e., consumer products), there is still a significant amount of domestic value added, benefiting American companies involved in distribution networks or those who rely on imports as inventory.

My recently published research demonstrates these issues for the U.S. distilled spirits sector, exploring the impacts of 25 percent tariffs on Canada and Mexico.[1] In the study, I focus solely on the impacts on imports and do not consider, for instance, Canada's retaliation against Tennessee whiskey or Kentucky bourbon.

From the perspective of U.S. trade policy, the distilled spirits sector may seem of limited interest on its own. However, distilled spirits play a significant role in U.S. agricultural trade and serve as an ideal case for examining tariff implications for a highly differentiated sector.

Distilled spirits consistently rank among the top five U.S. agricultural import categories.[2] In fact, it could be argued that the rise in distilled spirits imports in recent years has partly driven the current U.S. agricultural trade deficit. In 2024, U.S. imports of distilled spirits were almost $12.0 billion, five times the value of exports (around $2.4 billion). That year, Mexico accounted for more than 45 percent of imported spirits in the U.S., while Canada accounted for around 5 percent.[3]

Figure 1 shows U.S. imports of distilled spirits by product category (e.g., whiskey, tequila, vodka). As seen, total imports increased more than 300 percent from 2000 to 2022. Tequila imports, the largest product category, experienced the most significant growth, growing from $0.3 billion in 2000 to a peak of $5.4 billion in 2024. Whiskey imports also showed an upward trend ($0.9 billion in 2000 to $2.5 billion dollars in 2019). Other categories like liqueurs, vodka, brandy, and other spirits showed varying trends, but overall growth during the period.

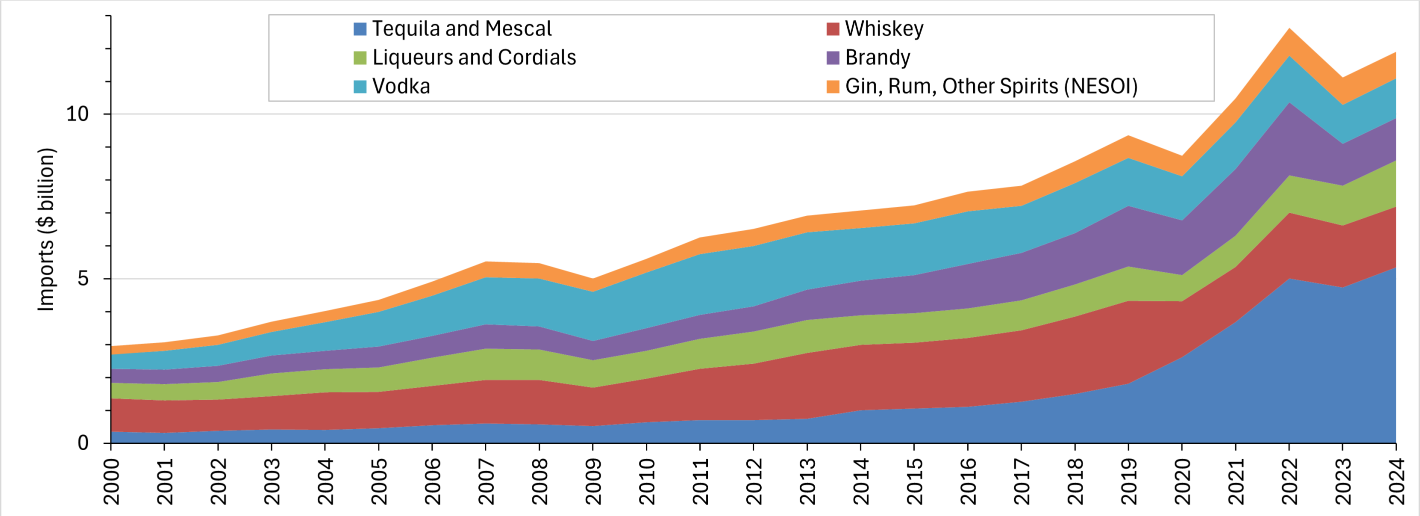

Figure 1. U.S. imports of distilled spirits by product category. 2000-2024

Source: U.S. Department of Agriculture, Global Agricultural Trade System (GATS) (2025). Note: *NESOI* is *not elsewhere specified or included.*

