

U.S. Tariff Update



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Current Tariff Impact

Oct. – Dec. 2018 (Q1 of FY 2019)

An Increase of 8+ Billion in customs duties received

This is an 83% increase over the same period last year and is attributed to the increased tariff's



Current Tariffs Overview

Tariff in Place	Commodity	Effective	
Section 201	Solar cells and Panels, Washing machines and parts	Feb. 7, 2018	
Section 232	Tariffs on Aluminum and Steel	March 23, 2018	
Section 301	List 1	Imposes 25% duty on \$50 Billion worth of goods from China	July 6, 2018
	List 2	25% tariff on \$16 billion worth of Chinese imports on 284 tariff lines	August 23, 2018
	List 3	10% tariff on \$200 Billion of Chinese imports. These tariffs are set to rise to 25% on March 2, 2019	Sept. 24, 2018
	List 4	Duty rate of 25% on approximately \$267 Billion of Chinese Imports that will be on all remaining Chinese products.	TBD

232 Tidbits

Initiated March 23, 2018 against Steel and Aluminum imports.

While it is being tweeted and declared a victory for the steel mills, claiming that the industry has been ‘totally revived’ by the tariffs, there seems to be conflicting data.

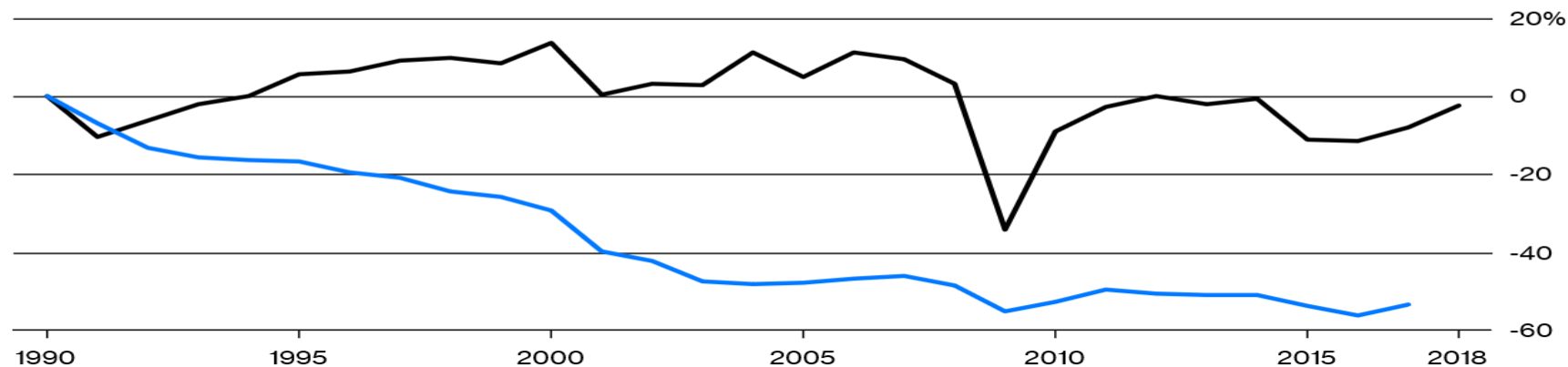
According to a January 30, 2019, Bloomberg article - while steel production rose 4%, the total number of American steel jobs increased just 1% in 2018.

“It takes the same amount of people to run a blast or electric arc furnace at 100% utilization or 70% utilization,” says Curt Woodworth, a steel analyst at Credit Suisse. The industry is “just turning up the dial on capacity.”

