



Update on Tariffs: How leading companies are responding

August 2018



Notices

The following information is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230.

The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

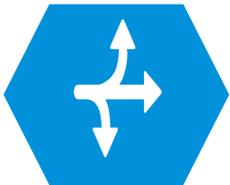
Agenda



Recent U.S. trade actions



Global retaliatory actions



Navigating a new trade landscape



Q&A



Recent U.S. Trade Actions

Trade Tensions

- Big geopolitical shifts are forcing changes on global trade
 - Rise of China
 - US role in the world is changing
 - Technology emerging as national security concern

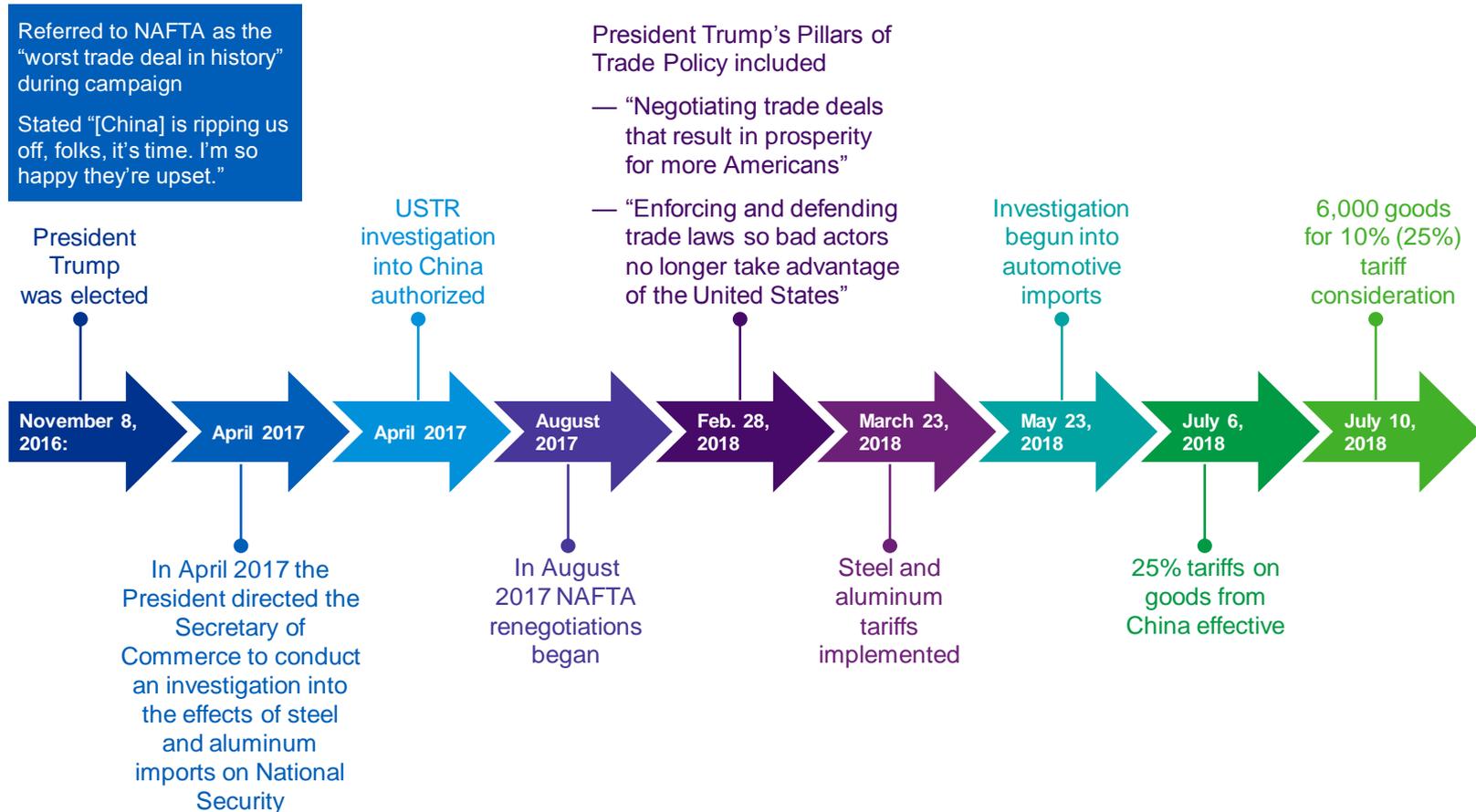
- Popular support for free trade has eroded
 - More Americans think free trade has hurt the country
 - Fewer political leaders willing to risk supporting free trade

- A different approach to global trade policy under Trump
 - Skeptical of multilateral approaches (like the WTO)
 - Preference for bilateral deals
 - Focused on bilateral trade deficits

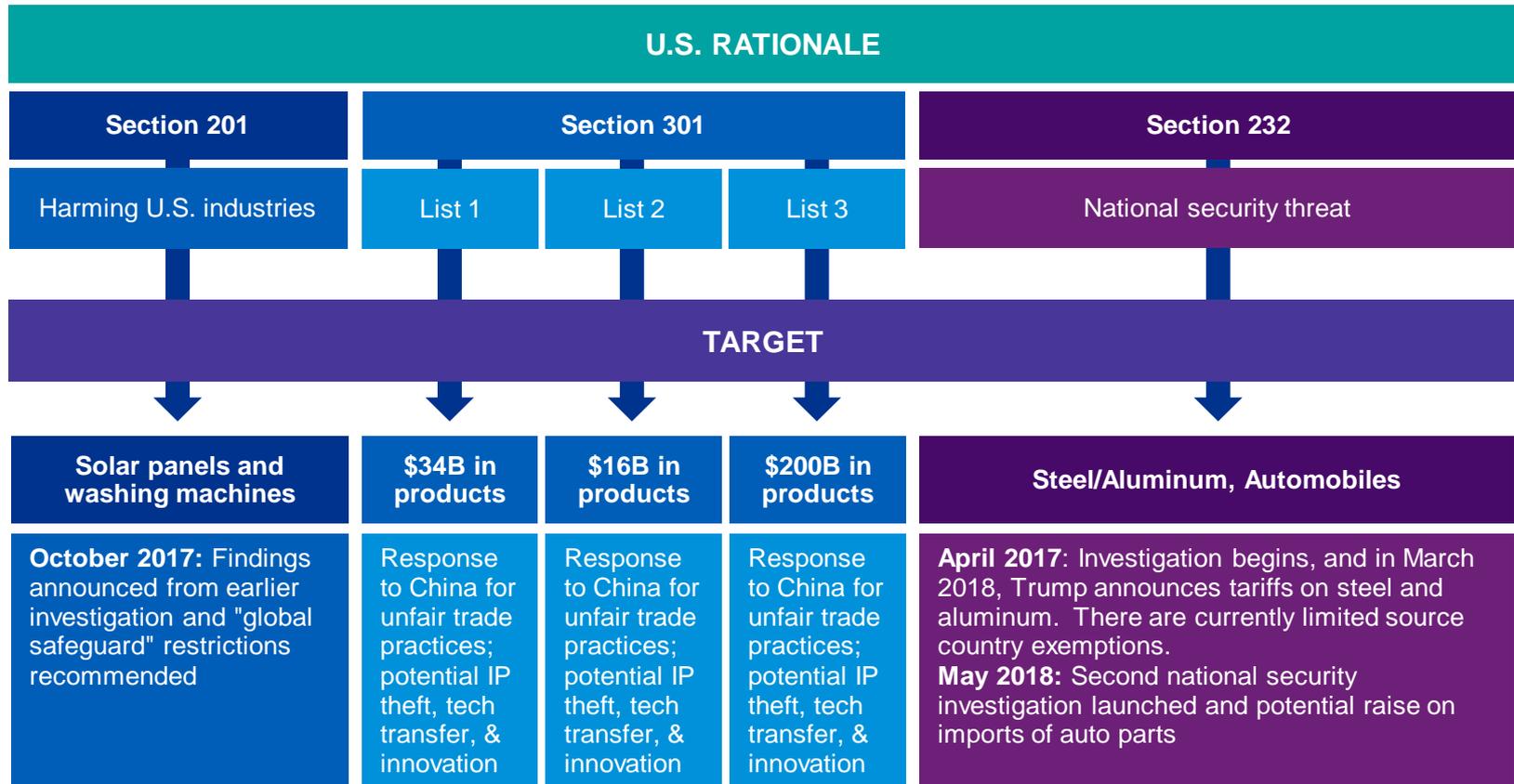
Recent U.S. Trade Actions

With tariffs on more than \$215 billion still under review, the administration shows no signs of stopping

President Trump's campaign/administration quotes/actions on trade.....

