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Policy Implications of Tariff Uncertainty on the Hospitality Industry

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Abstract: *Even in the golden age of globalization tariffs and other trade instruments have been selectively used for both political and economic reasons. These instruments have usually targeted a particular bundle of products and have been directed at specific countries. The universal tariffs announced by the US in April of 2026 were widespread and were instituted with the objective of bringing back US overseas outsourcing and offshoring to the US and raising revenue. The tariffs targeted goods not services. The on-again off-again implementation of the tariffs has had unintended consequences for service industries such as education, consulting, tourism, and hospitality. The paper examines the impact of the tariffs on the hospitality industry. While hospitality may depend on the consumption of sourced products, the paper focuses on wines and the tariff impact on both foreign and domestic wines.*

Keywords: *Liberation Day Tariffs, foreign and domestic wines, price, and income elasticity of wine.*

I. Introduction

The Liberation Day Tariffs were introduced to restore American manufacturing and grow income. The tariffs were imposed to correct an imbalance in goods and bring back manufacturing and jobs lost to unfair international competition. These tariffs were formalized in the Tariff Liberation Day announcement and finalized on August 5, 2025. To date the tariff roller coaster produced pauses, corrections, reductions and increases as countries attempted to negotiate tariff carve-outs, reductions, or exemptions. The on again off again movements, shifting deadlines, and tit for tat responses, created confusion. The lack of outcomes produced a level of uncertainty. Made in America has not helped the tourism and hospitality industry.

Tariffs and taxes have been a consistent nemesis of the hospitality industry. The new proposed 2025 tariffs ranging from 10 percent to 35% would impact a wide range of products used in the hospitality industry. These expected tariffs could impact an industry just recovering from the covid pandemic (Sumagaysa, 2025). These tariffs appeared just as there were fewer tourist visits to restaurants, declining travel, falling retail sales and economic uncertainty.

Tariff Disruptions

Before the recent tariff shock the global economies experienced exceptional growth. The US and global economies all benefitted from the globalization of production and markets. While outsourcing and offshoring moved jobs overseas, disposable income and job formation grew in other areas of goods and services. US consumers benefitted from a wider range of quality products at lower prices. The overseas workers who produced these products enjoyed higher income levels. These workers travelled and consumed a wider range of goods.

The wide-ranging tariffs imposed on 184 countries and territories had an unintended and unexpected adverse impact on the dollar. The dollar fell against every major currency. The tariffs were intended to raise the cost of imported goods, reduce the trade deficit, and lower the demand for foreign currency. However, the markets bet against the dollar, short term treasury bond prices fell, and interest rates rose showing a lack of faith in the dollar. The positive aspect was the weak dollar meant cheaper options for foreign tourists in the US and for US travelers' foreign tourism was now more expensive.

The Impact of Tariffs

Tariffs are a tax on imported products. Ad valorem tariffs were levied on the value of incoming food products, hospitality supplies and incoming wine and spirits. The value would then be taxed at the tariff rate. Specific tariffs tax a unit of the import such as a barrel or a bottle. A compound tariff is a combination of the two methods. Wines and spirits were taxed at a compound rate which is a combination of the ad valorem and specific rate (Farella, 2025).

Foods, furniture, and other imported products consumed by the hospitality industry faced a tariff because of the universal nature of the tariffs targeting 184 countries

The wine and spirits industry operated on a three-tier system. The first tier included importers of wines and spirits into the US. Distributors were in tier two. They were the intermediary between retailers, restaurants, and the foreign producers. The distributors were responsible for storing, transporting, marketing and promotion for the end sellers (retailers and restaurants) (Dupay, 2025). The retailers sold directly to consumers. Consumers purchased wines and spirits in two ways. Consumers purchased wines and spirits from end sellers (the retailers and restaurants) or from the wineries via e-commerce. Wine and spirits consumed in restaurants, and bars were on-trade (away from home) and wines and spirits consumed at home were off-trade (Dupay, 2025).

