

Trade disruption and the impact on your business

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Huntington Beach, CA



Trade Disruption

US trade actions

US trade conflict:
actions and global
responses



Section 232

- ▶ 25% and 10% additional tariffs were levied on certain steel and aluminum imports, respectively. Quotas were imposed on Brazilian, Argentine and South Korean steel. Quotas were imposed on Argentine aluminum. Australia is exempt.
- ▶ Automobiles and automotive parts are under investigation.
- ▶ Uranium is under investigation as of July 18. Titanium Sponge announced in March 2019. Other products or goods may be considered by industry request.

Section 201

- ▶ Additional duties on solar panels and large residential washers and components remain in place

**What other actions could be
on the horizon?**

US trade sanctions

- ▶ Russia, Iran, North Korea and others

Section 301 — China Intellectual Property Violations

- ▶ World Trade Organization dispute
- ▶ Prolonged trade war — or at least extended disruption — continuing to take shape
- ▶ 25% duties applied on \$34b (818 goods) 6 July (list 1);
- ▶ 25% duties on \$16b (284 goods) 23 August (list 2);
- ▶ 10% duties on \$200b (5,745 goods) effective 24 September (list 3)
- ▶ Planned increase to 25% of list 3 items on January 1 2019 was postponed until 2 March. On 28 February, this increase was further postponed pending the current ongoing negotiations.
- ▶ President Trump has signaled potential of a “list 4” of \$267b remaining goods from China to be subject to punitive tariffs BUT has also signaled the potential for a deal. Duties anticipated to remain in place however.

Free Trade Agreement Renegotiations

- ▶ Withdrew from Trans-Pacific Partnership
- ▶ Revised Korea-US Free Trade Agreement (effective 1 January 2019)
- ▶ US still considering joining the CPTPP
- ▶ GSP removal initiated for Turkey and India
- ▶ Japan bilateral Trade in Goods Agreement discussions
- ▶ EU under discussion

Global responses

China Countered US steel and aluminum tariffs with 25% duties on 128 items for \$2.7b, effective 2 April

301 retaliatory duties of 25% on \$34b and 545 US products, effective 6 July; duty rates of 5%–25% on \$60b and 5,207 US products, effective 23 August; and proposed duties of \$16b on 114 goods

Set to challenge future tariffs or trade war actions from US

Turkey 232 retaliatory duties of 5% to 40% on \$267m
Effective 21 June

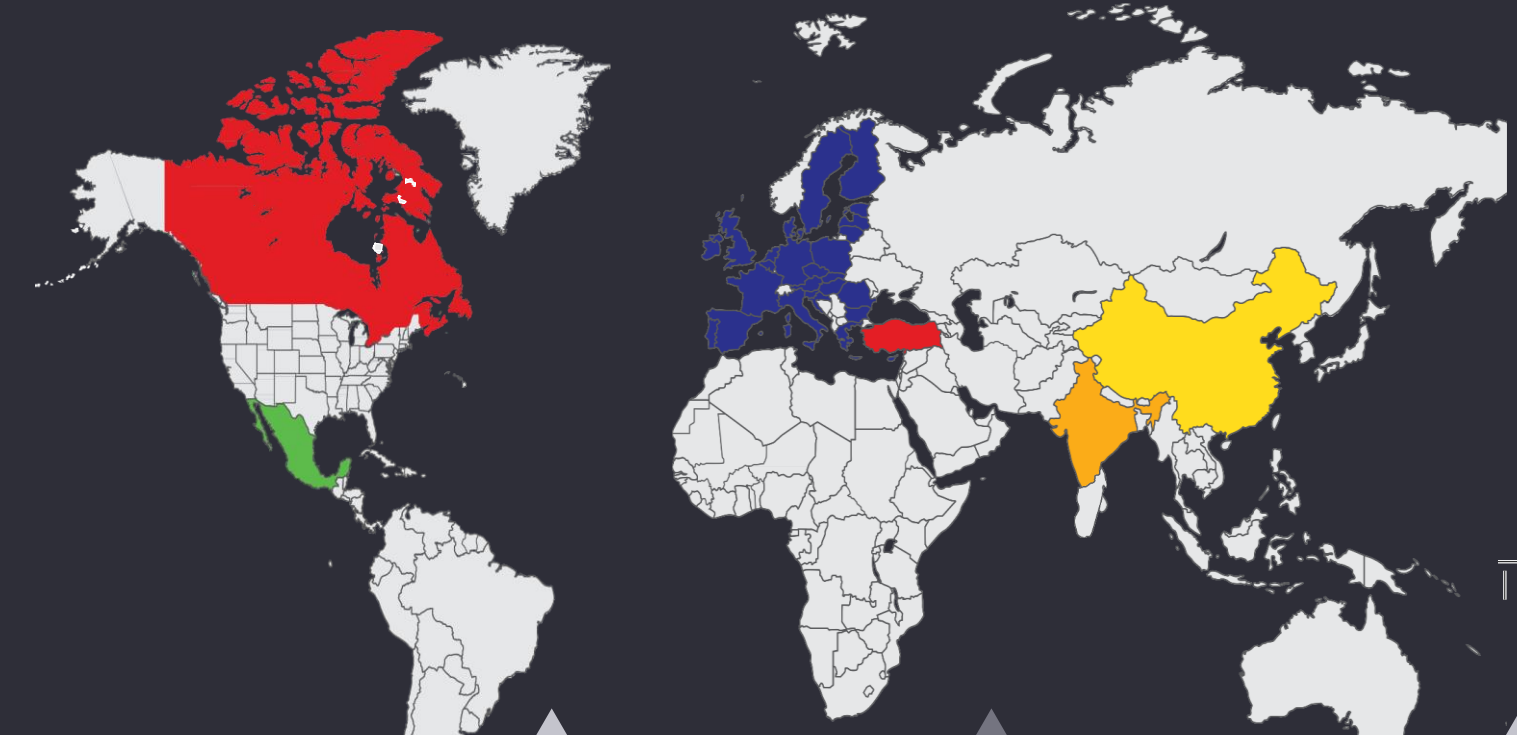
Canada 232 retaliatory duties of 10% to 25% on CA\$16.6b US goods