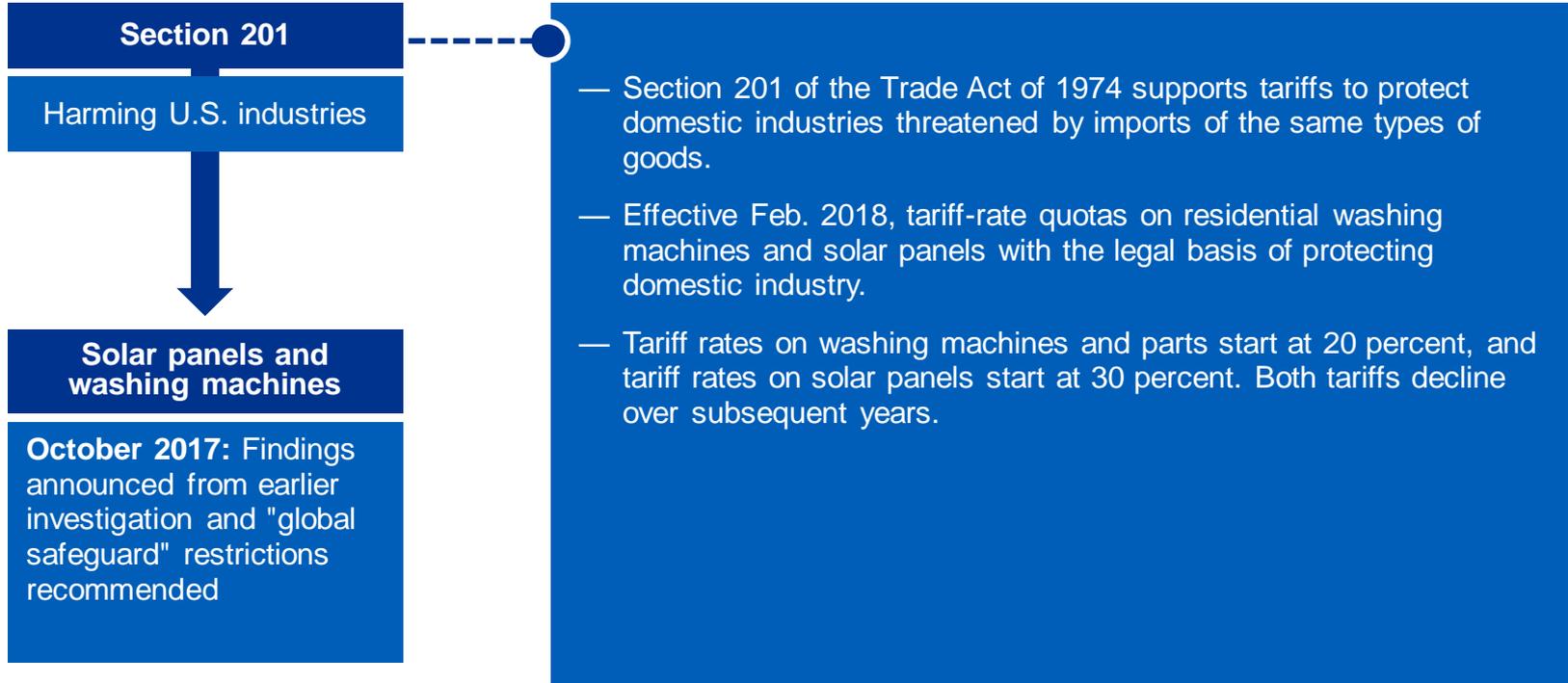


Tariff policy background



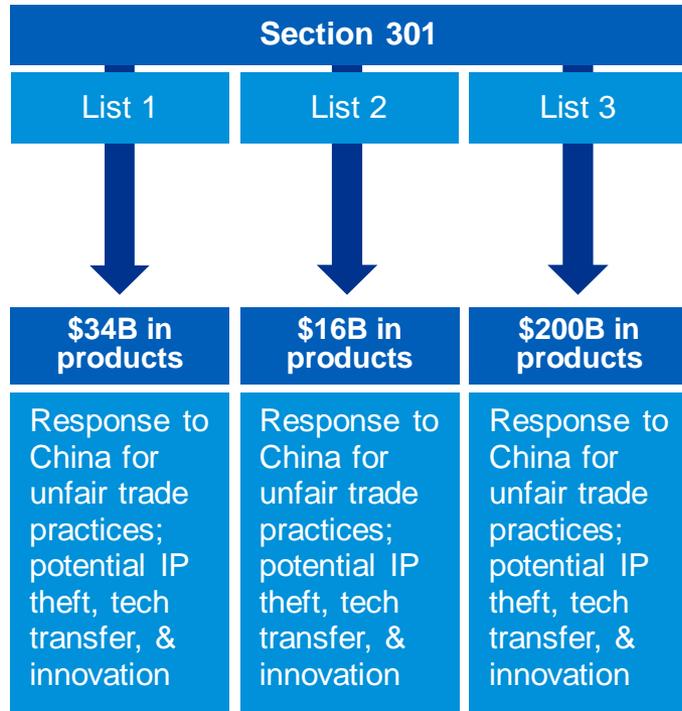
1) See USTR fact sheet, "Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules;" 2) See Federal Register Vol. 83, No. 119, pg. 28710. 3) See Federal Register Vol. 83, No. 119, pg. 28710. 4) See Federal Register Vol. 83, No. 137, pg. 33608. 5) See April 27, 2017 White House memorandum to Commerce Dept., titled "Aluminum Imports and Threats to National Security." 6) See Presidential Proclamations 9704 and 9705 on March 8, 2018. 7) See Presidential Proclamations from March through May 2018. 8) See May 23, 2018 White House memorandum to Commerce Dept. regarding Section 232 investigation related to automobiles.

Section 201



1) See USTR fact sheet, "Section 201 Cases: Imported Large Residential Washing Machines and Imported Solar Cells and Modules" 2) See Presidential Proclamations 9693 and 9694 from January 23, 2018.

Section 301

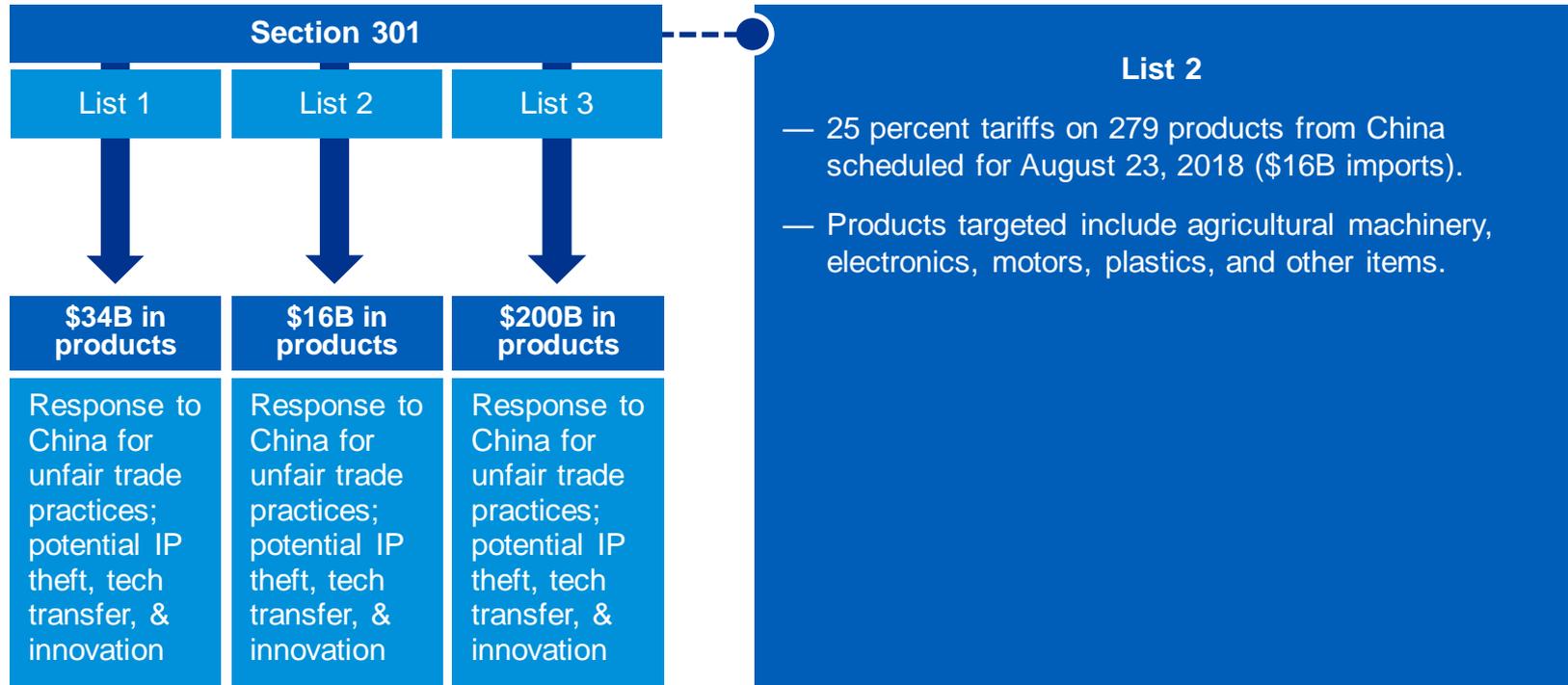


List 1

- Section 301 of the Trade Act of 1974 authorizes tariffs in response to unfair trade practices by China concerning alleged IP and technology abuses.
- 25 percent tariffs imposed on 818 products from China effective July 6, 2018 (\$34B in imports).
- Various products and industries affected, with a focus on industrial machinery, vehicles, electronic equipment, medical devices, and other categories.
- Exclusion request process for importers is available through October 9, 2018.