The importer of the foreign product paid the tariff. The tariff was computed on the total costs incurred up to the time when the foreign product was acquired by the importer. The transaction was verified by US customs and Border Protection using documents from the shipper (either a certified bill of lading or other documentation of the product and its value) (Farella, 2025)). The tariffs were paid prior to the release of the product. If the importer could not pay the tariff, the product was warehoused, and the costs were included in the value when the product was sold to the importer. In the value chain all the players operated with thin margins and no one player was able to fully absorb the total cost of the tariff. The tariff costs might be shared among the importer, the distributor, and the end seller. At some level, the consumer shared the costs. To reduce the impact on the consumer, the importer, the distributor, the foreign seller might absorb some of the cost. But like the players in the three tiers, they also have thin margins. If the tariff rate were too high, the importer reduced orders due to concerns about reduced demand and inventory carry, and availability became limited. Cancelled orders were particularly true for lower priced foreign wines. In a tariffed world, the $20 bottle of imported wine was in short supply (Asimov, 2025).

The distributors offered a mix of foreign and domestic products to the retailers and restaurants and needed the revenue from selling foreign products as well as domestic products. The distributors' ability to sell domestic products was dependent on their ability to sell foreign wines and spirits. As foreign product revenue declined, the distributors' capacity to sell domestic products shrunk.

Most restaurants needed markups on foreign wines and spirits to sustain operations. If foreign products become too expensive or have limited availability, restaurant operations were threatened. The higher end fine wines and spirits were "not fungible." Fine wines from the EU were not easily replaced by wines from Australia or Chile which faced lower tariffs. The same was true for brand name spirits.

The three-tier system at the limit was able to support a 10% tariff. At this tariff rate every level of the tier one and tier two absorbed a share of the tariff rate prior to the consumer. This was a fragile situation (Salvia, 2025).

The Market for Carve Outs and Exemptions

The largest exporter of wines and spirits to the US was the EU. This difference was critical to support importers and retailers in the US. While a 10 percent tariff might be absorbed by the three-tier system, exogenous factors magnified the impact. The rising euro and weakening dollar inflated the increase. The declining demand for wine in the US has reduced production capacity. These exogenous factors pushed EU wine prices from a 10 percent tariff rate to a 25%-30% price adjustment. These price increases disrupted the three-tier system (Salvia, 2025).

France was the largest exporter of wines at $12 billion annually. France was followed by Italy at $6 billion annually (Hancock, 2025). Potential carve outs were supported by the EU and US domestic producers to protect the three-tier system.

While the exemptions relieved the EU of tariffs, US domestic producers faced retaliatory tariffs and boycotts on US wine exports to Canada, the EU and China. US wineries and spirits producers sourced inputs from a global supply chain. Barrels came from France, cork was sourced from Spain and Portugal, and glass bottles were imported from Canada, China, and Mexico. These products were subject to tariffs of 10 to 50 percent depending on their source (Silvia, 2025). Domestic producers believed a carve out created a significant imbalance for them and created a tariff free world for foreign producers. Hospitality depended on selling foreign wines, spirits, and beers to maintain margins. These products included beers from Mexico and Canada, Canadian whiskey, Irish Whiskey, Cognac, Champagne, and rums, all faced tariffs of 10% to 50%.

After on again, off again and pauses, tariffs were finalized on August 5, 2025. The US announced a permanent 10 per cent universal tariff on all imports to the US. Forty countries with trade deficits with the US faced 15 percent tariffs. In addition, selected countries faced higher tariffs. For beer, wine and spirit exporting countries, the tariff rates were 10 percent for Chile, Australia, and Argentina; 15 percent for the EU, New Zealand, and Japan; and 30 percent for South Africa. Potential markets for alcohol imports faced higher tariffs: Canada 25 percent, China 30 percent, and Brazil 50 percent. The continuing concern was the uncertainty that these rates were subject to potential volatility, as countries negotiated and sought exemptions (Buchwald, 2025) (Williams, 2025). At least for now, the US domestic wines and spirits producers faced 15-30 percent tariffs on the materials they sourced in their global supply chains from the EU and China. Tariffs eventually increased the costs to importers and distributors for purchasing foreign wines and spirits.