Effective 1 July

Steel, iron, aluminium, foods, hygiene products, household appliances and articles, recreational goods and certain plywood, paper and paperboard products

Mexico 232 retaliatory duties of 7% to 25% on \$3b US goods
Effective 5 June

Steel, pork, cheese, apples, bourbon, others with a “carousel” approach to adding future products possible



European Union 232 retaliatory duties of 25% announced on \$3.3b US goods

Effective 21 June

Fruits and vegetables, cereals, tobacco, cosmetics, apparel/footwear, steel and aluminum products, motorcycles and video game consoles

India 232 retaliatory duties on \$241m US goods (30 products)

Effective 21 June

Almonds, walnuts, apples, chemicals, metals and motorcycles

Other countries indicating retaliation under consideration or announced:

- Russia 25% — 40% duties as of 6 August
- Indonesia
- Japan — notification to WTO

Information effective as of 11 September 2018

Update on 301, 232 and USMCA Actions

State of global supply chains and the current trade wars

Section 301: What products are covered, and what products are not covered yet?

Section 232: What products it covers today and the potential for expansion in certain key industries

USMCA status and what's next

Section 301



Section 301

Timeline by action

First set of tariffs (818 lines; \$34b; 25%)

6 July
Effective date

9 October
Product exclusions requests due

Second set of tariffs (279 lines; \$16b; 25%)

20 July
Comments due

31 July
Rebuttal comments due

23 August
Implementation of tariffs

24 July
Hearing

7 August
US tax reform (USTR) publishes final list

Third set of tariffs (5,745 lines; \$200b)

13 August
Request to appear at hearing

6 September
Comments due

24 September
Implementation of 10% tariffs

20 August
Hearing

17 September
USTR published final list

2 March 2019 Tariffs scheduled to increase to 25% (Increase was suspended by USTR until further notice as of 28 February)

Additional Section 301 trade developments

8 April 2019

United States Trade Representative (USTR) proposed tariff countermeasures in response to harm caused by European Union (EU) aircraft

- **US has long claimed that France, Germany, Spain and the UK unfairly subsidize non-US aircraft manufacturers**
- US submitted a formal challenge to the WTO of EU subsidies provided to large civil aircraft in 2004, asserting that the governmental subsidies caused an estimated US\$11 billion per year in damage to US sales
- The WTO issued recommendations to the EU to adjust subsidies
- In 2018 the WTO concluded there were additional violations, allowing the US to see countermeasures
- The US will seek countermeasures worth \$11.2 billion per year
- The ongoing disputes over subsidies prompted the USTR to assess and issue a preliminary list of tariff countermeasures which consists of two annexes of products:
 - 1st Annex affects nine subheadings in Chapter 88 of the HTSUS from France, Germany, Spain or the UK
 - 2nd Annex affects imports from agricultural products to textiles and apparel as well as certain metals and other hard goods from any of the 28 EU Member States
- USTR Robert Lighthizer stated that the ultimate goal was to reach an agreement where the EU should “end all WTO-inconsistent subsidies to large civil aircraft.”

