



# Tariffs Bulletin October 2018



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

### Tariffs and geopolitical tensions continue to pose a significant threat to supply chains

#### Key events\*

- After the drama of September, October was relatively calm. There was even cause for cautious optimism early in the month when the US, Mexico and Canada announced the new USMCA trade agreement.
- The IMF says tariffs and protectionism are hurting global growth. The Fund's latest [World Economic Outlook](#) report presented a [revised forecast](#) predicting the global economy would expand by 3.7% this year and next, down from an April estimate of 3.9%.
- There are storm clouds on the horizon as China and the EU have joined Canada, Mexico, Turkey, Norway and Russia to ask the World Trade Organization to investigate the legality of the Trump administration's decision to impose metals tariffs on national security grounds.
- Talks between the US and EU have remained tense with patience wearing thin on both sides of the table. The EU's chief trade negotiator, Cecilia Malström has complained the US had yet to come up with proposals to lower tariffs on industrial goods while US Commerce Secretary Wilbur Ross lashed back accusing the EU of "dragging its feet."

#### United States-Mexico-Canada Agreement (USMCA)

The United States-Mexico-Canada Agreement (USMCA) is set to replace NAFTA. The new agreement, impacting \$1.2 trillion of trade, will be signed in November before seeking ratification by legislatures of all three nations. President Trump has said the new agreement will transform North America back into a manufacturing powerhouse.

The two most striking parts of the new deal could help car manufacturing workers in all three countries and encourage investment in the North American automotive sector. The deal also offers help for American workers – 40-45% of truck and car parts will be required to be made by workers earning at least \$16 per hour. Other US industries that stand to gain include dairy and pharmaceuticals. The agreement will also offer more protection for intellectual property rights.

Discussions are underway to restore Canada and Mexico's exemptions from US steel and aluminum tariffs, but no deal appears imminent. In the meantime, Canada has imposed its own 25% tariffs on steel imports.

Most business and lobbying groups signalled early approval of the USMCA although several groups cautioned that full support would come only after they digested the deal's technical details.

#### Rising geopolitical tensions threaten global supply chains

Events elsewhere in the world have created additional complexities for CEOs and supply chain leaders. Tension is mounting between the US and Saudi Arabia in the wake of the killing of Saudi journalist and Virginia resident Jamal Khashoggi, and there have been threats of sanctions against Turkey.



