# Diageo faces rising costs from US tariffs despite UK trade deal



The rising cost of a pint of Guinness is set to become a reality as British drinks giant Diageo confronts an estimated £111 million impact from US tariffs. This predicament emerges despite the UK government securing a trade deal with Donald Trump's administration. Diageo, known for its extensive portfolio that includes Guinness, Smirnoff, and Johnnie Walker, notified its stakeholders about the 10% baseline tariff on imports that will adversely affect one of the UK's leading export sectors.

Diageo's Chief Executive Debra Crew stated that the company has no plans to divest Guinness, asserting a commitment to its flagship brand despite the looming financial strain. The new tariffs are particularly troublesome for Johnnie Walker—recognized as Scotch whisky and therefore restricted to production within the UK—making it vulnerable to price adjustments. The company recently enhanced its marketing efforts through a partnership with Netflix, promoting limited-edition bottles associated with the hit series "Squid Game." This move may be an attempt to bolster sales amidst the challenging economic landscape.

While the expected tariff rates have cast a shadow over Diageo's financial outlook, there is a semblance of relief as initial fears about a more substantial 25% tariff on Mexican spirits have not materialized. This outcome is significant, particularly because 45% of Diageo’s sales in the US are reliant on imports from Mexico and Canada, including popular brands such as Don Julio tequila and Crown Royal whisky. The company remains under scrutiny amidst criticisms aimed at Keir Starmer's trade agreements that appear to favour the automotive sector while neglecting key exporters like Diageo.

In a strategic response to evolving market conditions, Diageo has initiated a $500 million cost-saving programme, set to be realised by 2028. This initiative is a direct reaction to prolonged sales declines, designed to enhance annual free cash flow to $3 billion and reduce company debt. Notably, the estimated annual impact from US tariffs has seen revisions, dropping from an earlier $200 million forecast to $150 million. This adjustment follows a reprieve from initially threatened higher tariffs on Mexican tequila and Canadian whisky.

Global market trends present further complications for Diageo. A recent report indicates that the broader alcohol industry faces significant challenges, with tariffs prompting increased consumer prices, potentially affecting job stability on both sides of the Atlantic. Early estimates suggested that if implemented, tariffs could lead to steep declines in sales, job losses, and brands disappearing from bar menus. Fortunately, many major producers’ shares remained stable in light of avoided harsher tariffs, suggesting cautious optimism within the sector.

Despite an overall increase in organic sales of 5.9% reported in its recent trading statement, there is a palpable tension as Diageo navigates shifting consumer demand and heightened scrutiny from investors. The alcoholic beverage industry is grappling with fears of a long-term decline akin to that faced by tobacco. Analysts point to the importance of Diageo’s agile, digitally driven global model, intended to ensure that its financial foundations remain robust amid ongoing trade uncertainties.

As Diageo strives to manage its responses to external pressures, the delicate balance between maintaining brand loyalty and adjusting to rising costs exemplifies the resilience required in today’s shifting economic landscape. The impacts of tariffs on the drinks industry, while concerning, may also push players like Diageo to innovate and adapt in ways that could redefine their market strategies.

### Reference Map

1. Paragraphs 1-2: Source 1
2. Paragraph 3: Source 2
3. Paragraphs 4-5: Source 3
4. Paragraph 6: Source 4
5. Paragraph 7: Source 5
6. Paragraph 8: Source 6
7. Paragraph 9: Source 7

