



# Tariffs Bulletin August 2019



## Maine Pointe's quick guide on tariffs: Insights to protect your supply chain

Maine Pointe's tariffs bulletin provides a regular update on the latest developments in the ongoing international trade war. We look at how geopolitical uncertainties are forcing organizations to transform their global supply chains to mitigate against the escalating threat posed by price increases and protectionism.

### The US and China

In a series of tweets on August 1, President Trump confirmed that the US will make good on its threat to introduce 10% tariffs on the "tranche four" list of \$300Bn worth of Chinese imports. The timing of the announcement came as a surprise to many given the latest ceasefire has only been in place since Presidents Trump and Xi met in Osaka at the end of June. This latest round of tariffs will come into effect on September 1. It will cover a number of sectors that have not previously been affected and include categories such as footwear, apparel and toys, which will directly impact US consumers.

The rhetoric continued to heat up in the wake of this announcement when, following a 1.4% drop in the yuan, the US Treasury branded China a "currency manipulator." In response, China accused the US of "deliberately destroying international order."

At the time of writing, trade talks between the US and China are expected to go ahead as planned in September with President Trump still confident that a "significant trade deal" can be done. In the meantime, the US manufacturing industry is bracing itself for a bottom-line impact which will be reverberate across the entire supply chain.

[Click here](#) to view list of items affected in tranche four.

### The US and the EU

On July 25, one year after President Trump and EU President Jean-Claude Juncker agreed to work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods, the EU Commission presented its progress report. The statement lists a number of areas where headway has been made, including a significant increase in EU imports of liquified natural gas (LNG) and soya beans from the US and productive discussions on cooperation and standards. However, the report confirms discussions on eliminating tariffs on industrial goods have still not left the starting blocks.



## Brexit

On July 23, Boris Johnson won the race to become leader of the Conservative party and UK prime minister, vowing to take Britain out of the European Union on October 31, “do or die.” A game of chicken is now underway, with Mr Johnson refusing to meet EU officials unless the controversial Irish backstop is dropped and the EU 27 adamant that the backstop stays. As the likelihood of a no deal Brexit increases, UK businesses are being urged to prepare for disruption to supply chains and trade.

[Click here](#) to view the latest UK Government advice on how to prepare for a no deal Brexit.

## The US, Mexico and Canada

In June, Mexico became the first signatory to ratify the United States-Mexico-Canada Agreement (USMCA) and Canada began the ratification process. In the US, following four meetings between House Democrats and Trade Representative Robert Lighthizer, both sides reported they have made progress towards a deal. No details of this agreement have yet been released but, if successful, it will clear the way for Congress to pass the agreement.

## Iran

Amid heightening tensions in the Persian Gulf, INSTEX, the special purpose vehicle established by France, Germany and the United Kingdom to circumvent US sanctions on Iran, became operational at the end of June. INSTEX is a barter system which matches the Euro payments of companies buying goods from Iran with the Euro receipts of companies selling goods to Iran. The system has been made available to all EU member states however, it is currently limited to medicine and food. Even if the scope is widened to include oil as Iran has demanded, the impact is likely to be limited to small and medium European companies as larger organizations will be unwilling to risk their US business.

## Impact on supply chains

**“Regardless of the ultimate duty rate, organizations that import any products or materials from China still have to plan for any possible future scenario. There is no time to waste.”**

*Steve Bowen, Chairman & CEO Maine Pointe (Supply Chain Dive, Aug. 2)*

The introduction of tranche four tariffs is a major blow to hopes for an improvement in US-China trade relations. However, the fact that the two sides are continuing to talk means there is still a glimmer of light at the end of the tunnel. At a time when uncertainty is the only certainty, this may be of little comfort to business leaders. The sensible course of action is to prepare your supply chain for every eventuality. Before you can do this, you need to be confident you have complete visibility across the supply chain from your suppliers' suppliers through to your customers' customers. If you don't have this assurance, you need to act now.

## Further reading

[China says US currency manipulator labelling could cause chaos in financial markets](#), Reuters

[How bad would a no deal Brexit be for the economy?](#) New Statesman

[EU mechanism for trade with Iran now open](#), DW.com

[Brexit: What happens now?](#) BBC News

[10% China tariffs and the supply chain scramble](#), Supply Chain Dive

If you would like to talk about any points raised in this bulletin, contact us for a no-obligation discussion email: [info@mainepointe.com](mailto:info@mainepointe.com)

### About Maine Pointe

Maine Pointe is a global supply chain and operations consulting firm trusted by many chief executives and private equity firms to drive compelling economic returns for their companies. We achieve this by delivering accelerated, sustainable improvements in EBITDA, cash and growth across their procurement, logistics and operations. Our hands-on implementation experts work with executives and their teams to rapidly break through functional silos and transform the buy-make-move-fulfill supply chain to deliver the greatest value to customers and investors at the lowest cost to business. We call this Total Value Optimization (TVO)<sup>™</sup>.

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