Same Steel, Fewer Payrolls

Change since 1990

Raw steel production U.S. employees in iron and steel mills*



Data: World Steel Association, Bureau of Labor Statistics

232 Tidbits

	Steel	Aluminum
Total Entries Posted	92568	8883
Total Requests Posted	45083	6034
Number of Companies Requesting Exclusions	738	171
Avg Number of Requests Per Company	61.1	35.3
Most Requests by One Company	4540	724
Total Objections Posted	15397	462
Number of Companies Filing Objections	71	11
Avg Number of Objections Per Company	216.9	42
Most Objections by One Company	3448	176
Total Rebuttals Posted	1682	308
Number of Companies Filing Rebuttals	177	19
Most Rebuttals by One Company	993	78
Total Surrebuttals Posted	1404	230
Total Decisions Posted	19792	1849
Approved	14424	1619
Approved - No Objections Posted	14416	1596
Approved - 1+ Objections Posted	7	22
Denied	5357	230
Denied - No Objections Posted	5007	211
Denied - 1+ Objections Posted	350	19
Denied - Incomplete	5229	221
Denied - Sufficient Supply	128	9
Denied - 0 Objections Posted/Sufficient Supply	6	2
Avg Days from Submission to Decision	109.7	163.3
Avg Days from Posting to Decision	86.2	147.1
Longest Wait Time with No Decision (from Posting Date)	285	293
Longest Wait Time with No Objections and No Decision (from Posting Date)	274	293

The decision rate for all the entries posted (for both Steel and Aluminum) is 21% with an average wait time of 109.7 days

Section 301 – China Tariffs

	List 1	List 2	List 3	List 4
Import value	\$34 B	\$16 B	\$200 B	\$267 B
# of HTSUS codes affected	818	279	5,745	All Goods From China
Duty	25%	25%	10% 25% on 3/2/19	25%
Effective Date	7/6/18	8/23/18	9/24/18	TBD

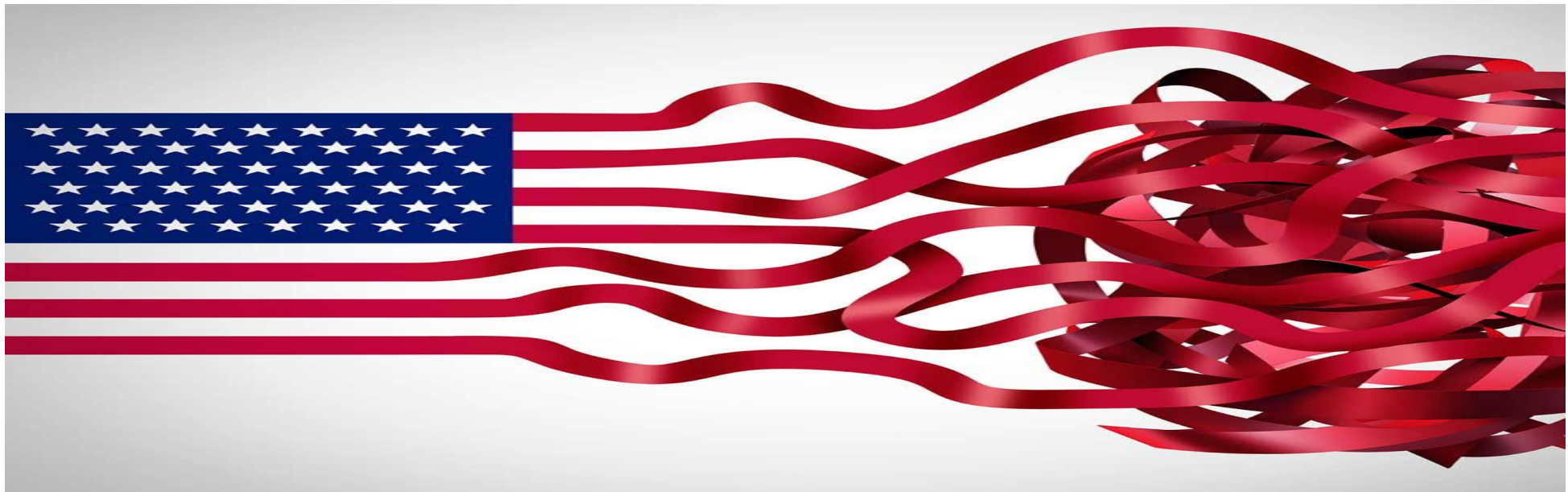
Section 301 (1) exclusions update

- Dec. 28th: USTR published an initial list of products
- Exclusions are retroactive to July 6th 2018
- Within the 20 HTSUS numbers
 - 7 are fully excluded
 - Only certain products are excluded under the other 13 HTSUS numbers

Fully Exempt	Partial Exclusions	
8412210075	8407210080	8420109080
8418690120	8421190000	8439991000
8480718045	8421210030	8466925010
8482105044	8425390100	8481909040
8482105048	8428320000	9022140000
8482105052	8428330000	9032100030
8525601010	8419902000	

What is on the Horizon?