Section 232



Section 232 Investigation on Steel and Aluminum

- Adjustment of Steel and Aluminum imports per the Trade Expansion Act of 1962
 - 25% tariffs on steel
 - 10% tariffs on Aluminum
 - Countries covered:
 - **Steel:** All countries of origin **except** Argentina, Australia, Brazil, and South Korea
 - **Aluminum:** All countries of origin **except** Argentina and Australia.
 - Quarterly Quotas:
 - **Steel:** Argentina, Brazil, and South Korea.
 - **Aluminum:** Argentina
- Product Exclusion for both Steel & Aluminum Quotas:
 - Proclamation allowing Secretary of Commerce to provide targeted relief from the quotas in place was signed On 29 August 2018 by President Trump
 - Established a very specific set of criteria that the importers must satisfy to gain the exclusions

Other Section 232 Investigations

Investigation of Auto & Automotive Parts Imports

- 23 May 2018: Dept. of Commerce investigation initiated to determine whether imports of automobiles (including SUVs, vans and light trucks, and automotive parts) threaten to impair U.S. national security
- Report submitted on 17 February 2019; President Trump has until 18 May 2019 to determine if further action is required based on the recommendations

Investigation of Uranium Imports

- 20 July 2018: Dept. of Commerce investigation initiated of uranium ore
- Dept. of Commerce must submit investigation report by 16 April 2019; President Trump will then have 90 days to determine if further action is required

Investigation of Titanium Sponge

- 4 March 2019: Dept. of Commerce investigation initiated of titanium sponge
- Dept. of Commerce must submit investigation report by 29 November 2019; President Trump will then have 90 days to determine if further action is required

USMCA



NAFTA timeline

Background



NAFTA update

United States — Mexico: Canada Agreement (USMCA)

Preliminary agreement reached to revise the terms of the existing North American Free Trade Agreement (NAFTA)

- Announced on 1 October 2018, after seven rounds of renegotiation between the 3 nations.
- Signed by President Trump, President Peña Nieto and Prime Minister Trudeau on 30 November 2018

The preliminary agreement requires ratification by all three countries.

- The agreement must be ratified by the legislatures of the US, Mexico and Canada
- The USMCA will enter into force no sooner than three months from the date of the last country's notice. The ratification process is therefore likely to continue during 2019 before becoming effective.

Full text of the proposed agreement (USMCA) was published on 1 October (Uniform Regulations are pending)

- Details released on how the USMCA will achieve stated objectives to modernize previous commitments made under the NAFTA, including major changes to trade in agricultural products, automobiles and automotive parts and textiles; increased thresholds for low value (de minimis) shipments subject to informal entry procedures; enhanced data protection for biologic drugs; and other provisions.

Key provisions of USMCA

Rules of origin

Automobiles and automotive parts

- Raises the regional value content (RVC) threshold from 62.5% to up to 75%.
- Removes tracing list.
- Requires that 40%-45% of auto content be produced by workers earning at least US\$16 per hour.
- Finished vehicle producers will be required to purchase 70% North American steel and aluminum.

Automotive

- Strengthening of the rules
- Increase of regional value content up to 75%
- Eliminates tracing provision
- New rule of origin related to labor aspects
- Use of North American steel and aluminum
- Three to five-year transition period
- Import cap related with potential US tariffs (section 232)

Textiles and apparel

- Limits rules contained in the NAFTA which permitted the use of certain non-NAFTA inputs.

Textiles

- Increase of US originating content of fibers, yarns and threads
- Requirements for specific processes to be performed in the region

Other industrial products

- Stricter rules (steel-intensive products, glass and optical fiber)
- Flexible (chemicals)

Other industrial products

- Flexible rules (chemicals on chapter 28 through 38)
- Stricter rules (steel intensive products, glass and optical fiber)

Key provisions of USMCA

Other key provisions

Agriculture

- Canada agreed to provide limited market access to US exports of dairy, poultry (turkey and chicken) and eggs
- US has agreed to provide limited market access to Canada exports of dairy, peanuts and peanut products, and sugar and sugar products
- Canada also agreed to eliminate milk price classes 6 and 7

Market access

- Preferential treatment for originating goods is maintained
- Exemption from export duties and other fees, including customs processing fee, is maintained
- Increased transparency and simplification in import and export procedures
- Increase of de minimis shipment value for Mexico and Canada

