OVERVIEW

Types of Import Duties

Recent Policy Changes

International Response

Impacts on IBISWorld Reports
Anti-dumping measures

- A foreign country is selling goods in significant volumes in the domestic market at prices lower than those charged in its home market, to an extent that causes harm to a domestic industry.
- An investigation is conducted to determine the impact and tariffs are imposed with the goal of closing the price gap.
- Duties are country-specific and usually imposed for a period of no more than five years.
Countervailing measures

- A foreign country is providing specific subsidies to a company, group of companies or industry that distorts international trade.

- Subsidies may be trade-specific, such as export quotas or domestic purchasing requirements, or they may lower costs for foreign competitors and allow them to export at low prices with which the domestic industry cannot compete.

- After an investigation, an import duty is imposed to offset the foreign advantage. Similar to anti-dumping duties, they are country-specific and imposed for no more than five years.
Safeguard measures

- Comparatively rare, safeguard measures are temporary restrictions to protect a domestic industry from a surge of imports (either an absolute increase or an increase as a share of the market).

- These actions are not country-specific and unlike other tariff types do not involve allegations of unfair trade practices. They are designed to allow a period of adjustment for a domestic industry and sunset after a maximum of four years, with restrictions progressively easing after the first year.

- Prior to 2018, they were last used in 2002 to protect domestic steel producers. The WTO ruled them illegal after 21 months.
US acting more aggressively to curb imports

• Uptick of USITC investigations in 2017 (almost doubled from prior year)
  • Investigations are typically opened in response to a petition from an industry stakeholder
  • Most investigations are country-specific and focused on narrow product categories, minimizing the impacts at an industry level
• Increased use of seldom-used trade provisions
  • Safeguard measures
  • National security provisions in US law
  • General shift in rationale for protective measures, from unfair trade practices to support of US industry
Safeguard measures: washing machines and solar panels

- First major tariffs announced by the administration, in January 2018
  - Washing machines: 20% duty on first 1.2 million units, 50% thereafter; 50% duty on washer parts after first 50,000 units; sunset after three years.
  - Solar panels: 30% tariff, declining five percent per year until sunsetting after year four.
- In both cases, domestic manufacturers petitioned for relief
- Mainly impacts East Asian manufacturers
- Both product groups had previously been subject to country-targeted tariffs, but production shifted to circumvent them
Section 232 National security grounds: steel and aluminum tariffs

- 25% duty on steel and 10% on aluminum
  - Implemented under 1962 law authorizing Commerce Department to impose tariffs when imports are a threat to national security
  - Has only rarely been used, mostly for petroleum imports and mainly during the Cold War
  - It had never been used in the WTO era (1995-)
- Implemented in March, then expanded to include NAFTA and EU countries in June
- Many downstream manufacturers have already reported higher costs
- Process differed in that it was initiated by the president and did not involve the USITC
Section 301 measures: Chinese products

- Measures taken under provision under section of Trade Act of 1974
  - Law allows administration to unilaterally enact measures addressing foreign trade practices that burden or restrict US commerce
  - The United States alleges that China is impinging upon intellectual property by requiring joint ventures with Chinese businesses and transfer of technology to them
  - Law does not require tariffs to be on products related to unfair trade practices
  - Last used to target Japanese steel and automobiles in the 1980s; only threatened since to spur negotiations
- 25% tariffs imposed on $34 billion in Chinese imports in July ($50 billion proposed, with the remainder expected within weeks)
- US also exploring limits on foreign investment by Chinese firms, complaint at WTO
- 10% tariffs threatened on another $200 billion in imports by as early as September
PRODUCTS COVERED BY 25% TARIFFS ON CHINA*

1,471 products covered
Segmented by 3-digit NAICS code
The majority of products are intermediary goods; only around 1% are consumer facing goods

*Percentage of 2017 import value with China of these products

333 Machinery 37%
335 Electrical equipment and appliances 20%
334 Computers and electronic products 13%
336 Transportation equipment 12%
339 Miscellaneous 5%
332 Fabricated Equipment 4%
Other 9%

Source: Data from USITC
PRODUCTS COVERED BY 10% TARIFFS ON CHINA*

8,613 products covered

The list of products covered by the 10% tariffs is much broader than the 25% list. It covers every 3-digit NAICS code that has measurable trade. In general, this round of tariffs encompasses more direct consumer goods.