- Section 301 List 3 Extension to delay the increase to 25% expires on March 1st, 2019
Exclusions may be possible at that time.
- Section 301 List 4 Current administration has alluded that there will be tariffs added to the remaining \$276B in goods imported from China



What is on the Horizon?

- Section 201 - Current action is a under a limited timeframe and is to end Feb. 2022 (latest)
- Section 232 – Auto
Investigation was announced May 23, 2018
Report is still pending – to be filed by February 18, 2019
Will potentially place additional tariffs or quotas on automobiles and auto parts.



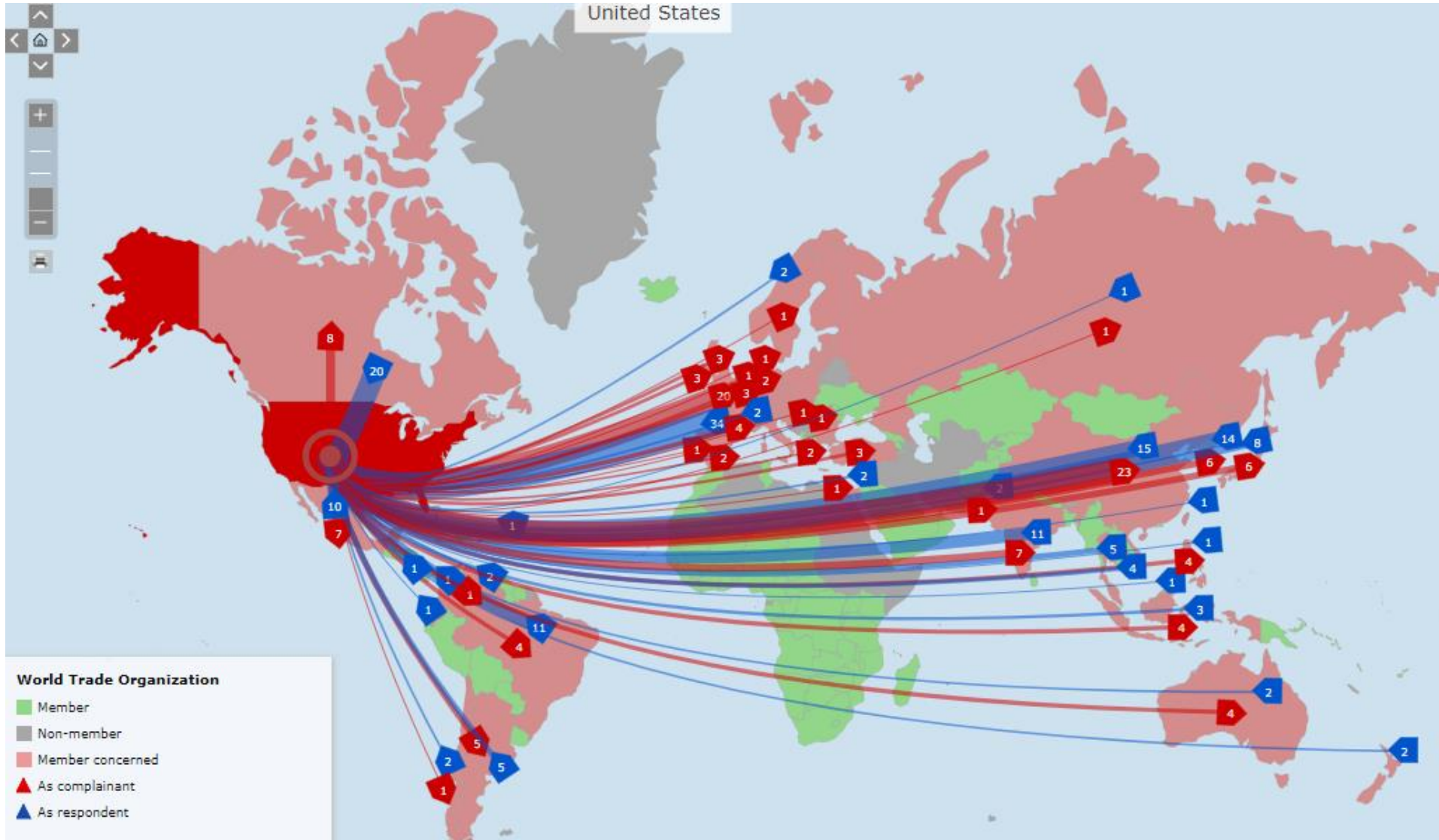
“Trade Security Act”

