Tariffs Bulletin August 2018

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

The arguments for and against tariffs

Tariffs are border taxes used to restrict imports. They are imposed to increase the price of foreign goods and services. In principle, this makes them less attractive to consumers which encourages domestic production and protects jobs. Here's a summary of some of the arguments for and against tariffs:

Pros	Cons
By making foreign goods more expensive, domestically-produced ones become more attractive	With reduced competition, domestic industry can become less efficient, resulting in price increases
It will protect domestic industry and protect jobs	Those worst hit by price increases may choose to move production to a lower-cost country meaning jobs in some sectors will be threatened
Imposing tariffs on a trading partner's exports provides economic leverage	Retaliation from trading partners is almost inevitable, leading to trade war

1. How have events unfolded?

A key theme of Donald Trump's election campaign in 2016 was that American jobs were being lost as a result of unfair global trade. In March 2018, the president announced the US would impose tariffs on imported steel and aluminum. Further action against China was later announced with 25% tariffs imposed on many Chinese exports. August 7, the Office of the US Trade Representative (USTR) announced tariffs of 25% on an additional $16 billion worth of Chinese goods beginning August 23. This brings the tariff total to $50 billion, which represents around 10% of goods imported from China. The new list of tariffs covers 270 categories including many industrial products.

- *Click here* for a full list of Chinese products affected by the first tranche of US tariffs.
- *Click here* for a full list of Chinese products affected by the second tranche of US tariffs.

2. How did the US's major trading partners respond?

China

Beijing immediately retaliated to the first round of tariffs with duties of the same value on many American goods including soya beans and cars. The latest proposals provoked a furious response from Beijing, which blasted the US actions as "totally unacceptable" and said it would be forced to "fight back as usual". August 8, China's commerce ministry confirmed it will impose 25% tariffs on $16BN worth of US imports starting August 23. The list of 333 categories includes fish meal, paper waste, metal scrap and some types of cars.

- *Click here* for a full list of US products affected by the first tranche of Chinese tariffs.
- *Click here* for a full list of US products affected by the second tranche of Chinese tariffs.

The European Union

After declaring the White House's decision an "illegal act", The EU announced its own 'rebalancing' tariffs on around €2.8bn ($3.2Bn) worth of US steel as well as industrial and agricultural products, including bourbon, peanut butter, cranberries and orange juice. These came into effect July 22. The Union also has in reserve potential tariffs of 10-50% that it could impose on a further 3.6 billion euros of US imports in three years' time. However, July 25, after a meeting between President Donald Trump and President of the EU Commission Jean-Claude Juncker, the two released a joint statement agreeing to set up a working group to lower trade barriers.

- *Click here* for a full list of US products affected by EU tariffs.

Canada

Canadian Prime Minister, Justin Trudeau, described the tariffs as, "totally unacceptable." He announced $16.6 billion in retaliatory tariffs. The value of the Canadian tariffs, which came into effect July 6, matches the value of the US tariffs dollar-for-dollar and covers 299 US goods, including steel, aluminum and a variety of other products.

- *Click here* for a full list of US products affected by Canadian tariffs.

Mexico

The Mexican government implemented retaliatory tariffs on around $3 billion worth of US goods. These Mexican tariffs, which went into effect on June 5, are imposed on US steel, pork, cheese, whiskey and apples among other goods.

- *Click here* for a full list of US products affected by Mexican tariffs.

3. How has business reacted?

Nervously. An open-ended trade war has created business uncertainty. A series of surveys released over the past few weeks indicate that companies are becoming increasingly concerned that the trade fight could hurt their bottom lines, drive up costs, or make it difficult to operate.

For instance, in June, a survey conducted by CNBC survey of CFOs of major US companies found that despite strong gross domestic product and job growth and profit-friendly corporate tax cuts, nearly 65 percent of North American CFO respondents felt trade policy is likely to negatively impact their firms over the next six months.

The Institute for Supply Management's July survey also flashed a disturbing signal: While manufacturers are experiencing healthy demand in the US, they're considering expanding outside the country to avoid tariffs in a widening trade war.

In Europe, exporters on the continent are becoming increasingly worried about the potential impact of tariffs and other trade restrictions. In the UK the threat of trade tariffs is compounded by political uncertainty over Brexit, while there are still lingering effects from higher UK inflation triggered by the EU referendum two years ago.

4. Is it all just sabre rattling?

That remains to be seen but the current tension involves the world's three biggest economies – the US, China and the EU – and it's too big to ignore.

5. Should I wait and see what happens or act now?

Now is the time to be proactive and get actionable insights into your end-to-end supply chain and operations. To achieve this, you should consider the following:

- De-risking your supply base by improving the optionality of your global supply base
- Optimizing the efficiency of your supply chain and operations in the light of increased costs
- Assessing the potential risks 'vs' benefits of expanding production outside the US

Taking a holistic approach to your supply chain and operations can help you implement a synchronized buy-make-move-fulfill supply chain optimized to deliver the greatest value to customers and investors at the lowest cost to business, leading to improved EBITDA, cash flow and growth.

Unsure whether your supply chain and operations are ready to respond?

If you would like to discuss any points raised in this bulletin, contact us at: info@mainepointe.com for a no-obligation discussion and find out how you could unlock the untapped potential in your end-to-end supply chain and weather the uncertainties of a global trade war.

Useful Links

IMF World Economic Outlook, July 2018 *https://www.imf.org/en/Publications/WEO/Issues/2018/07/02/world-economic-outlook-update-july-2018*

How the US-China Trade War will Transform the Global Economy, Forbes, July 2018, *https://www.forbes.com/sites/yuwahedrickwong/2018/07/13/how-the-u-s-china-trade-war-will-transform-the-global-economy/#44a919c11c09*

What Provoked Trump's Tariffs, Politics or Economics? London School of Economics, July 2018, *http://blogs.lse.ac.uk/government/2018/06/13/what-provoked-trumps-tariffs-politics-or-economics/*

Are Trump's Tariffs a Good Idea? The Arguments For and Against, The Spectator, June 2018, *https://www.spectator.co.uk/2018/06/are-trumps-tariffs-a-good-idea-the-arguments-for-and-against/*

What Trump's Trade War Could Mean for the WTO and Global Trade, Harvard Business Review, June 2018 *https://hbr.org/2018/06/what-trumps-trade-war-could-mean-for-the-wto-and-global-trade*

IHS Markit, US Manufacturing PMI, July 2018 *https://www.markiteconomics.com/Survey/PressRelease.mvc/368b1aa446ec458baffca63d6ab76530?s=1*

IHS Markit, Eurozone Manufacturing PMI, July 2018 *https://tradingeconomics.com/euro-area/manufacturing-pmi*