



Tariffs Bulletin June 2019



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

It has been an unsettling month for businesses anxiously monitoring developments in the global trade war. Relationships between the US and China, the EU and Mexico have come under increasing strain with an increase in the level of existing tariffs and the threat of a swath of new ones. Our June bulletin cuts through the noise to provide a concise overview of the most recent events. It looks at the implications for global supply chains and offers practical advice on how to protect your supply chain against disruption and cost increases.

The US and China

The month started badly and only got worse as hopes for an imminent resolution of the dispute between the US and China collapsed. In addition to increasing tariffs on \$200Bn of Chinese imports from 10% to 25%, the US has called for tariffs of up to 25% on almost all remaining imports. These 'tranche four' tariffs would impact \$300Bn worth of goods. China's response was to announce its own tariffs of between 5% and 25% of US imports effective June 1. While many businesses had prepared for the increase to 25%, the inclusion of virtually all remaining Chinese imports will come as a blow.

“I think companies falsely relaxed a little bit hoping for an agreement. As this tariff moves to 25%, the equation will change quite significantly, China may no longer continue to be the least expensive option. This will tilt the scale for companies to begin to make many more moves and change the supply base.”

Steve Bowen, Chairman & CEO, Maine Pointe

The relationship between the two nations was put under further strain when the US placed Chinese tech giant Huawei and its global affiliates on the "entity list". This Bureau of Industry and Security list publishes the names of certain foreign persons – including businesses, research institutions, government and private organizations, individuals, and other types of legal persons – that are subject to specific license requirements for the export, reexport and/or transfer (in-country) of specified items. Although the US later issued a 90-day reprieve, the Chinese commerce ministry announced on May 31 that it will release its own 'blacklist' of "unreliable foreign companies and individuals."

The US and Mexico

When President Trump announced on May 17 that he would remove steel and aluminum tariffs on Mexico and Canada, it looked like the path was clear the USMCA (NAFTA 2.0) to be ratified. That



changed on May 30 when President Trump announced tariffs of 5% on all Mexican imports until the country stops immigrants from entering the US illegally. The tariffs will come into effect June 10 and will increase by 5% each month until October 1, when the rate would reach 25%. The tariffs will remain at that level until, “Mexico substantially stops the illegal inflow of aliens coming through its territory.” Mexican President, Andres Manuel Lopez Obrador responded saying he did not want confrontation, “I propose deepening our dialogue, to look for other alternatives to the migration problem.” If the US goes ahead with this move, there will be major ramifications for complex cross-border supply chains.

The European Union

On May 15, the Trump administration announced its plan to delay the imposition of tariffs on car imports from the EU by six months. On May 17, the White House instructed USTR to negotiate with the EU, Japan, and “any other country the Trade Representative deems necessary” to address how the import of autos and auto parts has harmed US producers and report back within 180 days. Given that the EU has been obstinate in its refusal to negotiate quotas on autos or auto parts, it seems unlikely these negotiations will progress very far. EU trade commissioner Cecilia Malmström has warned the bloc’s trade ministers to prepare for the US to hit billions of Euros worth of European goods with tariffs, as the decades-long dispute over unwarranted subsidies for Airbus continues to ramp up.

Brexit

Little progress has been made since the EU agreed to extend the UK’s exit date to October 31. With Theresa May due to step down on June 7, all eyes are on the race to choose her successor who, as Britain’s next prime minister, will be responsible for finding a way to take the country out of the European Union.

The time for ‘wait and see’ has passed

Any hopes business may have had for a return to ‘business as usual’ have been crushed by the events of the last few weeks. Any organization pursuing a ‘wait and see’ policy need to put it aside and take a synchronized, aligned and optimized approach to the end-to-end supply chain and operations. If you haven’t already done so, consider the following:

- Have you de-risked your supply base by improving the optionality of your global supply base?
- How can you optimize the efficiency of your supply chain and operations in the light of increased costs?
- Have you assessed the potential risks vs benefits of expanding production outside the US to countries unaffected by the tariffs?

Need help?

If you would like to discuss any points raised in this bulletin, contact us 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

Maine Pointe’s handy [Tariff Timeline](#) has a visual recap of all the key moves in the trade war

[Tracking Tariffs and Trade](#), Prime Policy Group

[Brexit, What Happens Now?](#) BBC news

[Mexico and US gear up for tariff talks as Trump doubles down on threat](#), Reuters

[What happens now on Mexico tariffs and USMCA?](#) CNN

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

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.maineptune.com