What Does This Mean for Consumers

The tariffs and the weakened US dollar raised costs on foreign wines and spirits and reduced the availability and variety of foreign brands. Importers became concerned that the higher foreign prices paid by the consumers may limit their orders. The tariffs have a larger impact on the more expensive products.

Wine and spirits were considered a normal good and their price elasticity of demand was in the inelastic range. Any percentage decrease in demand was smaller than the percentage increase in price.

The price elasticity of demand for on-trade was -0.66 and the off-trade (at home consumption) was -1.00 (Ciderova & Milun, 2022). The individual estimated elasticities were -0.47 (beer), -0.71 (wine) and -0.78 (spirits) (Clements et al., 2022). The cross elasticities between these products were minimal. Price increases would have a larger impact on off-trade consumption because individuals have more substitute options.

In the case of most tariffs, the impact on income was limited. However, in this situation universal tariffs have a broader impact on costs and disposable income. The income elasticity of alcohol was positive, indicating a normal good. Alcohol was estimated to have an income elasticity of 1.0. Like price elasticities, there was variation in elasticities across place of consumption, type of wine, and origin (Ciderova & Milun, 2022). A 1.0 increase in income signaled an increase in consumption, but a decrease in income signaled a drop in consumption. Given the universal nature of the recent tariffs, their overall scope, and their volatility, negative incomes could be combined with negative price impacts creating an adverse impact on the hospitality industry. The income elasticity not only impacted alcohol consumption, but it also impacted decisions to eat out.

Today

The situation was vastly different for the hospitality industry. The hospitality industry was experiencing a bounce back in demand from the lows of the pandemic and the roller coaster effects of inflation. The hospitality industry with thin margins was unable to absorb tariffs exceeding 10%. The breadth and universal impact of the current barrage have negative price and income effects. Aside from that, the on again off again nature of the tariffs created uncertainty. Even before the announcement of Liberation Day tariffs, the hospitality industry was experiencing the impact of inflation and economic uncertainty. For the hospitality industry, tariff carve out wine and spirits helped margins and protected a truly domestic industry (Hancock, 2025).

Given the tariff's global impact, domestic hospitality faced a challenging time managing the tariff impact on imported food, wine, and spirits. The hospitality industry discovered that made in America has unintended consequences (Terlep, 2025).

Policy Implications of Tariff Uncertainty on the Hospitality Industry

Travel and hospitality were driven. Travel for leisure and business happened when consumers were confident about the future. When tariffs introduced unpredictably, tit for tat responses threats or escalation, that confidence was shaken (Blengini, 2025).

This uncertainty was reflected in international travel. Visits to the U.S. dropped by 11.6% in March 2025 compared to the same month in 2024 (12). Canada was expected to reduce outbound travel by over 20% and producing a $9 billion drop in U.S. tourism revenue (Blengini 2025).

Hotels were not spared. Recent data showed a downturn in international travel. In March 2025 hotel occupancy fell by 2.3% and revenue per available room dropped by 4%. Major urban destinations anticipated a 6.5% drop in international visitors in 2025 (Blengini, 2025).

Tariffs often ended up undermining confidence and inflating costs, and the potential for inflation. Restaurants and hotels, with their dependence on consumer spending, were impacted by these movements (Adelstone 2025).

As foreign governments retaliated with their own tariffs, international travelers from these countries were less inclined to visit the U.S. (Adelstone & Harris, 2025).
Data from the U.S. Travel Association, showed. visitor numbers from China had dropped by 17%, while arrivals from European countries decreased by 12% (13). Hotels in major cities were impacted by a potential decline in European or Asian travelers, but smaller destinations in the northern U.S. were disproportionately hurt by a lack of Canadian visitors (Noelle, 2025). If hotels passed increased operating costs to guests via higher room rates, they faced reduced occupancy. Reduced room charges and low occupancy rates were a bad combination (Noelle, 2025).

Conclusion

The tariffs on wine and spirits, and other inputs plus the decline in tourism have created a heightened level of concern in the hospitality and tourism industry. Hospitality and tourism in the U.S. were an example of an industry best described as made in America, but tariffs coupled with staffing issues, and economic uncertainty have impacted the industry.

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