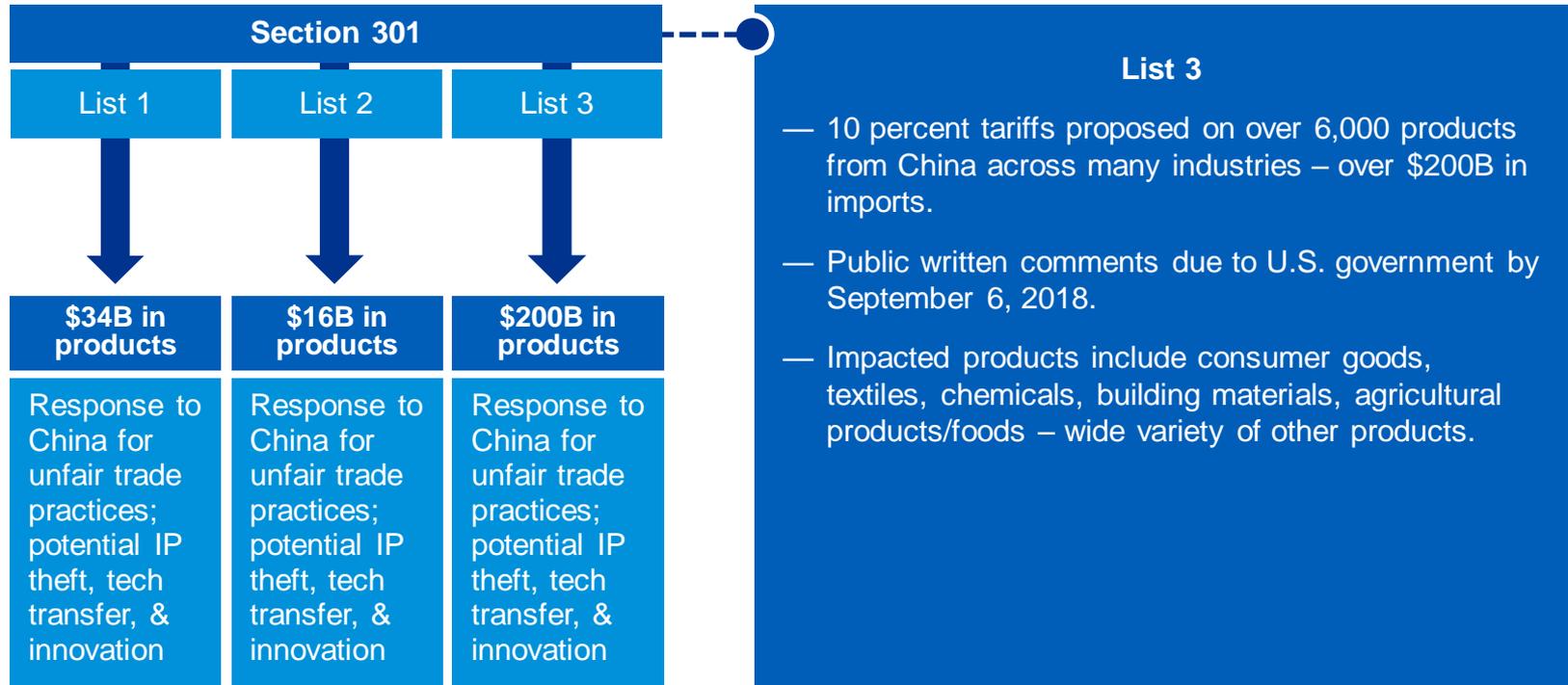
1) See Federal Register Vol. 83, No. 119, pg. 28710. 2) See Federal Register Vol. 83, No. 119, pg. 28710. 3) See Federal Register Vol. 83, No. 137, pg. 33608. 4) See Federal Register Vol. 83, No. 119, pg. 28710. 5) See Federal Register Vol. 83, No. 133, pg. 32181.

Section 301 (Cont.)



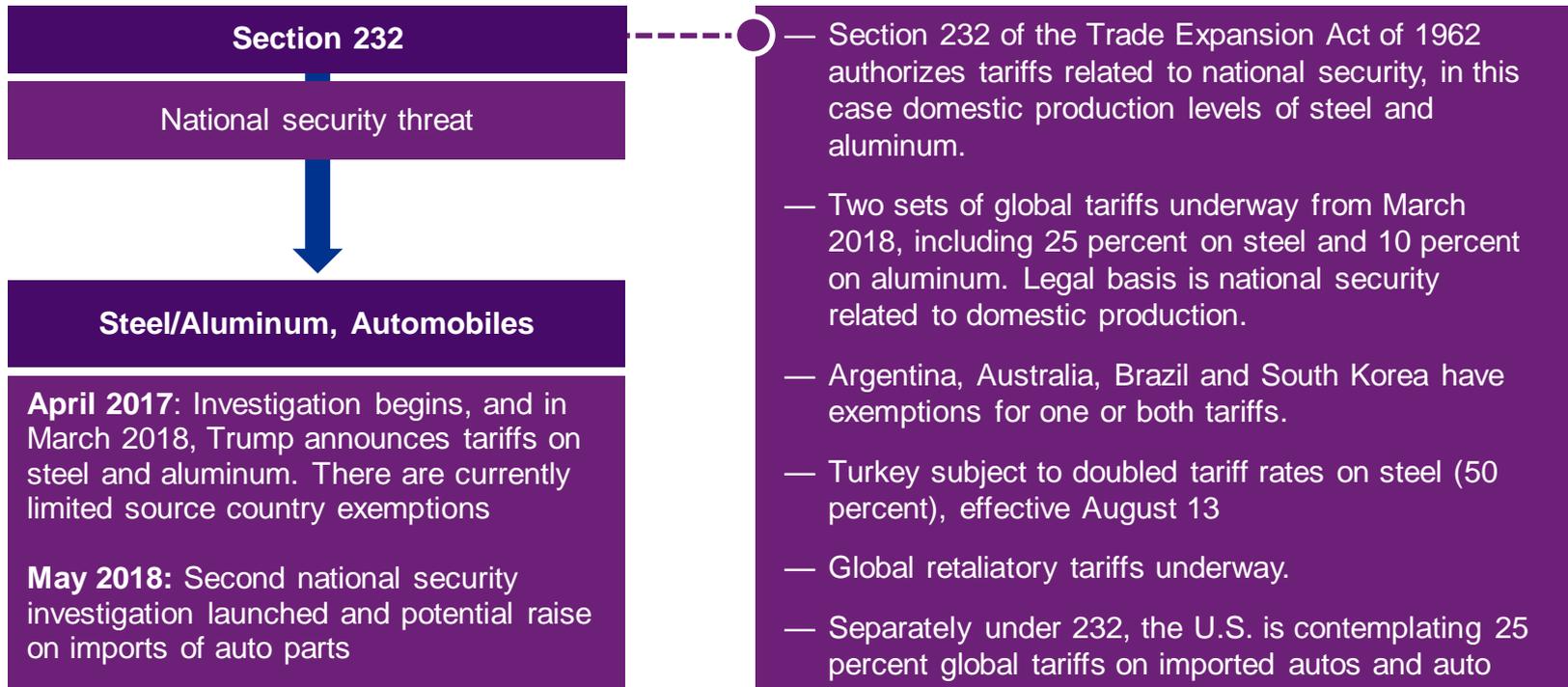
1) See Federal Register Vol. 83, No. 119, pg. 28710. 2) See Federal Register Vol. 83, No. 119, pg. 28710. 3) See Federal Register Vol. 83, No. 137, pg. 33608. 4) See Federal Register Vol. 83, No. 119, pg. 28710.

Section 301 (Cont.)



1) See Federal Register Vol. 83, No. 119, pg. 28710. 2) See Federal Register Vol. 83, No. 119, pg. 28710. 3) See Federal Register Vol. 83, No. 137, pg. 33608. 4) See Federal Register Vol. 83, No. 137, pg. 33608. 5) See USTR 6) See Federal Register Vol. 83, No. 137, pg. 33608.

Section 232

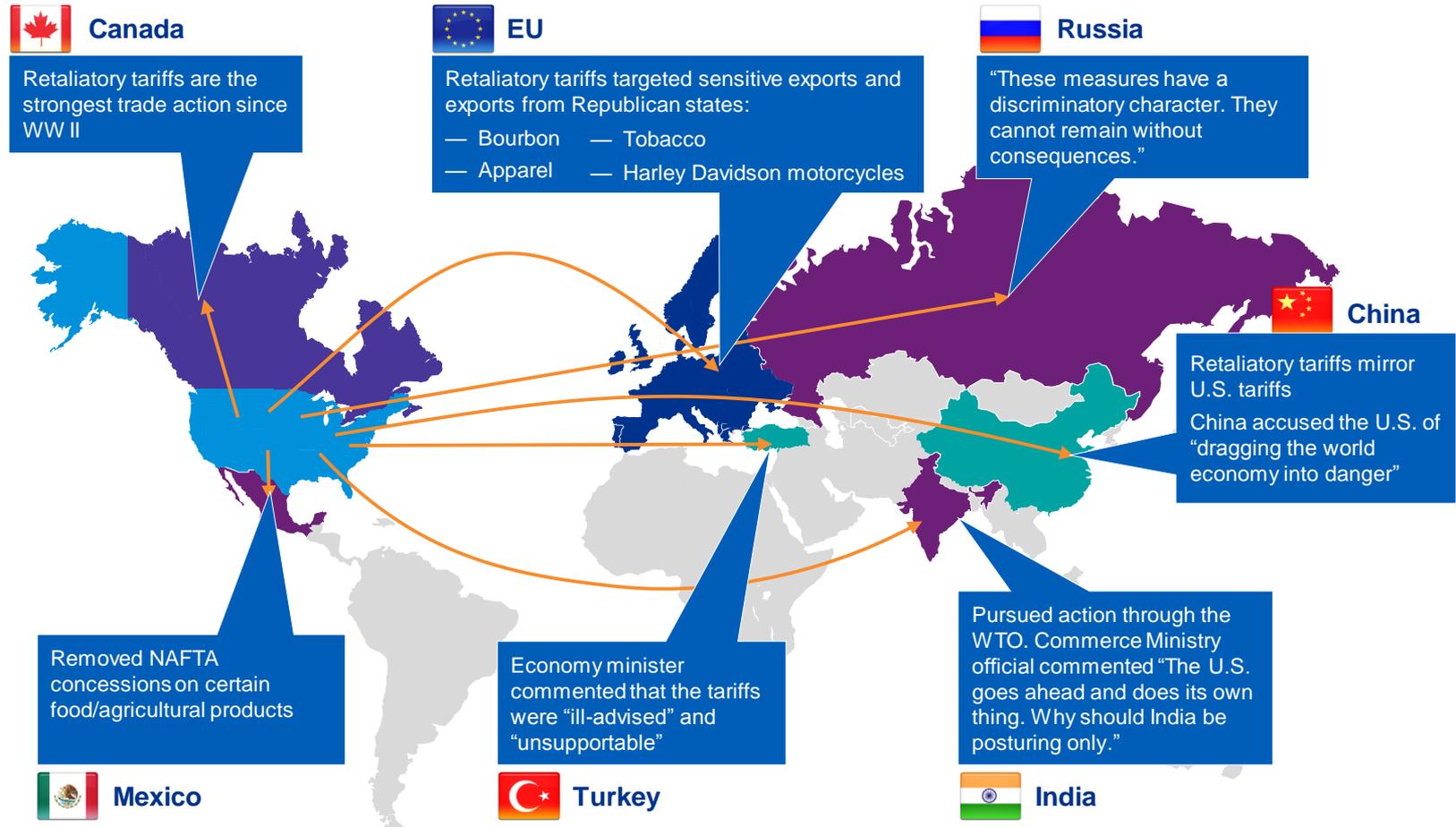


1) See April 27, 2017 White House memorandum to Commerce Dept., titled “Aluminum Imports and Threats to National Security.” 2) See Presidential Proclamations 9704 and 9705 on March 8, 2018. 3) See Presidential Proclamations from March through May 2018. 4) See May 23, 2018 White House memorandum to Commerce Dept. regarding Section 232 investigation related to automobiles. 5) See Presidential Proclamations 9704 and 9705 on March 8, 2018. 6) See Presidential Proclamations from March through May 2018. 7) See Presidential Proclamation 9772 from August 10, 2018.