[1] Muhammad, A. 2025. Trump Tariffs 2.0: Assessing the Impacts on U.S. Distilled Spirits Imports. *Agribusiness: An International Journal.* https://doi.org/10.1002/agr.22034

[2, 3] U.S. Department of Agriculture. 2025. *Global Agricultural Trade System.* Foreign Agricultural Service. https://apps.fas.usda.gov/gats/Default.aspx

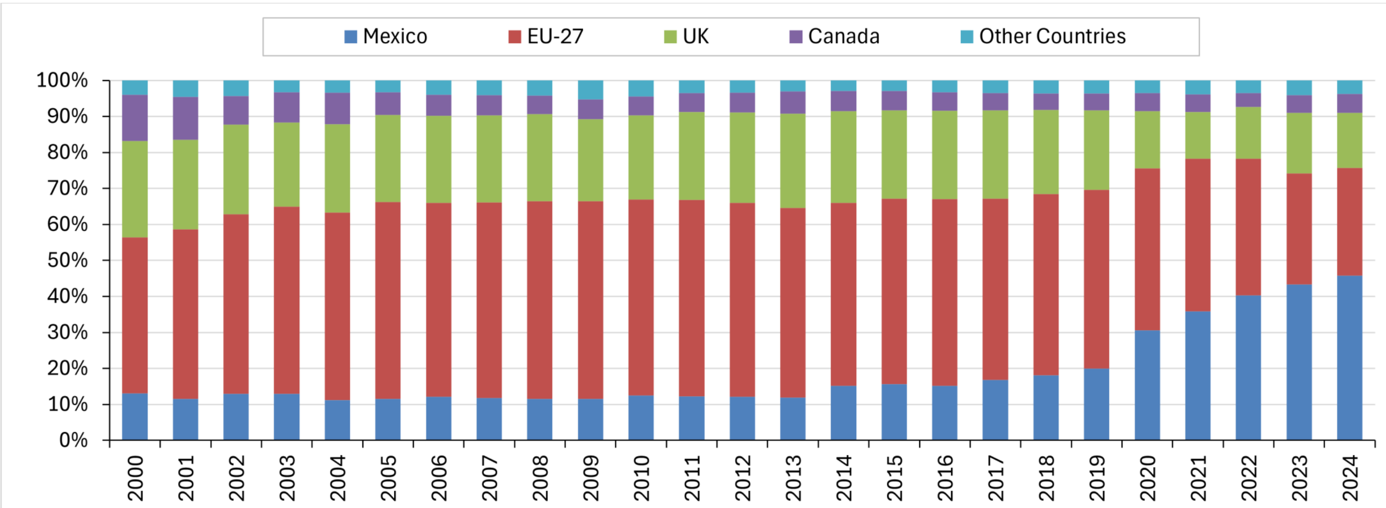

Figure 2. U.S. imports of distilled spirits by source: 2000-2024

Source: U.S. Department of Agriculture, Global Agricultural Trade System (GATS) (2025). Shows total import share by exporting source.

Figure 2 demonstrates the importance of Canada and Mexico in the distilled spirits sector. Over the past two decades, Mexico's market share has more than tripled, growing from 13 percent in 2000 to around 46 percent in 2024. Since 2005, imports from Canada have accounted for anywhere from 4 to 6 percent. Imports from Mexico are mostly tequila, which explains the growing share. Imports from Canada are mostly whiskey and liqueurs (including cordials). Vodka, brandy, and other spirits are mostly from European and other countries.

Impact of 25 percent tariffs on distilled spirits from Canada and Mexico

My research provides a trade modeling framework[4] to assess how total imports are allocated across the primary spirit categories: (1) tequila (including mescal), (2) whiskey, which includes grain-based spirits aged in wooden barrels such as bourbon, Scotch, and whiskey of all types, (3) vodka, (4) liqueurs (including cordials), (5) brandy (from grapes only), and (6) other, which includes gin, rum, other spirits not specified elsewhere.

