

# Trade and Tariffs: Current Implications for Manufacturers

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# Speakers



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# Learning objectives

1

Cite recent development in tariff and trade policy

2

Analyze the impact of policy change on the supply chain

3

Describe recommendations on business operations based on trade policy changes

# State of Trade – By the Numbers

**↑10%** Value of goods imported  
from FY17-18 (\$2.64T)

**↑20%** Import duty collected  
from FY17-18 (\$41.6B)

Five major trade enforcement actions initiated since 2018 with  
significant duty implications

**\$27b**

duty on Chinese imports  
since Jul 2018

**\$6.1b**

duty for steel products  
since Mar 2018

**\$1.7b**

duty for aluminum  
products since Mar 2018

**\$851m**

duty for solar cells and  
modules since Feb 2018

**\$166m**

duty for washing  
machines since Feb 2018

# Overview

- Changes to the international trade system
- Use of tariffs globally on the rise
- Trade Facilitation and Trade Enforcement Act (P.L. 114-125)
- Executive Orders on trade enforcement issued in FY17-18
- Industry Trends
- Mid / Long-term solutions



# Section 201 Tariffs on Solar Products and Washing Machines

- On January 23, 2018, the President issued Presidential Proclamation 9693 and Presidential Proclamation 9694 imposing tariff rate quotas and increased duties on imports of solar cells and panels, and washing machines and parts, effective February 7, 2018
- Deadline to file an exclusion request was on March 16, 2018
- These duties are eligible for drawback refunds if the products are exported

## 201 Tariffs on Solar Products and Washing Machines

	Year 1	Year 2	Year 3	Year 4
First 1.2 million units of imported finished washers	20%	18%	16%	
All subsequent imports of finished washers	50%	45%	40%	
Imported solar cells and modules	30%	25%	20%	15%

# Section 232 Tariffs on Steel & Aluminum

- Effective June 1, 2018:
  - Aluminum: **10% tariffs** on selected aluminum imports from most countries, effective indefinitely.
  - Steel: **25% tariffs** on selected steel imports from most countries, effective indefinitely; this includes Turkey as of May 2019 (which was previously subject to 50% tariffs).
- As of May 2019:
  - *Aluminum products* from Argentina, Australia, Canada, and Mexico are not subject to the additional tariffs
  - *Steel products* from Argentina, Australia, Brazil, Canada, Mexico, and South Korea are not subject to the additional tariffs
- These are not eligible for drawback refunds, even if exported or destroyed

Investigations automobiles and auto parts are ongoing and could result in additional import restrictions.

# Section 301 Tariffs on China

In August 2017, USTR launched an investigation against China determining “China’s acts, policies and practices related to technology transfer, intellectual property, and innovation” to be “unreasonable and discriminatory” resulting in:

## 301 Tariffs on Chinese Imports

	Tariff	# of Commodities	Effective date	General Types of Commodities
List 1: \$34B of Chinese imports	25%*	818	July 19, 2018	Machinery, & electronics, & automobile parts
List 2: \$16B of Chinese imports	25%*	279	August 23, 2018	Plastics, chemicals, machinery, and electronics
List 3: \$200B of Chinese imports	25%*	6,031	September 24, 2018	Automotive, chemicals, base metals, textiles, machinery, electronics, tooling, wood, and paper
List 4A and 4B: \$300B of Chinese imports	15%	3,085	4A: September 1, 2019 4B: December 15, 2019	Nearly all remaining commodities such as footwear, textiles, and others

\*USTR is proposing to increase List 1, List 2, and List 3 tariffs from 25% to 30% effective Oct. 1, 2019. Comments on this proposal are due by Sept. 20.



# Section 301 Tariffs on China Exclusion Process

## Considerations:

- Determination if the particular product is available only in China;
- Determination if the imposition of additional duties would cause severe economic harm to the requester; and
- Determination if the particular product is strategically important or related to “Made in China 2025” or other industrial programs

### 301 Tariffs on China – Exclusion Requests

	Deadline
List 1: \$34 billion of Chinese imports	October 9, 2018
List 2: \$16 billion of Chinese imports	December 18, 2018
List 3: \$200 billion of Chinese imports	September 30, 2019
List 4A and 4B: \$300 billion of Chinese imports	TBD

# U.S. Trade Forecast

- Institute for Supply Management's manufacturing index is at 49.1 for August, down from 51.2 in July
- China, EU, India, Japan, Russia and Turkey imposing retaliatory tariffs
- Intensifying tariff battle is decreasing trade flows but not shrinking the U.S. trade deficit which is at \$55.2 billion
- USCMA requires Congressional approval
- Trade agreement negotiations are ongoing with Japan and the EU



**International trade uncertainty is rising**

# Private Sector Effects

- Increased uncertainty and unpredictability in the system is requiring companies to engage in thoughtful supply chain planning
- Companies are starting to think of the impacts from a macro- and long-term perspective
- Many companies are delaying their investment decisions
- Pandora's Box is open and we will not be going back to the status quo



# Example of Private Sector Response

A company was manufacturing electronics in China and importing the finished products into the United States. Their products were subjected to the increased tariffs and significantly affecting the company's profitability on their new product.

- We worked with the client to map out new long-term supply chains and recommended avenues to have dynamic sourcing options in the event of further changes to the international trade system.
- The company is having to make short-term investments to better secure their supply chains with their forecasts anticipating significant savings to the bottom line with a more agile approach to sourcing.
- Deployed short-term cost saving solutions such as updated transfer pricing agreements and valuation reviews.

# How can the private sector better prepare and adapt to the evolving trade policies

- Optimize supply chains with dynamic sourcing options
- Leverage the *de minimis* rules for direct to consumer sales
- Invest in automation to optimize manufacturing
- Agile scenario planning
- Technology investments
- Import classification analyses
- Substantial transformation of your manufacturing processes
- Import valuation analyses & First Sale Rule
- Bonded warehouses and Foreign Trade Zones (FTZs)
- Duty Drawback

# Possible Impacts on Supply Chains

- Supply Chain Strategy & Operating Model
  - Short term / long term supply chain strategy
  - Manufacturing and distribution networks
  - Utilization of contract manufacturers
- Customer Satisfaction
  - Margins and product portfolio
  - Alternative shipping strategies
  - Customer segmentation logic
- Sourcing & Procurement
  - Sourcing strategy and relationships
  - Volume commitments to suppliers
  - Geopolitical considerations and currency
- Total Supply Chain Cost to Serve
  - Service level commitments to customers
  - Deployment and flow paths
  - Channel conflict and demand cannibalization

# Any final questions?



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