Global Retaliatory Actions

Global retaliation has been swift, and Rhetoric remains charged



Overview of global retaliatory tariffs

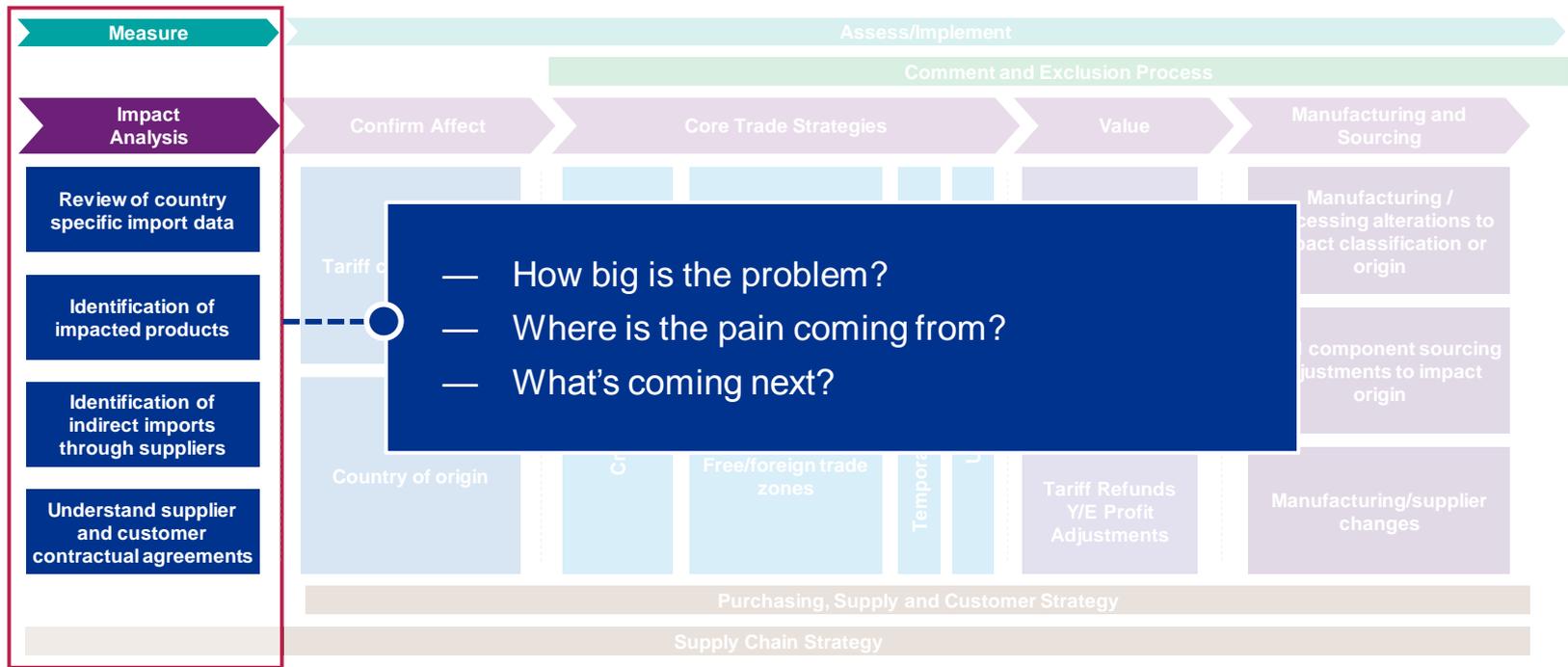
<p>China (for \$232)</p> <p>Tariff rate: 15% and 25% depending on the good Effective date: April 2nd HTS codes affected (Qty): 128 Import value affected (\$): \$2.4 billion Products targeted: Wine, fruit, ethanol, steel tubes, drill pipes, aluminum waste.</p>	<p>Mexico</p> <p>Tariff rate: 5% – 25% Effective date: June 5th HTS codes affected (Qty): 266 Import value affected (\$): \$3 billion Products targeted: Pork, potatoes, whiskey and other products</p>	<p>Turkey</p> <p>Tariff rate: Ranges up to 140% Effective date: June 21st HTS codes affected (Qty): 22 Import value affected (\$): \$1.8 billion Products targeted: Coal, paper, tobacco, automobiles, cosmetics, machinery, petrochemical products. Aug. 2018: In response to U.S. doubling steel tariffs, Turkey doubled some tariffs, e.g. alcohol, cars, tobacco.</p>	<p>European Union</p> <p>Tariff rate: 25% Effective date: June 22nd HTS codes affected (Qty): 340, (effective June 22nd) Import value affected (\$): 3.4 billion (effective June), \$3.6 billion (under review) Products targeted: Steel, whiskey, coffee, motorcycles, motorboats, apparel and peanut butter</p>
<p>Canada</p> <p>Tariff rate: 25% or 10% depending on the good Effective date: July 1st HTS codes affected (Qty): 229 Import value affected (\$): \$12.6 billion Products targeted: Steel, iron, motorboats, musical instruments, yogurt, bourbon, ketchup, pizza, dishwasher detergent and various other items</p>	<p>China (for \$301)</p> <p>Tariff rate: 25% Effective date: July 6th HTS codes affected (Qty): 659 Import value affected (\$): \$34 billion. Additional \$16B scheduled, with \$60B potentially planned. Products targeted: Soy, corn, wheat, cotton, beef, pork, poultry, fish, dairy, nuts, and vegetables, as well as manufactured goods including passenger cars, and off-road vehicles.</p>	<p>Russia</p> <p>Tariff rate: 25% – 40% Effective date: July 6th HTS codes affected (Qty): 79 Import value affected (\$): Total amount TBD Products targeted: Construction, oil and gas, metal processing and fiber optics</p>	<p>India</p> <p>Tariff rate: 25% or 27.5% depending on the good Effective date: September 18th HTS codes affected (Qty): 30 Import value affected (\$): \$240 million Products targeted: Apples, walnuts, chickpeas, and some chemical and metal products.</p>

1) See Quartz, "The full list of 128 US products targeted by China's retaliatory tariffs" 4-2-18. 2) See CNN Money, "Mexico imposes tariffs on \$3 billion worth of US exports" 6-6-2018. 3) See Reuters "Turkey to impose retaliatory measures against U.S. tariffs" 5-18-18; Bloomberg "Turkey Hits U.S. With Tariffs on \$1.8 Billion of Goods" 6-21-18; CNBC "Turkey slaps tariffs on American booze, cars as business groups urge diplomacy" 8-15-18. 4) See USA Today, "European Union tariffs on Harleys, peanut butter and other US goods begins Friday" 6-20-18; EU 5-18-18 immediate notification to the Council for Trade in Goods of the proposed suspension of concessions and other obligations referred to in paragraph 2 of Article 8. 5) See Quartz, "The full list of 229 US products targeted by Canada's retaliatory tariffs" 6-29-18. 6) See Reuters "China to impose 25 percent tariffs on 659 U.S. goods worth \$50 billion" 6-15-18. 7) See Reuters "Russia hikes duties on U.S. imports, pledges more retaliation" 7-6-18. 8) See CNN Money "India postpones retaliatory tariffs on US goods for a second time" 8-6-18; India 5-18-18 notification to the Council for Trade in Goods of its proposed suspension of concessions and other obligations referred to in Article 8.2 of the Agreement on Safeguards.