Since the focus is on product categories, the tariffs are adjusted in the model to account for the proportion of products from Mexico and Canada. In the case of tequila, the full 25 percent tariff is applied because Mexico accounts for all tequila imports. For whiskey, liqueurs, and other spirits, the applied tariff is 4, 6, and 2 percent, respectively, based on imports from Canada and Mexico. The applied tariff is zero percent for the other product categories.

Projections based on the tariffs are reported in **Table 1**. When tariffs are imposed, U.S. distilled spirits imports are projected to decrease by $1.23 billion, falling from $11.9 billion to $10.7 billion. This decrease exceeds the expected revenue gain ($1.06 billion). Tequila imports are the most impacted, as could be expected, decreasing by $810 million. Since the demand for tequila is inelastic, it is not surprising that the tariff revenue from tequila ($910 million) could exceed the corresponding trade loss. But when other notable decreases are considered – whiskey down by $100 million, vodka by $130 million, and liqueurs by $180 million – total losses exceed the tariff revenue. No product category is expected to benefit from the tariff. Even vodka declined, despite no applied tariff. The projected decline in vodka imports is solely due to complementary relationships with tequila and whiskey.[5]

[4, 5] Muhammad, A. 2025. Trump Tariffs 2.0: Assessing the Impacts on U.S. Distilled Spirits Imports. *Agribusiness: An International Journal*. https://doi.org/10.1002/agr.22034

Table 1. Long-run import projections from a 25 percent tariff on Canada and Mexico

Product	Baseline Imports ($ billion)	Baseline Share (%)	Projections given 25% tariffs: Imports ($ billion)	Share (%)	Change† ($ billion)	% Change†	Tariff Rev. ($ billion)
Tequila	$5.35	44.9	$4.54	42.6	-$0.81	-15.1	$0.91
Whiskey	1.83	15.4	1.73	16.2	-0.10	-5.7	0.07
Vodka	1.21	10.2	1.08	10.2	-0.13	-10.4	0.00
Liqueurs	1.41	11.8	1.23	11.5	-0.18	-12.7	0.07
Brandy	1.29	10.8	1.28	12.0	0.00	-0.1	0.00
Other Spirits	0.81	6.8	0.80	7.5	-0.01	-1.1	0.02
Total	11.90	100.0	10.68	100.0	-1.23	-10.3	1.06

Notes: Results are based on analysis in Muhammad (2025) but are updated using 2024 data as the baseline.
†Changes are relative to baseline values. *Tequila* includes mescal, *Liqueurs* include liqueurs and cordials, *Brandy* is from grapes only, and *Other* includes gin, rum and distilled spirits not specified elsewhere.

Considerations for Policy

The current administration has argued that tariffs will lead to significant revenue gains for the federal government. However, the research results described above indicate that revenue gains may not outweigh potential losses to businesses and consumers, at least in certain sectors. The demand for imported spirits is generally inelastic, meaning importers do not react strongly to price changes. Therefore, we might expect that the revenue from tariffs would be higher than the losses from reduced trade. However, my results indicate that even in this scenario, trade losses will surpass tariff revenue, despite the low sensitivity to price changes.

It is often argued that the projected losses are only realized in the exporting country. However, this ignores the losses that occur downstream in our own economy. These include the value added by U.S. businesses engaged in marketing, distribution, and mark-up pricing. Consumers are also negatively impacted by higher prices and decreased product availability.

If policymakers are inclined to implement tariffs despite the known harms to consumers and import-reliant businesses, certain considerations should guide their application:

- *Policymakers should assess whether selected imports compete with domestic production or if they fulfill needs that cannot be met domestically.* For example, imported distilled spirits like Scotch whisky and French cognac are unique products with no direct domestic substitutes.

- *They should also consider impacts on supply chains.* Tariffs disrupt intermediate activities like distribution and retail, reducing profitability for businesses and raising costs for consumers. In the distilled spirits sector, import tariffs can harm distributors, restaurants, and bars while deterring economic activity. In either case, the economic losses from tariffs would outweigh any revenue gains, leaving both businesses and consumers worse off while curbing overall economic growth.

About the Author

Andrew Muhammad is Professor and Blasingame Chair of Excellence in Agricultural Policy in the Department of Agricultural and Resource Economics at the University of Tennessee, Knoxville (UTK).