Renewal clause

- The agreement will automatically terminate after 16 years of entry into force unless each country agrees to extend for another 16 years
- The agreement will be reviewed by the countries every six years to determine whether changes are needed
- Countries may withdraw from the agreement with a six-month written notice. In the event that one country withdraws, the agreement remains in effect for the other countries

Digital trade

- Digital products distributed in electronic form will remain duty free and will not be subject to any other measures
- Facilitation in digital transactions with recognition of digital authentication and signature

Intellectual property

- Additional concessions to those made by Mexico under the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)
- Enforcement of intellectual property rights at the border
- Enhanced protection for copyright, trademarks and patents (i.e., pharma and agriculture)

Dispute resolution

- Incorporation of NAFTA Chapter 19 dispute settlement provisions into the USMCA

Key provisions of USMCA

Section 232 relief for Mexico and Canada

- Two side letters provide Mexico and Canada with relief in the event that the US imposes punitive tariffs on imports of automobiles and automotive parts under Section 232 of the Trade Expansion Act of 1962 (Section 232)
 - Exclusion from Section 232 duties for the first 2.6M passenger vehicles imported from Canada and for the first 2.6M passenger vehicles imported from Mexico
 - Exclusion from Section 232 duties for light trucks imported from Canada and Mexico
 - Exclusion from Section 232 duties for the first US\$32 billion worth of auto parts imported from CA and the first US\$108 billion worth of parts imported from Mexico
- Two side letters establish a mandatory consultation process in the event that the US imposes Section 232 measures
- Nothing in the USMCA addresses the existing punitive tariffs imposed by the US under Section 232 on Canada and Mexico origin steel and aluminum products

What is next?



USMCA ratification and implementation — Now that the agreement has been signed by the Presidents of the United States and Mexico and by the Prime Minister of Canada, it must be subsequently ratified by the legislatures of all three countries before it will enter into force



Section 232 — The US tariffs imposed on steel and aluminium remain



Retaliatory tariffs — Remain on diverse US goods

Preparation, Mitigation and Collaboration



“

By failing to prepare, you are preparing to fail.

Benjamin Franklin

“

Never let a good crisis go to waste.

Sir Winston Churchill

Mitigating the impact of the trade wars

Mitigation considerations

Manufacturing/sourcing alternatives

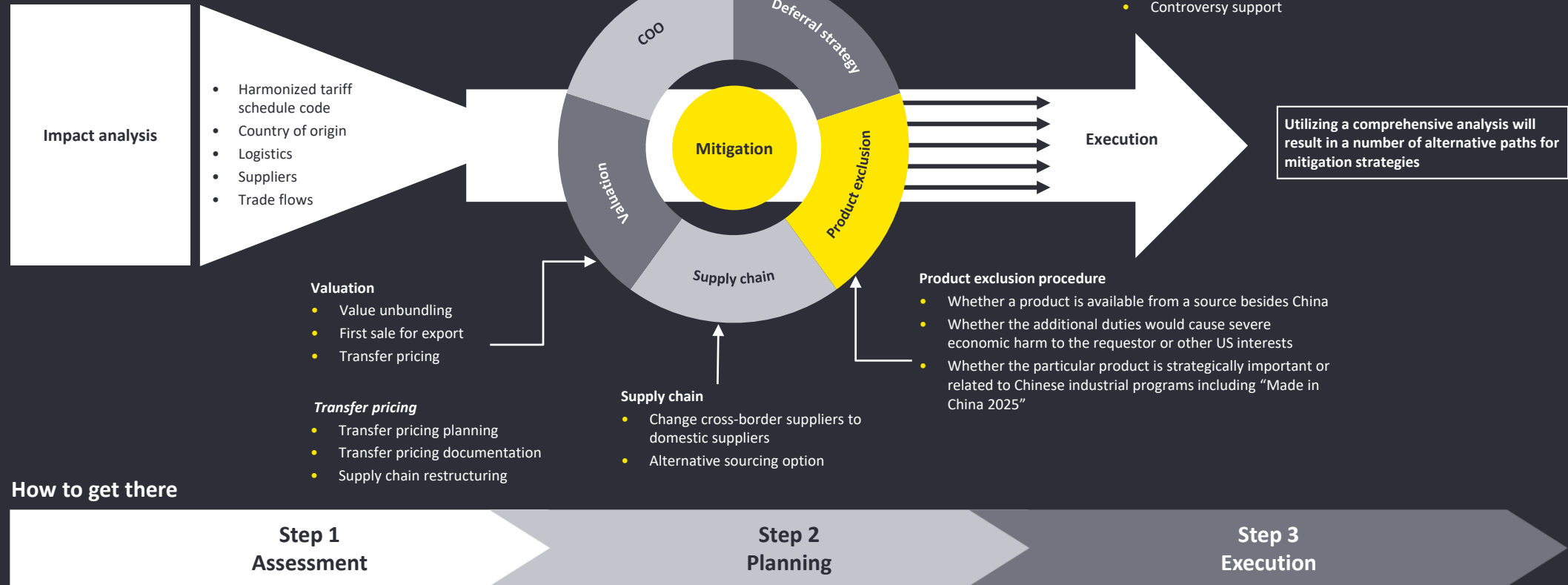
- Review of country of origin (COO) rules
- Determine viability of alternative sourcing and/or manufacturing
- Study of bill of materials