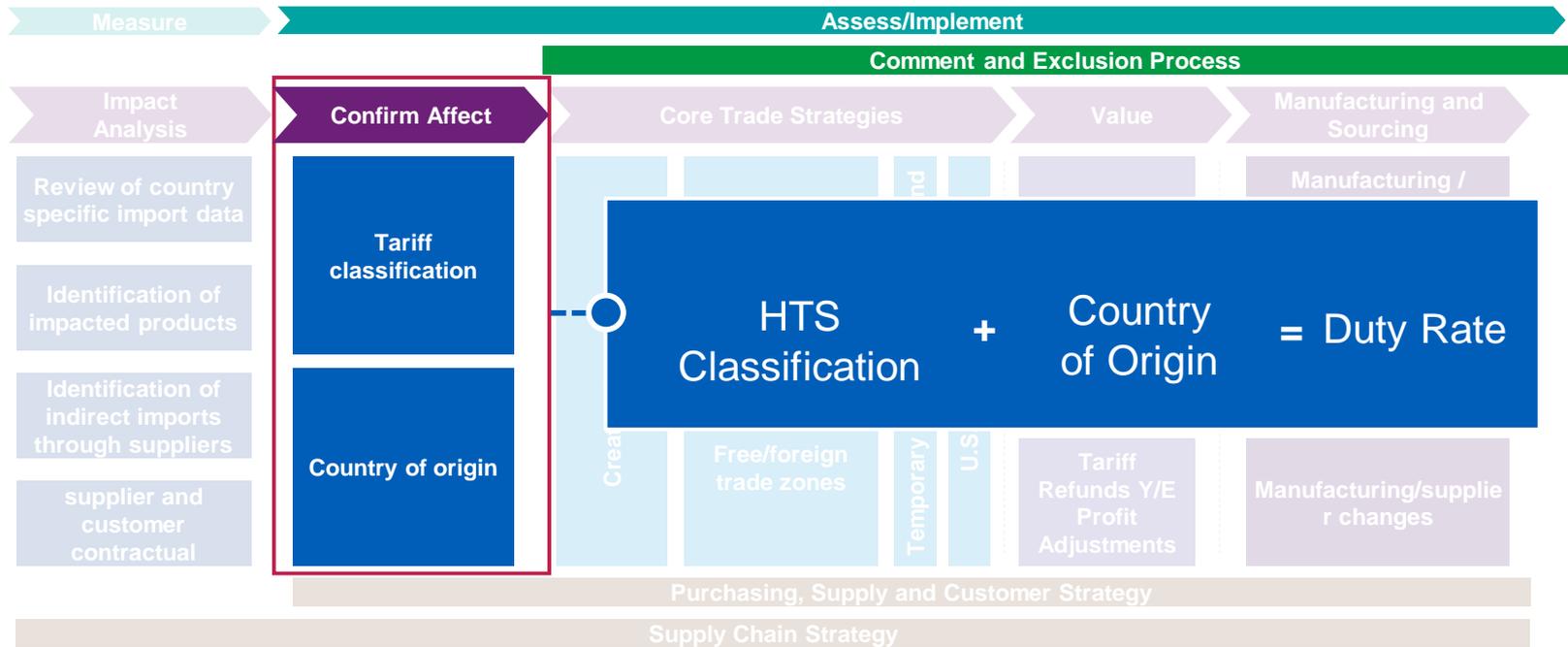


Navigating New Trade Landscape

Impact analysis



Confirm affect



Case study #1 – Classification review/tariff engineering

Companies should also review product classification to ensure that the tariffs apply. As with Country of Origin, such a review is often surprising for importers not previously subject to duty

- Example Case Study – Construction crane importer not subject to tariffs
- Importer of construction cranes from China initiates review to re-route production outside of China, potentially costing millions and taking years to accomplish;
- During review, classification review determines that the company has been using the wrong classification for the imported products, and that the true classification is not subject to Section 301 tariffs;
- Massive duty savings, as well as avoidance of major supply chain restructuring undertaking

Spotlight: Tariff Engineering

- In addition to traditional classification reviews, companies may also consider strategically re-designing products to achieve more favorable tariff classifications.
- Known as “tariff engineering,” such reviews can be complicated but valuable, depending on duty exposure
- **Example:** Ford imports vans with seats, declared as “passenger vehicles” at a low duty rate. After import, Ford removes the seats in the US, and sells the van as a commercial van, which would have been entered at a higher rate. ** This practice was rejected by Customs, but subsequently approved by the courts on appeal. US Customs has appealed the decision, but such practices remain viable. **

Case study #2 – Origin review and determination

Companies should also review product country of origin to ensure that the tariffs apply. For previously duty-free products, such a review is often surprising.

Example Case Study – Hearing Aids from the EU

- Importer of hearing aids from China initiates review of product component origin;
- Determines that component that creates the essential character is produced in Denmark;
- After review with KPMG, origin is Denmark, with assembly done in China.
- Because the hearing aid is EU origin, not subject to 25% duty under Section 301*

Example Case Study – Machinery Assembly re-routed to Japan

- Importer of industrial machinery relocated product finishing operations from China to Japan;
- Finishing ops sufficiently sophisticated to confer Japanese origin
- Duties avoided; ~\$25 million annually saved

Country of Origin is determined by where the product is:

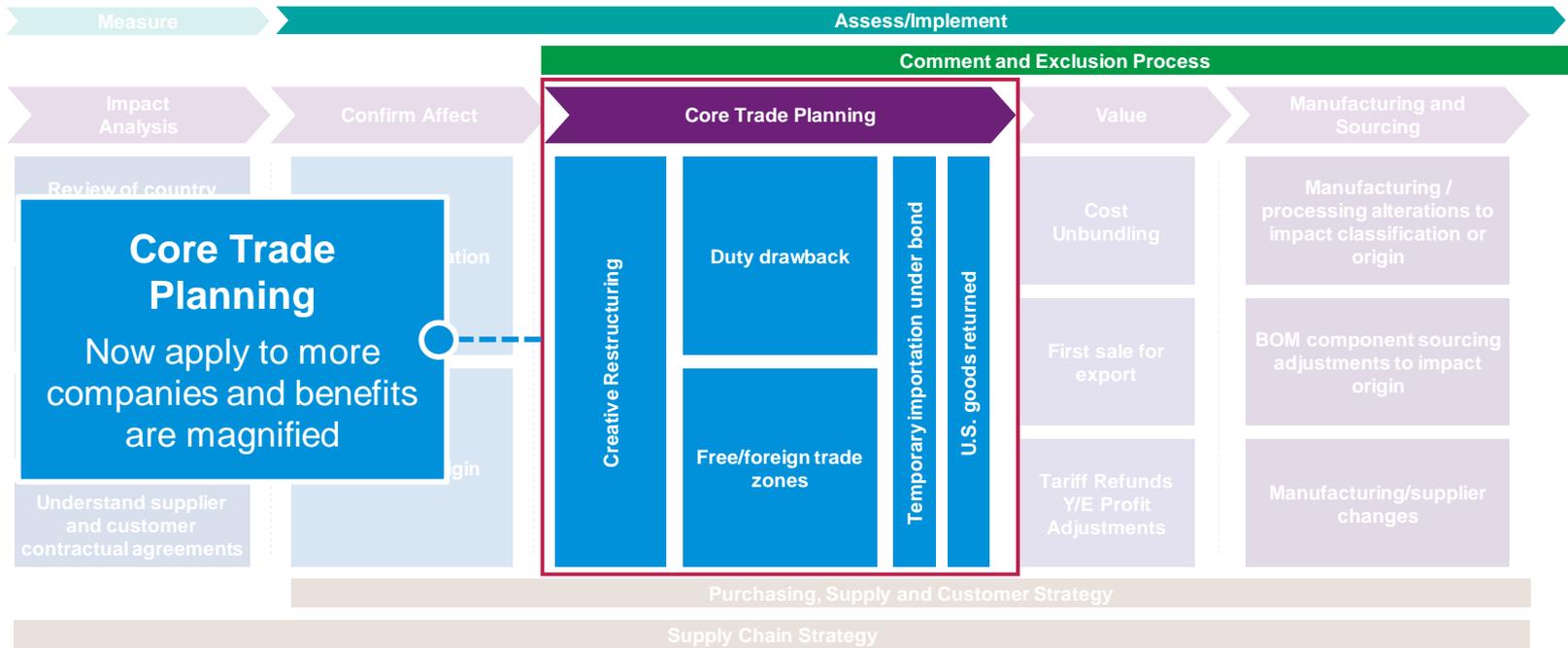
- Wholly grown, manufactured, or produced;
- Where the last substantial transformation of the product occurred

*Hearing aids were included on the 301 proposed list one and were later removed when the official implemented 301 list one was published