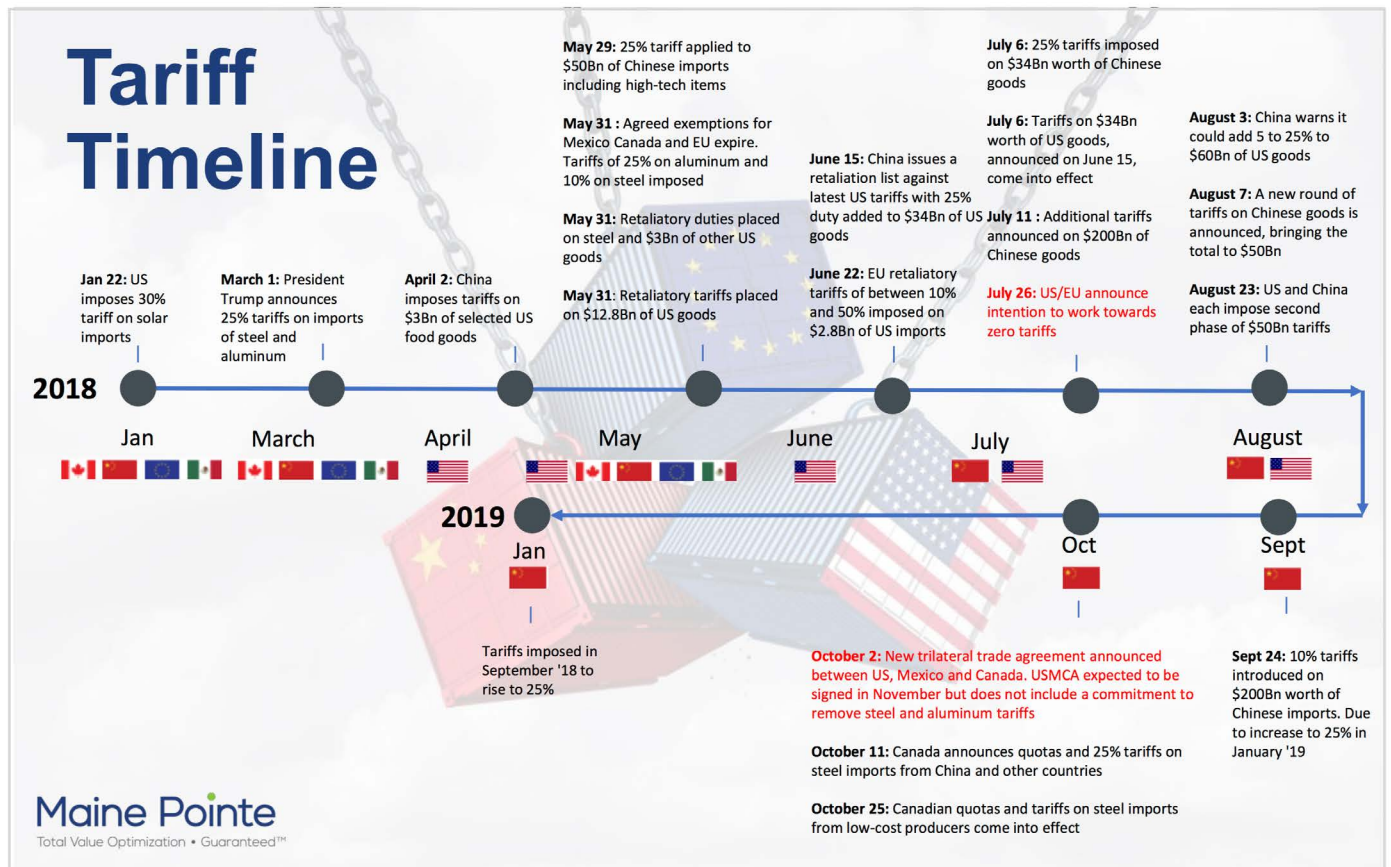
For companies and individuals who deal with Iran, things are about to get extremely complex. The bottom line is, if you deal with Iran, it's very likely you won't be able to deal with the US, and it's the US companies who will be responsible for compliance. With severe penalties, including the loss of all export privileges, for companies that violate the sanctions, this is a risk that cannot be underestimated. Many major companies including French oil company Total SA, shipping company AP Moller-Maersk, Peugeot, GE, Boeing and Indian company Reliance Industries, Ltd have acted pre-emptively by announcing their exit from Iran.

Such a volatile environment puts global supply chains under extreme stress. To minimize the risk, it's imperative to have complete visibility of the end-to-end supply chain, and collaboration is key. You need to know everything about your customers' customers and suppliers' suppliers to identify any potential threats.

With so much at risk, 'wait and see' is simply not an alternative. If you haven't already begun to explore your options, now is the time to act, not only to find low-cost providers in countries not impacted by tariffs but to be 100% certain you (and your suppliers) are not at risk of violating sanctions. Rigorous due diligence is more important than ever to ensure your new suppliers or customers are not on any "blocked" lists.

### Further Reading:

- [Canada imposes its own steel tariffs in response to Trump's](#), Washington Examiner, October 12, 2018
- [A closer look at the NAFTA replacement deal](#), Industry Week October 18, 2018
- [The Iran sanctions are coming for your supply chain](#), Industry Week, October 19, 2018
- [Threats of US sanctions could accelerate a Saudi shift eastwards](#), CNBC, October 23, 2018



\* Observations based on information gathered between October 1 and October 26 2018

### 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)™.

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.mainepointe.com](http://www.mainepointe.com)