



Tariffs Bulletin September 2018



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

1. What are the latest developments in the trade war?

The last month has seen continued escalation in the tariffs war, with Turkey and India entering the fray, additional US tariffs on Chinese goods and fresh appeals raised with the WTO. Here's a summary of the key events:

China

With tariffs on \$50Bn of Chinese imports already in place, on September 17 the US announced duties (starting at 10% rising to 25% in 2019) on \$200Bn worth of Chinese imports including jet engines, electronics and fish. The tariffs will come into effect on September 24. Earlier this month, President Trump threatened to impose tariffs on a further \$267Bn worth of Chinese goods. If these additional duties came into effect, the total value of Chinese goods taxed by the US would reach \$517Bn. The Chinese commerce ministry has said that it has no choice but to respond with retaliatory tariffs.

Mexico and Canada

There was a slight thaw in the chilly relationship between the US and Mexico with the announcement on August 27 that the two countries have finally reached a "handshake deal" on NAFTA (renamed the US-Mexico trade agreement). President Trump achieved significant concessions from Mexico. However, he did not agree to roll back tariffs on steel and other imports from Mexico. This bilateral agreement appears to have left Canada out in the cold.

With Congress pressing to keep Canada in the agreement, high-level negotiations are expected to recommence week commencing September 17.

Europe

Negotiations got off to a slow start with the US administration pressing for "much faster" progress after President Trump agreed not to impose proposed border taxes on European firms while the two sides discussed wider economic relations. Following a meeting with EU Trade Commissioner, Cecilia Malmstrom, US trade representative Robert Lighthizer said that an early harvest in the area of technical barriers to trade could be reaped as soon as November. However, a full trade deal remains far off with Ms. Malmstrom saying, "Lots of work remains for Autumn." An indication of just how tough these negotiations may be is President Trump's response to the Union's surprising agreement that all trade in autos should be tariff free. The president described this concession as, "Not good enough."

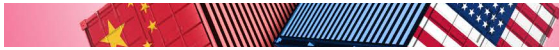
2. How are US businesses responding to the tariffs?

More than 22,000 manufacturers have requested exemption from tariffs, claiming there is no way to obtain the materials they need from a domestic producer. This has caused a major administrative headache for the commerce department. So far, only around 100 requests have been processed and just over 50% have been denied.

High profile companies asking for exemption include the largest aluminium producer in the US, Alcoa, who claim they are not able to buy the quantity and quality of metal they need in the US.

The retail sector has prepared for the introduction of tariffs on Chinese products by importing record amounts of merchandise. The number of containers that came into US ports in June was up by 7.8% year-on-year and July & August are expected to hit record highs.

[Click here](#) to read more real-world stories about the impact of tariffs.



3. How have tariffs impacted company earnings?

A number of major companies have reported a negative impact on earnings as a result of tariffs:

USA

- General Motors – lowered guidance due to steel and aluminium costs
- Whirlpool reported a decline in demand and headwinds related to tariffs
- Harley Davidson cited the costs of new tariffs and higher raw material prices as factors of mediocre earnings
- Newell Brands announced that tariffs could cost the company \$100M
- **Caterpillar said it's preparing for as much as \$200M in tariffs-related costs in the second half of the year**
- Ford estimated tariffs will cost \$500-\$600M this year
- Stanley Black & Decker said higher prices have so far helped fend off the impact of tariffs

EU/China

- Mercedes maker Daimler blamed US-China tariffs for a 30% drop in second-quarter profit announced 26 July and prefigured in a profit warning last month
- French electrical equipment company Schneider anticipates growth will slow in the second half of the year and expects the first extra costs linked to higher US tariffs could reach €20M
- Fiat Chrysler has cut its 2018 outlook, hurt by weaker performance in China. Its operating profit for the second-quarter was negatively impacted by China import duty changes

While it is unfair to blame all their woes on tariffs (profits at Harley Davidson have been declining steadily for the last four years), there is little doubt of their impact on profits. For example, August 21, a [new study](#) released by The Consumer Technology Association found that the consideration of tariffs on Chinese printed circuit assemblies and connected devices would cost the economy \$520.8M and \$2.4Bn annually for the 10% and 25% tariffs, respectively.

As tariffs spread to additional categories, we're likely to see a lot more casualties. Keep up with the latest tariff-related company reports and stories on our [tariffs web pages](#).

4. What actions can executives and supply chain leaders take?

Optionality is the name of the game. The smart move is to balance risk by exploring sourcing opportunities in countries that are not affected by the tariffs. In addition, now is the time to negotiate the best possible deals on any raw materials, intermediate or finished goods that are not impacted by tariffs. Companies such as 3M and General Electric which have diversified global supply chains have expressed confidence in their ability to change their sourcing.

In a recent interview with [Ameritrade Network](#), Maine Pointe's CEO and Chairman, Steven Bowen discussed how tariffs are affecting industry and talked about the importance of a collaborative end-to-end supply chain.

Further Reading:

[It's Crunch Week \(Again\) for NAFTA With US and Canada at Odds](#), Bloomberg, Sept 17, 2018

[Tariffs Forever! The Politics of Protectionism Mean It's Here to Stay](#), Weekly Standard, Sept 15, 2018

[US Trade talks with EU on course for partial deal in November](#), Financial Times, Sept 10, 2018

[Infographic: 5 Facts About Tariffs That Might Surprise You](#), Maine Pointe, Sept 2018

[Who pays the price of tariffs in the US?](#), Industry Week, August 21, 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