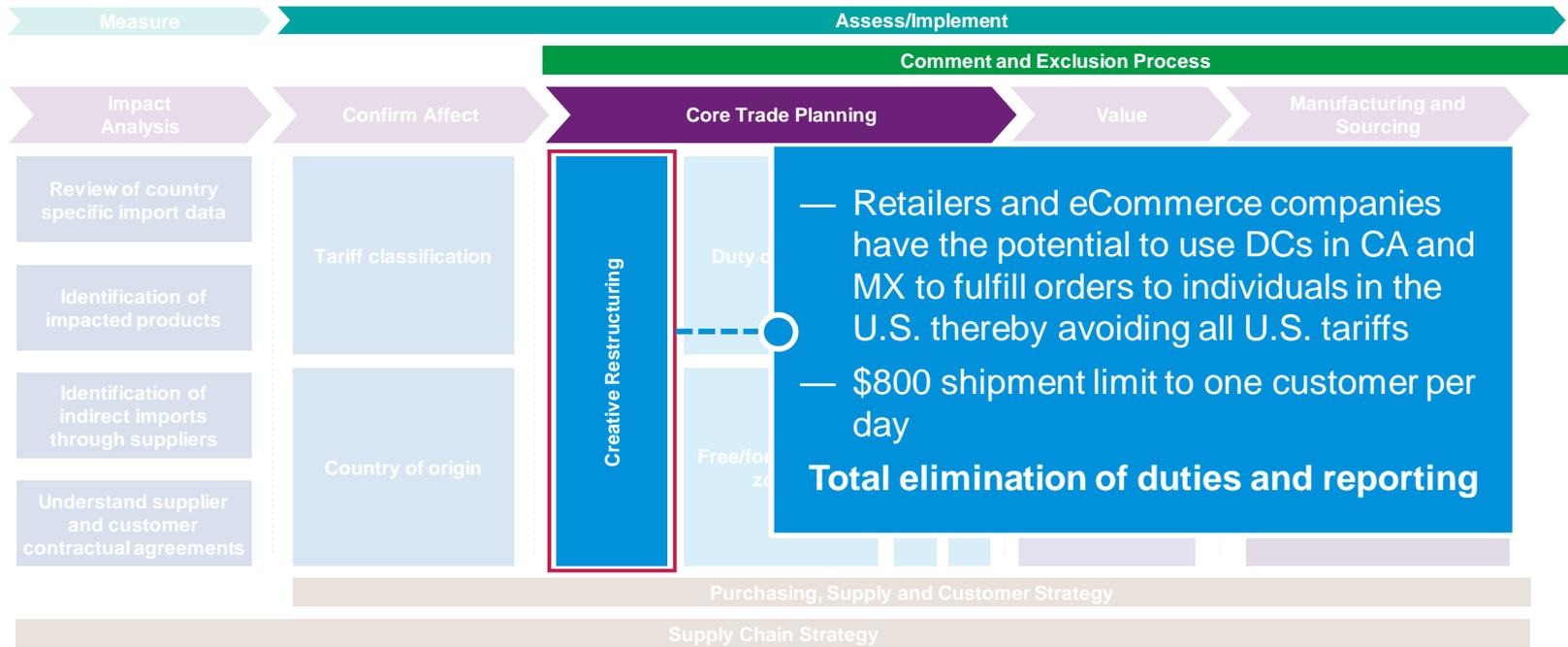
Comments and exclusion



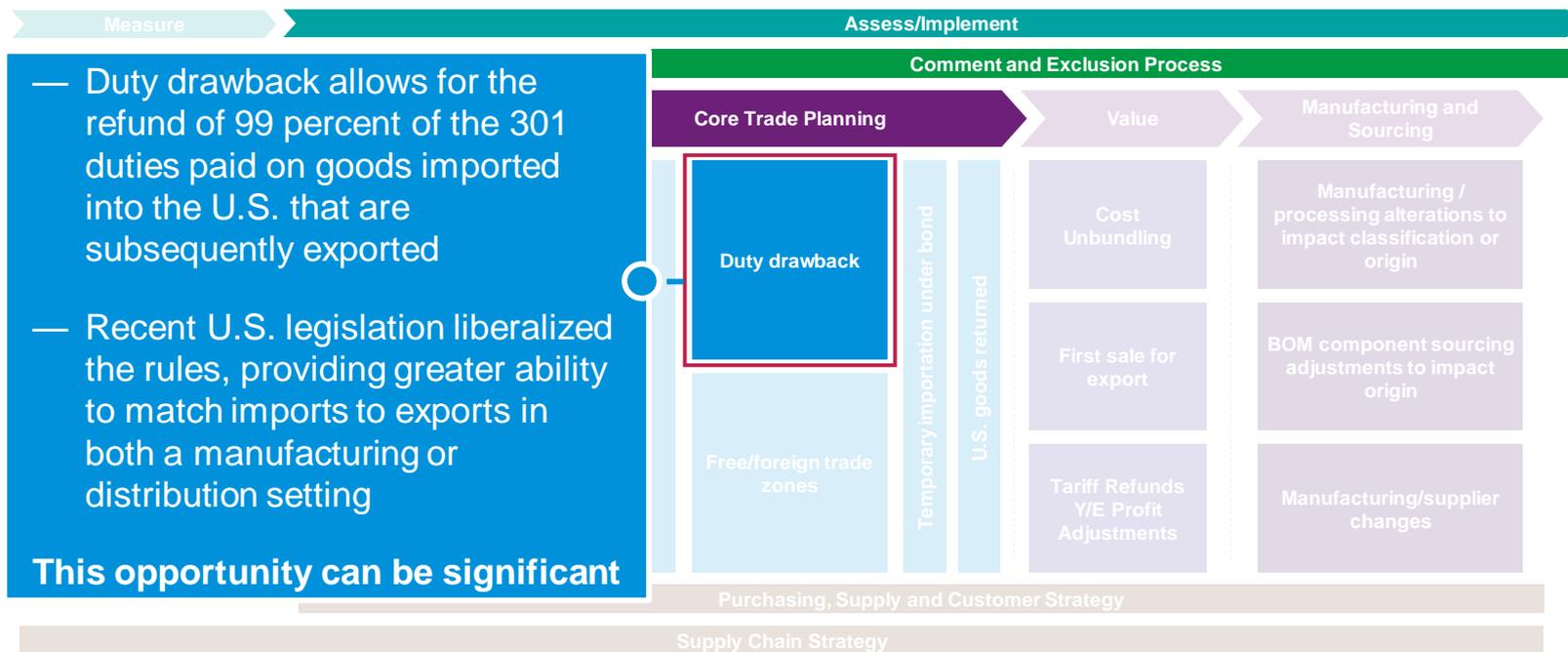
Core trade planning



Core trade planning (cont.)



Core trade planning (cont.)



— Duty drawback allows for the refund of 99 percent of the 301 duties paid on goods imported into the U.S. that are subsequently exported

— Recent U.S. legislation liberalized the rules, providing greater ability to match imports to exports in both a manufacturing or distribution setting

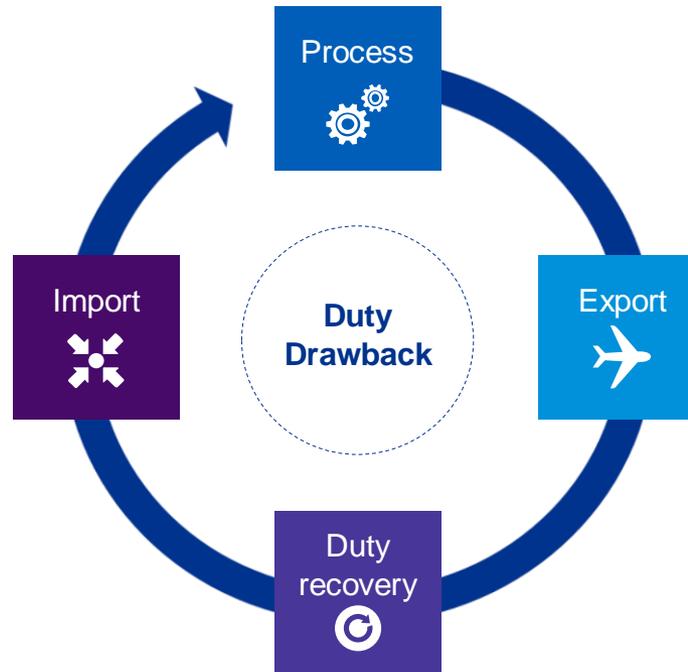
This opportunity can be significant

Case study #3 – Duty drawback/temporary import bond/foreign trade zone

For imported products used in US manufacturing operations or exported beyond

Example #1 – Drawback

- Client tire manufacturer imports inventory into US;
- Some inventory exported for retail outside the US;
- Through drawback program implementation, client files claim for recovery of duty on tires exported outside the US;
- Annual duty savings of ~20%



Example #2 – Temporary Import Bond

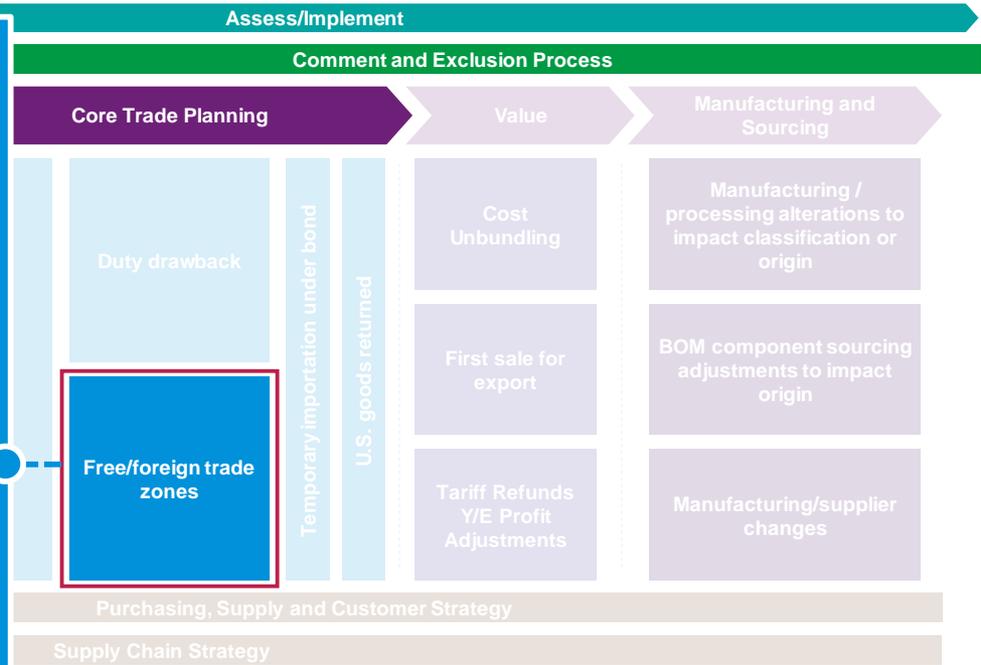
- Components are imported into US from China for processing into finished good, which is then exported to EU;
- Client adopts Temporary Import Bond strategy to defer payment of duties;
- Verify export abroad
- No duties paid for affected merchandise

Core trade planning (cont.)

