



Tariffs Bulletin July 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

Presidents Trump and Xi met at the G20 summit in Osaka on June 29. As a result, the two agreed to call a truce, resume trade talks and hold off on the 25% tariffs the US was threatening to impose on an additional \$300Bn of Chinese goods. President Trump declared negotiations were "back on track," a statement he appeared to back up by agreeing to allow US companies to resume selling tech to Chinese giant Huawei (a major concession on the president's part). The US announced that, in return, China has agreed to buy American farm products, although no details were disclosed.

This is not the first time in the year-long trade war that the two leaders have declared a ceasefire only for negotiations to get derailed over trade and technology. As a result, tariffs watchers have greeted the news with cautious optimism

The US and the EU

In July 2018 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.

However, in the twelve months since that joint declaration, little progress has been made. Negotiations finally began in May 2019 but as the US has made it clear that any deal must include agricultural goods and the EU has made it equally clear that it won't accept any deal that includes them, the outlook for an agreement is not too positive.

Brexit

Following three unsuccessful attempts to persuade the UK Parliament to pass the EU Withdrawal Agreement Bill, Prime Minister Theresa May finally bowed to pressure and announced her resignation on May 24. Since then, the focus has been on leadership elections within the majority Conservative party. The party's new leader, and the UK's new prime minister, takes over on July 23 and has until October 31 to either negotiate and pass a new withdrawal agreement or leave the European Union without a deal.



The US, Mexico and Canada

The US agreed to indefinitely suspend tariffs on Mexican goods in return for concessions on immigration. As a result, Mexico became the first nation to ratify the new USMCA trade agreement (also known as NAFTA 2.0). The agreement still has a steep hill to climb as it needs to be ratified by Canada (where the process is underway), and the US Congress (where it has suffered months of delays).

India

After the US ended India's participation in a preferential trade program which exempted around \$6Bn of Indian goods from US import duties, India retaliated with tariffs on 28 categories of US goods. Items hit include apples, which will be hit by a 70% tariff, as well as almonds and some chemical products. According to the WTO, the goods are worth around \$240M.

Iran

Tensions remain high in the Persian Gulf as Iran continues to press the EU to do more to help its struggling economy and grant relief from US sanctions. Iran has announced a policy of progressive breaches of the terms of the 2015 nuclear agreement. In an attempt to keep the agreement alive Germany, France and Britain have set up a special purpose vehicle known as Instex which aims to help EU companies trade with Iran and avoid US Treasury sanctions. However, this is not yet operational and, given the high level of interconnectivity between many American and EU companies, officials acknowledge it will be difficult to implement and even when it is operational the effects will be negligible. The EU wants the deal to survive but finds itself stuck between Tehran and Washington with few practical solutions available to them.

Impact on supply chains

With the US-China tariff situation showing glimmering signs of abatement, organizations still need to adapt to the new reality of uncertainties. Companies need to decide how to react to volatile costs in their supply chain strategy and prepare for any number of possible future scenarios. One way to mitigate against the uncertain nature of the supply chain is to form cross-functional teams representing supply chain, finance, strategy and marketing. Getting an outside perspective from a third-party expert may also add value. The bottom line is, if you haven't already begun to tariff proof your supply chain, there is no time to waste.

Further reading

[Clock is ticking for ratification of the USMCA trade agreement](#), Market Watch

[Brexit countdown: what happens next and what you need to know](#), Financial Times

[United States – Mexico – Canada Agreement](#), United States Trade Representative

[The truth about tariffs](#), Council on Foreign Relations

[Iran knows it can't count on Trump defeat as sanctions bite](#), Bloomberg

If you would like to talk about any points raised in this bulletin, contact us for a no-obligation discussion email: info@maineprime.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)TM.

Maine Pointe's engagements are results-driven and deliver between 4:1-8:1 ROI. We are so confident in our work and our processes that we provide a unique 100% guarantee of engagement fees based on annualized savings. www.maineprime.com