



Tariffs Bulletin Jan/Feb 2019



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

2019 is set to be another turbulent year as tariffs, geopolitical uncertainties and new technologies add fresh complications to already complex global supply chains. Maine Pointe's tariffs bulletin keeps you up to date with key developments and their impact on businesses.

Alongside our regular updates on US-EU negotiations and Brexit, this month's bulletin looks at the 90-day trade 'truce' between the US and China. We ask what, if any, headway has been made so far and consider some of the supply chain challenges companies may face if no agreement is reached.

The EU and UK

Have there been any breakthroughs in negotiations with the EU?

- January 9, Bloomberg reported the EU's executive arm was getting ready to ask the bloc's governments for the green light to start negotiations with the US on a free-trade deal
- The EU has made it clear it doesn't want a quick or comprehensive trade pact and that US demands for greater access to the market for its agricultural goods are not up for discussion
- The Bloc has also cautioned the US and China to resolve their trade war with a deal that avoids discriminating against European companies
- A [February report by the UN's trade and investment body](#) indicates the Europe is likely to be the biggest winner of a US-China tariff war, picking up the largest part (\$70Bn) of the bilateral trade (\$250Bn) diverted from the world's two largest economies

What is the latest news on Brexit?

With Brexit day (March 29) edging closer every day, the UK is no closer to reaching a divorce agreement with the EU 27. Following the heavy defeat of Mrs May's Brexit deal, Parliament voted to send the prime minister back to Brussels to secure amendments to the agreement, specifically regarding the Irish backstop.

If, as seems very likely, the Bloc refuses to budge significantly, Mrs May will either need to persuade Parliament to back her amended original deal or leave without a deal – a scenario which would be bad for both the EU and the UK.

The US and China

Has the 90-day trade war "truce" between the US and China brought the two countries closer to a deal?

In November last year, US President Trump and Chinese President Xi Jinping met at the G20 summit in Buenos Aires and agreed to call a 90-day ceasefire in the escalating trade war.



- At the time of the G20 meeting, the US had already imposed tariffs on \$250Bn of Chinese goods and planned to increase tariffs on \$200Bn of goods from 10 percent to 25 percent on January 1
- The 'ceasefire' postponed this increase until March 1, giving the US and China 90-days to iron out their differences and bring the trade war to an end

What progress has been made?

- Two days of high-level trade talks January 30-31 showed promise. While the talks did not result in a deal, President Trump claimed China's pledge to buy more US soybeans was a sign of, "tremendous progress"
- February 1, the Chinese delegation echoed this sentiment, saying, "important progress" had been made
- China agreed to "vigorously expand" imports of US agricultural products, energy products, industrial manufactured goods, and service products.

What's next?

Negotiations will continue when US trade negotiators visit China mid-February but President Trump has ruled out the possibility of another face-to-face meeting between himself and President Xi Jinping before the March deadline. The White House is holding firm on its position that March 2 is a "hard deadline" and planned tariff increases will take place if no deal has been reached by March 1. It is unlikely China will be willing or able to meet all of the structural demands placed upon it by the US negotiating team, a factor that will create a lasting impasse.

What does this mean for supply chains?

The temporary "truce" has caused additional stress and a new layer of unpredictability for manufacturers. Making short-term supply chain plans has become more difficult and, at the same time, manufacturers are having to re-evaluate their supply chains for short, medium and long-term adjustments.

- Companies will face challenges as they are forced to reconsider relationships with Chinese companies with which they have had long-standing and productive relationships
- A new shift will include forging partnerships with companies in India and ASEAN nations
- Companies will also mitigate some of the added tariff costs by placing greater emphasis on supply chain optimization to drive more value and free up cash
- In some cases, depending on the industry, it may be more logical to stay in China, even with a 25 percent tariff

Further Reading

[Tariffs present an opportunity for supply chain collaboration](#), SupplyChainBrain

[US importers stocked up on Chinese goods ahead of tariffs](#), Reuters

[Trump to meet China's Xi to try to seal trade deal, progress reported](#), Reuters

[The EU is taking an important step towards a new US trade deal](#), Bloomberg

[What would a no deal Brexit mean for international business?](#) Galvin International

[Podcast – Tariffs: Who survives a trade war?](#) SupplyChainBrain

[There could be a surprise winner in the US-China trade war: The EU](#), Fortune

[No talks between Trump and China's Xi before trade deadline](#), Reuters

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

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