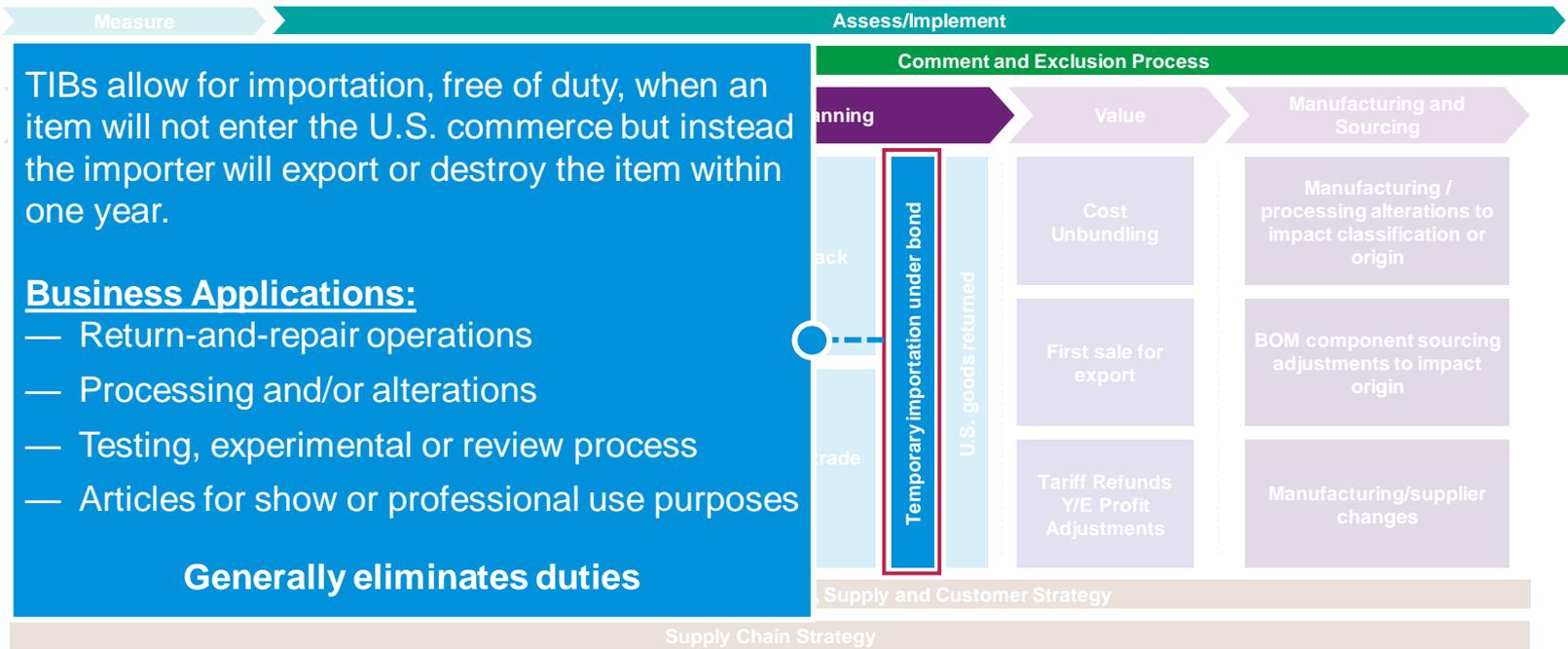
FTZ is an area that is physically located in the US (i.e. warehouse, manufacturing site, etc.) which is considered outside the “*customs territory of the U.S.*” and not subject to custom duties until goods leave the FTZ for the U.S. market

P&L Benefits

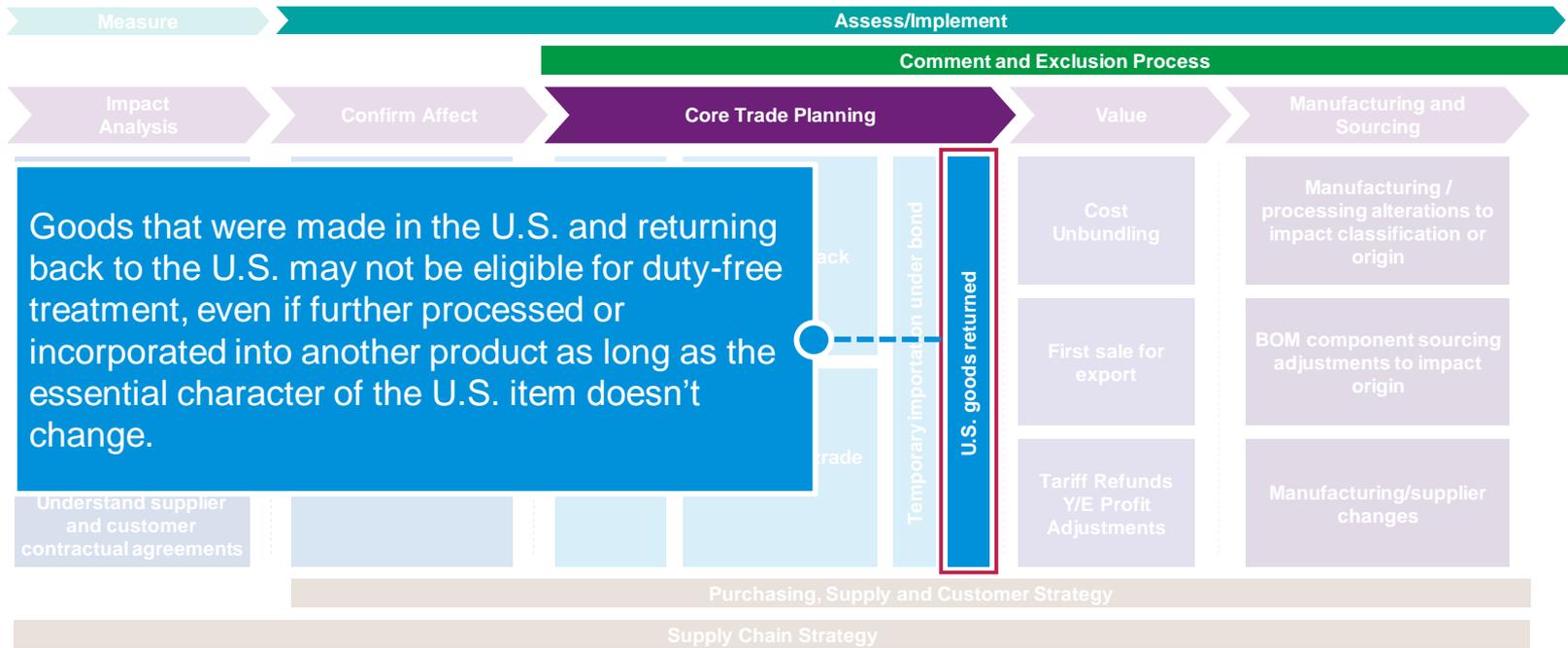
- Duty deferral (cash flow and duty management)
- Duty elimination on exports
- Simplified import process (weekly entry) resulting in reduced user fees and brokerage costs
- State inventory taxes avoidance



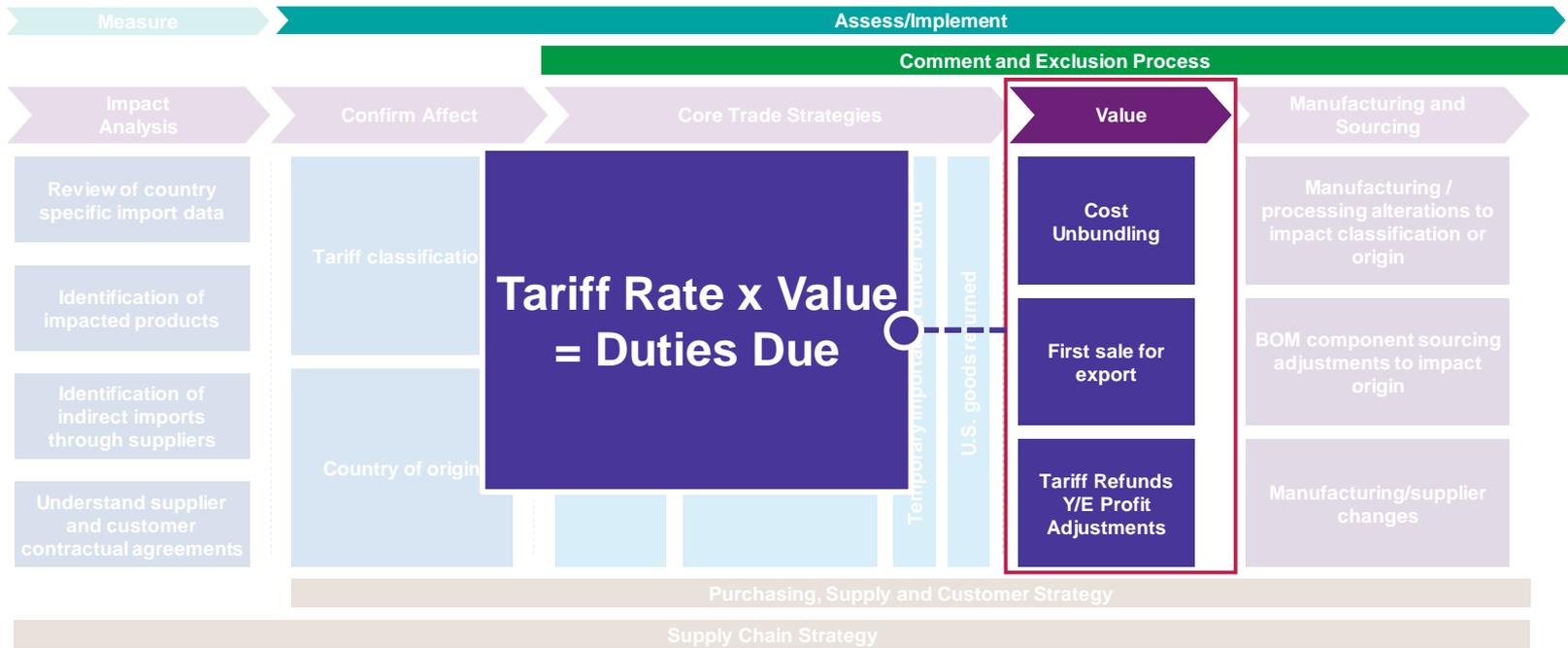
Core trade planning (cont.)



