China's New Wine Tariffs Come With Bad Timing for California Wineries

By: James Niekamp on April 3, 2018 on graydon.law

Concerns of a pending trade war with China are nothing new, however many did not expect wine to join the conversation until recently.

This week, China announced extra tariffs of up to 25% on several U.S. products, including wine. While the wine tariffs are expected to play a relatively small role in the overall tariffs compared to other farm products (for example, China is the #3 overall purchaser of U.S. pork), the tariffs will likely have a lasting impact on California's wine industry, and more specifically Napa Valley.

At first glance, the numbers may not seem significant; roughly 5% of all U.S. wine sales are exports, and of that amount, only 5% is exported to China. However, this statistic ignores the fact that wine consumption in China has increased significantly in recent years, and that China is a fast-growing consumer segment of U.S. wines. Considering that California accounts for approximately **90% of all wine produced in the U.S**., it goes without saying that the Golden State will be hit the hardest by the wine tariffs.

Moreover, since 2000, imported wine has increased from 1% of the market share in China to roughly 1/3 today, and it is **expected to grow substantially in the coming years**. In addition to wine sales, much of Napa Valley's revenue comes from wine country tourism. In 2016, Napa Valley hosted **more tourists from China than from any other country**.

Still, the sentiment in the U.S. wine market seems to be one of missed opportunity rather than lost business (traditionally, foreign wine in China has been dominated by French wines compared to U.S. wines). Fortunately for California, China is the fifth largest importer of its wines, and California's top two importers (the EU and Canada) **each import several times more wine from California annually** than China imports.

However, many U.S. wineries are disappointed nonetheless at the prospect of being subject to increased taxes in the world's second largest economy.