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.express.co.uk/news/uk/2057491/guinness-prices-set-rise-due-to-us-tariffs> - Please view link - unable to able to access data
2. <https://www.reuters.com/business/retail-consumer/diageo-braces-150-million-tariff-hit-unveils-500-million-savings-plan-2025-05-19/> - Diageo, the global spirits giant known for Johnnie Walker and Guinness, has unveiled a $500 million cost-saving initiative targeting completion by 2028. The move comes in response to prolonged sales declines and aims to generate approximately $3 billion in annual free cash flow starting in fiscal 2026, as well as reduce company debt. CEO Debra Crew emphasized the plan's role in sustaining performance and maximizing shareholder returns amid ongoing market challenges. Additionally, the company has revised downward its estimated annual impact from U.S. tariffs to $150 million, compared to a previous forecast of $200 million, following a reprieve from threatened 25% levies on Mexican tequila and Canadian whisky. These imports are crucial as 45% of Diageo’s U.S. sales depend on products sourced from Mexico and Canada, including Don Julio and Crown Royal. Despite the challenges, Diageo posted a 5.9% rise in third-quarter organic sales and affirmed its full-year forecast, attributing recent growth partly to preemptive stock shipments to North America ahead of potential tariff changes—an effect expected to reverse in the fourth quarter.
3. <https://www.ft.com/content/7f75344b-4182-4d82-aed6-48e5c74fabcc> - Diageo, the maker of Guinness and Johnnie Walker, announced plans for significant asset disposals and a $500 million cost-cutting initiative to address declining alcohol demand and investor pressure. CFO Nik Jhangiani indicated the portfolio overhaul would extend beyond typical brand sales. The strategy aims to boost annual free cash flow to $3 billion by next year, up from $2.6 billion. Shares have fallen 24% over the past year amid concerns the alcohol sector might face structural declines similar to tobacco. Diageo denied rumors of selling Guinness or its Moët Hennessy stake but may divest assets like East African Breweries Limited, its Chinese baijiu business, or underperforming brands such as Captain Morgan. Analysts suggest these sales reflect moves toward a more asset-light strategy in volatile markets. Despite these initiatives, Diageo's Q1 net sales rose 2.9% to $4.4 billion, including a 5.9% rise in U.S. sales due in part to tariff-related stockpiling. The company lowered its annual operating profit loss estimate from tariffs to $150 million and expects to mitigate half of this. Diageo's new agile, digitally driven global model aims to reduce debt ratios well within its target range by 2028.
4. <https://www.reuters.com/business/retail-consumer/trumps-tariffs-set-drive-up-bar-bills-cut-jobs-2025-04-03/> - U.S. President Donald Trump’s newly announced reciprocal tariffs are expected to significantly impact the alcohol industry, increasing consumer prices, removing popular brands from bar menus, and causing job losses on both sides of the Atlantic. The tariffs include a 25% levy on all beer imports and aluminum cans, affecting brands like Corona and Heineken. Iconic drinks such as Italy's Campari-based negroni and Guinness from Diageo are also targeted. While the most severe tariffs—200% on European alcohol and 25% on Mexican tequila and Canadian whisky—were not implemented, the existing measures are already causing concern within the industry. European exports of spirits to the U.S. totaled €2.9 billion in 2024, and French and Italian trade groups warn of steep sales declines and job losses. Japanese producer Suntory plans to refocus sales on local markets, and the Distilled Spirits Council of the United States cautions that the tariffs could lead to retaliatory measures and threaten U.S. jobs dependent on imported spirits. Despite these concerns, shares of major producers remained mostly stable due to the avoidance of harsher tariffs.
5. <https://www.ft.com/content/3847def5-9c3b-4a1f-96db-caad010faa49> - Wall Street analysts are increasingly questioning US companies on their strategies to handle potential tariff impacts from President Donald Trump's trade wars. The word 'tariff' has appeared frequently in earnings calls involving S&P 1,500 Composite companies, echoing a similar trend from Trump's first term. The President planned 25% tariffs on Canada and Mexico, paused for a month, and a 10% levy on Chinese imports. Companies like Johnson Outdoors, Tyson Foods, and Constellation Brands are developing mitigation strategies, with some potentially facing significant profit declines due to tariffs. The industrial sector, including auto parts and clean energy, also anticipates higher costs. However, some companies with alternative manufacturing bases, like Napco Security Technologies, may gain a competitive edge. The situation remains fluid with ongoing engagements between companies and government authorities.
6. <https://www.reuters.com/business/retail-consumer/johnnie-walker-corona-beer-major-alcohol-firms-could-face-tariff-hit-2025-02-04/> - Major alcohol firms like Johnnie Walker, Corona beer, and other well-known beverage brands could face significant impacts due to new tariffs imposed by U.S. President Donald Trump on goods from Mexico, Canada, and China. Although tariffs on Canada and Mexico were paused for 30 days, a 10% levy on Chinese imports has prompted retaliatory tariffs, leading to potential risks for various companies. Diageo, Pernod Ricard, Campari, Anheuser-Busch InBev, Brown-Forman, Constellation Brands, Molson Coors, Heineken, and Becle could all experience sales and profit reductions. Key brands affected include Johnnie Walker, Smirnoff, Aperol, Budweiser, and Jack Daniel's, with exposure differing based on the company's production locations and reliance on imports. As the tariffs come into effect, these companies are expected to take measures to mitigate the financial impact.
7. <https://www.theguardian.com/business/2025/feb/04/johnnie-walker-owner-diageo-trump-sales-recovery> - Diageo, the company behind Smirnoff vodka and Johnnie Walker whisky, has said US tariffs could damage a nascent recovery in its sales and result in a $200m (£161m) hit to profits, with its tequila portfolio and Canadian whisky most affected. The UK drinks company returned to sales growth in the latest half year, as strong performances for Guinness and tequila offset weakness in other spirits – but Donald Trump’s 25% tariffs on Canadian and Mexican imports could stop this recovery in its tracks, analysts said. Diageo shares fell by a further 1.6% on Tuesday, after a 3.7% drop on Monday, on concerns about the impact of the tariffs on the US, its largest market.