*Percentage of 2017 import value with China of these products

Source: Data from USITC
Initially exempt from steel and aluminum tariffs, but immediately retaliated when the exemption was removed in June

Imposed 25% duties on 200 different US products, valued at $3.3 billion

Products include denim, bourbon, motorcycles, peanut butter, motor boats and cigarettes

Plans to impose tariffs of between 10% and 50% on an additional $4.3 billion in goods pending a WTO ruling, which could take as many as three years

- EU’s delay of additional tariffs may be in hopes of de-escalating trade war
- Second round of products would include sunbeds, paper towels, corduroy pants and porcelain tableware
- Tariffs put in place have already led to US threats for additional tariffs, including 20% on automobiles
EU TARIFFS ON THE US*

- 336 Transportation equipment manufacturing: 30%
- 327 Nonmetallic mineral product manufacturing: 23%
- 339 Miscellaneous manufacturing: 18%
- 325 Chemical manufacturing: 16%
- 323 Printing and related support activities: 4%
- Other: 9%

*Percentage of 2017 US exports to China covered by tariff. Measured at 3-digit NAICS level

Source: USITC
Like the EU, initially exempt from steel and aluminum tariffs and immediately announced plans to retaliate when exemption was removed

Canada targeting CAD 16.3 billion in US exports for tariffs
- 25% on iron and steel products
- 10% on aluminum and variety of other products, including certain food products, toiletries, pesticides and appliances

Mexico targeting $3.0 billion in US exports for tariffs
- Tariffs range from 15% to 25% on products including steel, cheese, whiskey, pork, apples and potatoes
BREAKDOWN OF CANADIAN RETALIATORY TARIFFS*

- Steel products: 34%
- Aluminum products: 16%
- All other: 28%
- Sauces and condiments: 5%
- Tissue products: 4%
- Motorboats: 4%
- Coffee: 3%
- Chocolate and candy: 3%
- Household appliances and parts: 3%

*Canadian 2017 trade value
Total value is 16,563 CAD

Source: Canadian International Merchandise Trade
Following steel and aluminum tariffs, China announced its own tariffs targeting $3.0 billion in exports.

Expanded tariffs to an additional $34.0 billion in products following US China-specific tariffs:

- Products covered mainly include agricultural products, such as soy beans, meat, seafood, fruits and vegetables.
- Tariffs also include certain vehicles and parts, including electric cars and hybrids.

Country’s trade ministry has promised to continue imposing levies equal to any imposed by the US in the future.
JULY 6, 2018 CHINESE 25% TARIFF ON US GOODS*

- **111 Crop Production** 40%
- **311 Food Manufacturing** 2%
- **336 Transportation Equipment Manufacturing** 54%
- **312 Beverage and Tobacco Product Manufacturing** 2%
- **325 Chemical Manufacturing** 2%

*Percentage of 2017 US exports to China covered by tariff. Segmented at 3-digit NAICS code*

Source: Ministry of Commerce, USITC
PROPOSED LIST OF CHINESE IMPORTS WITH 25% TARIFFS*

*Percentage of 2017 US exports to China covered by tariff. Segmented at 3-digit NAICS code

- 325 Chemical Manufacturing: 49%
- 324 Petroleum and Coal Products Manufacturing: 2%
- 334 Computer and Electronic Product Manufacturing: 4%
- 326 Plastics and Rubber Products Manufacturing: 1%
- 339 Miscellaneous Manufacturing: 3%
- 211 Oil and Gas Extraction: 41%

Source: Ministry of Commerce, USITC
The effects of tariffs are not always direct or perfectly measurable.

In industries where tariffs are directly applicable, the rate will be called out and the effect will be built into forecasts.

In industries where the effect is less precise (upstream, downstream, complimentary or substitute), exposure and potential effects will be mentioned.
**Trade Impact**

- 12.5% surge in imports in 2017
- Sharp declines in outlook period
- The tariff is expected to have a negative effect, whereas antidumping duties only shifted production

**Case Study: OD4261, Washer and Dryer Manufacturing**

**Industry Import Growth**
Reshoring

- Samsung opens new US plant, at least in part due in anticipation of protective measures
- LG accelerating launch of new US plant, planned for Q3
- Efforts complicated by tariffs on components

Source: “Samsung Celebrates A Year of Success in South Carolina,” news.Samsung.com
Increased costs

- Whirlpool expects earnings to fall with the imposition of steel and aluminum tariffs, which account for most of the cost of a washing machine.
- Highly competitive industry, less ability to pass costs on to consumers.
- Profit outlook negative despite industry growth spurred by tariffs.

Case Study: OD4261, Washer and Dryer Manufacturing