U.S. Reps. Jackie Walorski (R-Ind.), Ron Kind (D-Wis.), Terri Sewell (D-Ala.), and Darin LaHood (R-Ill.) introduced the “Trade Security Act”, a bill that will reassert Congressional authority over trade and tariff policy by reforming Section 232.

“The president is right to seek a level playing field for American businesses and workers, but the best way to do that is with a scalpel, not an axe,” Congresswoman Walorski stated.

[HR 1008](#), the Trade Security Act, would put the Department of Defense as the lead agency to investigate the national security threat and Department of Commerce would lead the remedy phase. It would also give Congress more of a role by requiring consultations and expanding the ability to consider a resolution of disapproval, which is currently limited only to petroleum or petroleum products. As always, it’s a [complicated](#) path forward for a lot of reasons.”

Introduction: Trump's Tariffs



EU Implements Safeguard Effective Feb. 2019

- The European Commission adopted definitive measures on imported steel products from all non-European Economic Area countries.
- Certain countries that have signed on as Economic Partners will be exempted – Botswana, Cameroon, Fiji, Ghana, Ivory Coast, Lesotho, Mozambique, Namibia, South Africa and Swaziland.
- This measure consists of a country specific quota based on average imports from 2015-2017 for 26 steel product categories to counter 'trade diversion' due to the U.S. Section 232 tariffs.
- Imports above the quota will be subject to a 25% ad valorem duty.
- This measure will remain in place until July 16, 2021



BOTTOM LINE IMPACT

Of the 110 S&P 500 companies that reported third-quarter earnings, 41 of them — or 37 percent — have either explicitly discussed or answered questions about tariffs.

- W.W. Grainger - "With respect to tariffs, we have deployed a cross-functional task force to gain a clearer understanding of the tariff impact, as well as to execute mitigating actions. The team meets daily, reporting to senior leadership at least weekly. Some of their actions include validating tariff increases, working with suppliers to minimize the cost impact including identifying alternative supply and evaluating pricing actions while ensuring that our pricing stays market-based. With respect to quantifying the impact, product directly sourced from China represents about 20% of the U.S. segment's cost of goods sold." - Thomas Okray, chief financial officer.

Fourth quarter earnings brought headlines of the big tariff bills for some companies.

- [Harley Davidson](#) said 2018 tariffs would cost \$45-55 million.
- [Caterpillar](#) said five months of tariffs in 2018 cost \$100 million and they're expecting \$200 million in tariff costs in 2019.
- [Ford](#) said their bill was \$750 million, which reduced workers' profit sharing checks by \$750.
- [General Motors](#) Co. said late last year that tariffs on steel and aluminum had already cost it \$1 billion.

Managing the Impact

Reassess the sourcing, procurement and manufacturing strategy to identify and mitigate your exposure.

1 – Assess Total Supply Chain

Contracts & Pricing Review

- Look for Country of Origin requirements
- Duty liabilities on effected tariffs
- Exposure to price changes
- Leverage Procurement and Financing solutions

Supply Chain Assessment

- Review spend exposure in component purchased
- Evaluate forecast for any expected increases in demand
- Correspond on topics such as backup supplies and suppliers to circumvent tariffs

Manufacturing Footprint

- Shift production of finished goods to low cost country?
- Review supply base production strategy

Supplier Engagement

- Plan beyond the 12 month deal
- Management engagement with domestic suppliers

Managing the Impact

2 – Identify Margin Impact & Engage Leadership

- Develop “What If” Models
- Sourcing will be relied upon to understand the financial risk
- Develop cross-functional teams to execute the supply chain changes

3 – Evaluate Risk to *Your* Products and Services

- Do your products fall under any of the retaliatory tariffs
- Closely monitor supplier demand

Create Partnerships With Your Manufacturers