Deferral strategy

- Bonded warehouses
- Foreign-/free-trade-zone
- Processing trade
- Drawback

Execution

- Customs ruling
- Controversy support



Valuation

- Value unbundling
- First sale for export
- Transfer pricing

Transfer pricing

- Transfer pricing planning
- Transfer pricing documentation
- Supply chain restructuring

Supply chain

- Change cross-border suppliers to domestic suppliers
- Alternative sourcing option

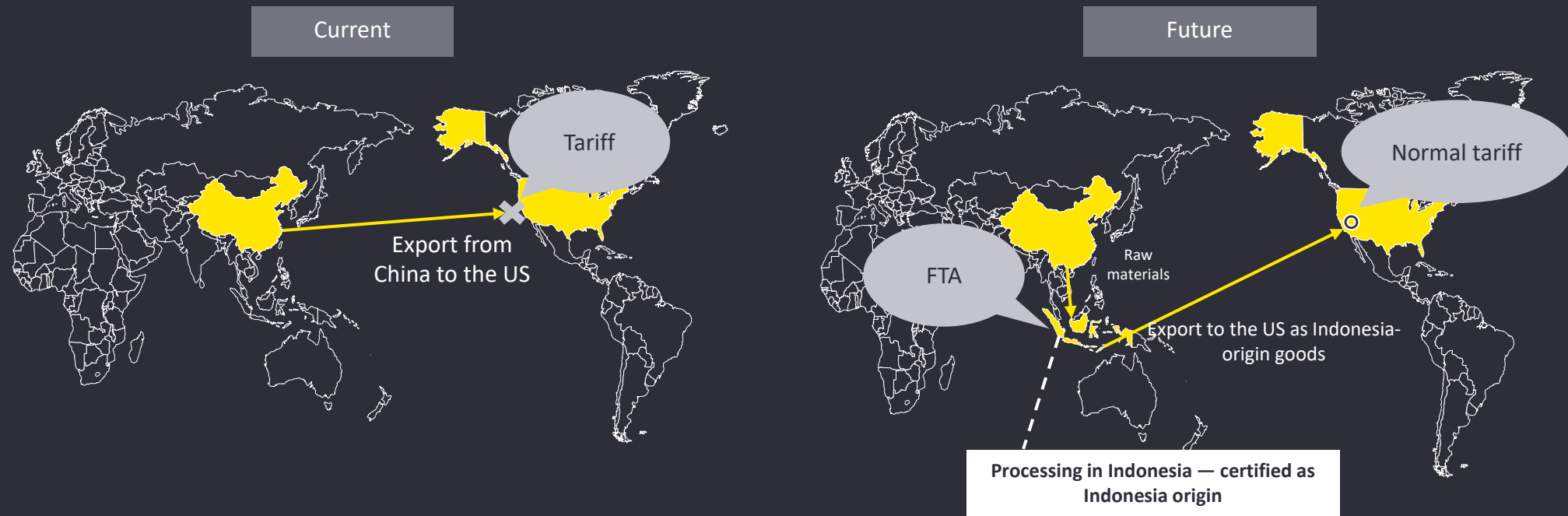
Product exclusion procedure

- Whether a product is available from a source besides China
- Whether the additional duties would cause severe economic harm to the requestor or other US interests
- Whether the particular product is strategically important or related to Chinese industrial programs including "Made in China 2025"

Planning strategies

Adjusting supply chain

- Relocate all or a portion of the manufacturing activities to a third country.
- Processing in a third country must be sufficient to confer origin.
- Use FTAs to control duty costs.
- Example: Instead of exporting finished product from China to the US, export raw materials from China to Indonesia, effect a “substantial transformation”. Then export the finished product from Indonesia to the US with Indonesian origin.



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