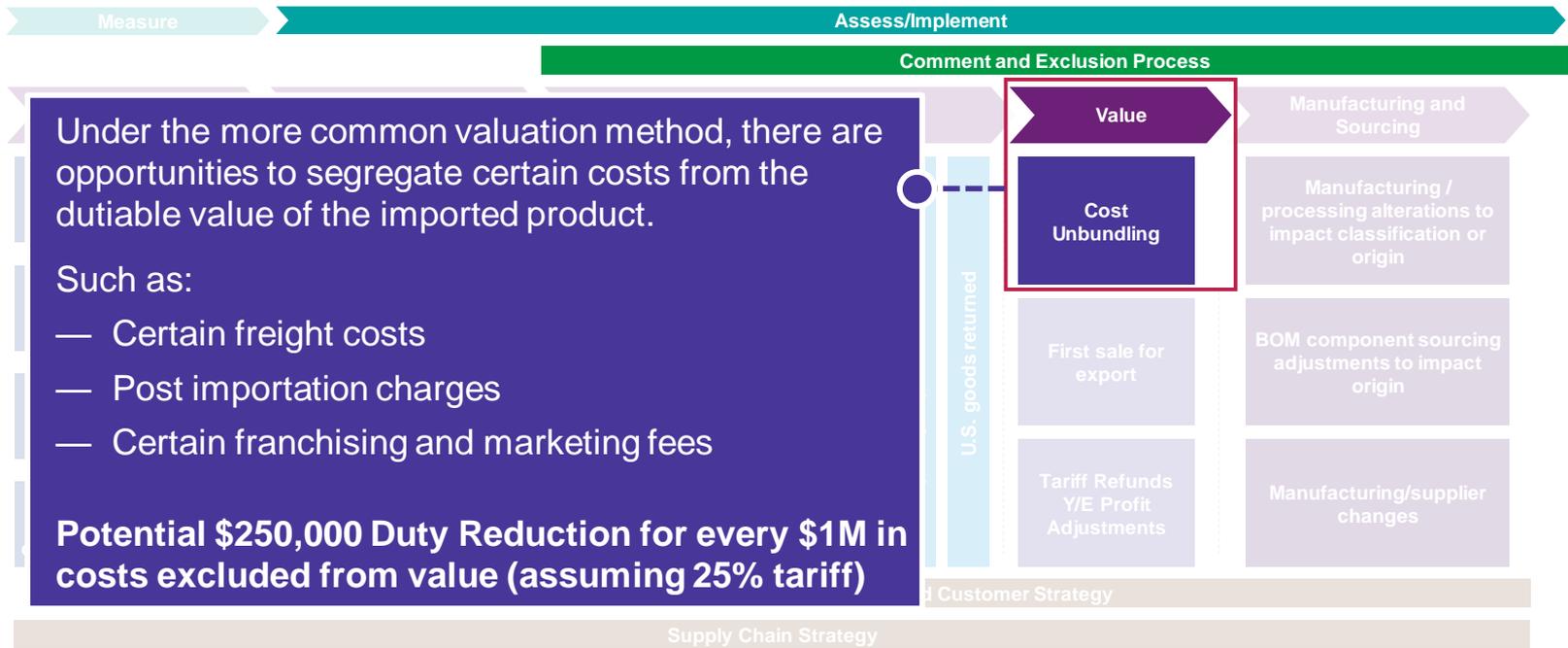
Core trade planning (cont.)



Value planning



Value planning (cont.)

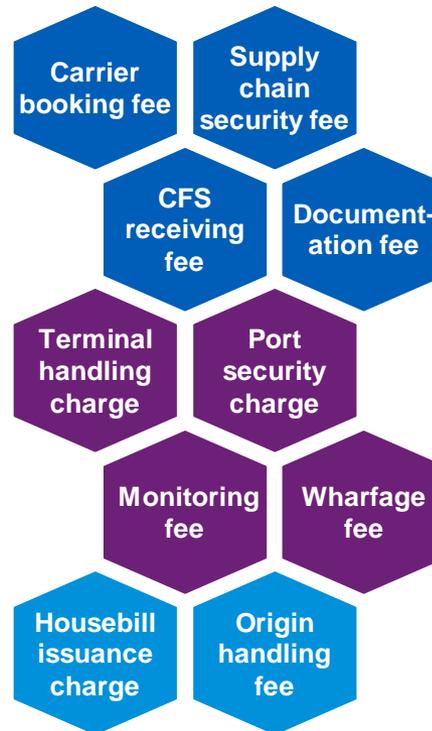


Case study #6 – Valuation review/cost unbundling

Success Story: Simply removing foreign inland freight, security, and handling charges paid to supplier from the Customs value saved apparel importer almost 15% on duties



Applicable charges and fees can include (but are not limited to):



Example of payee and charge types for FOB* transactions

Payee	Charge type
Supplier	Inland freight
Supplier	Inland fuel surcharge
Supplier	Inland security charges
Supplier	Inland handling
Supplier	terminal handling charges
Supplier	Freight forwarder commissions
Supplier	Documentation fee paid to shipping company preparation and delivery of a bill of lading or waybill

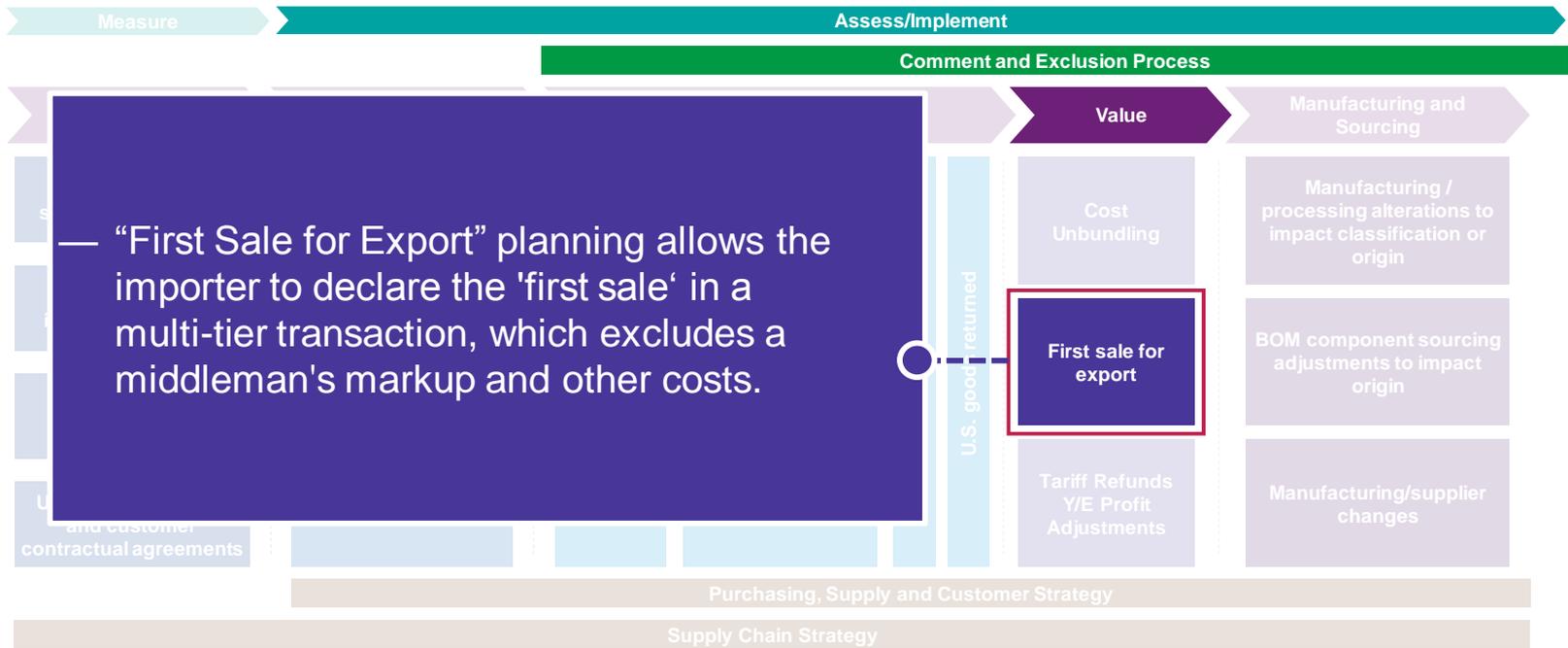
* In instances of FCA shipping terms the importer may be the payee.



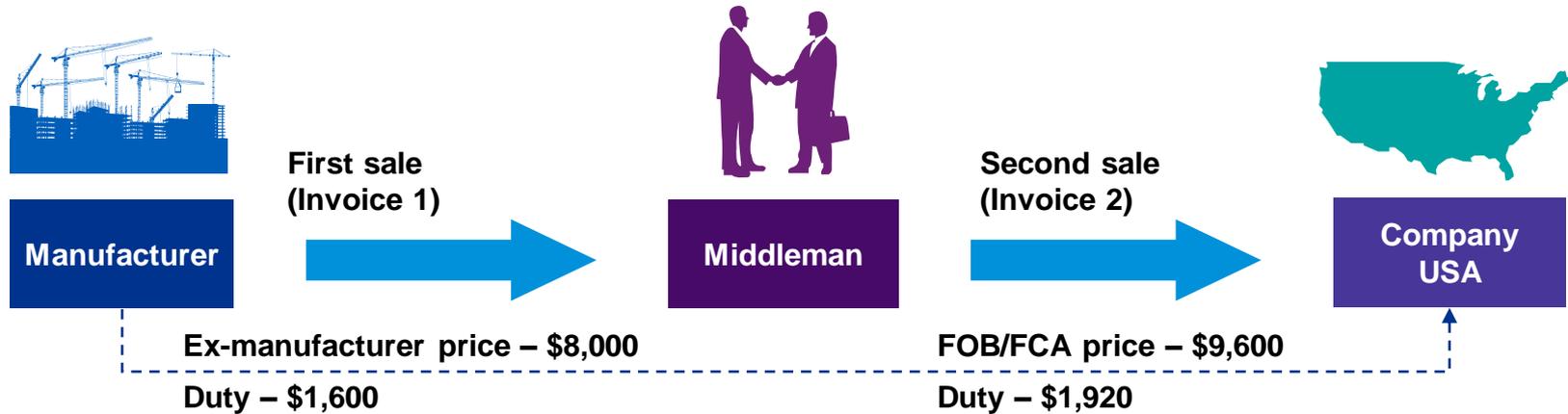
Customs and border protection ruling – HQ H004683:

US Customs determined the amounts for freight, fuel surcharges, and security and handling fees may be excluded from the price actually paid or payable as international shipment or transportation costs, provided the appropriate documentary support exists in any particular case.

Value planning (cont.)



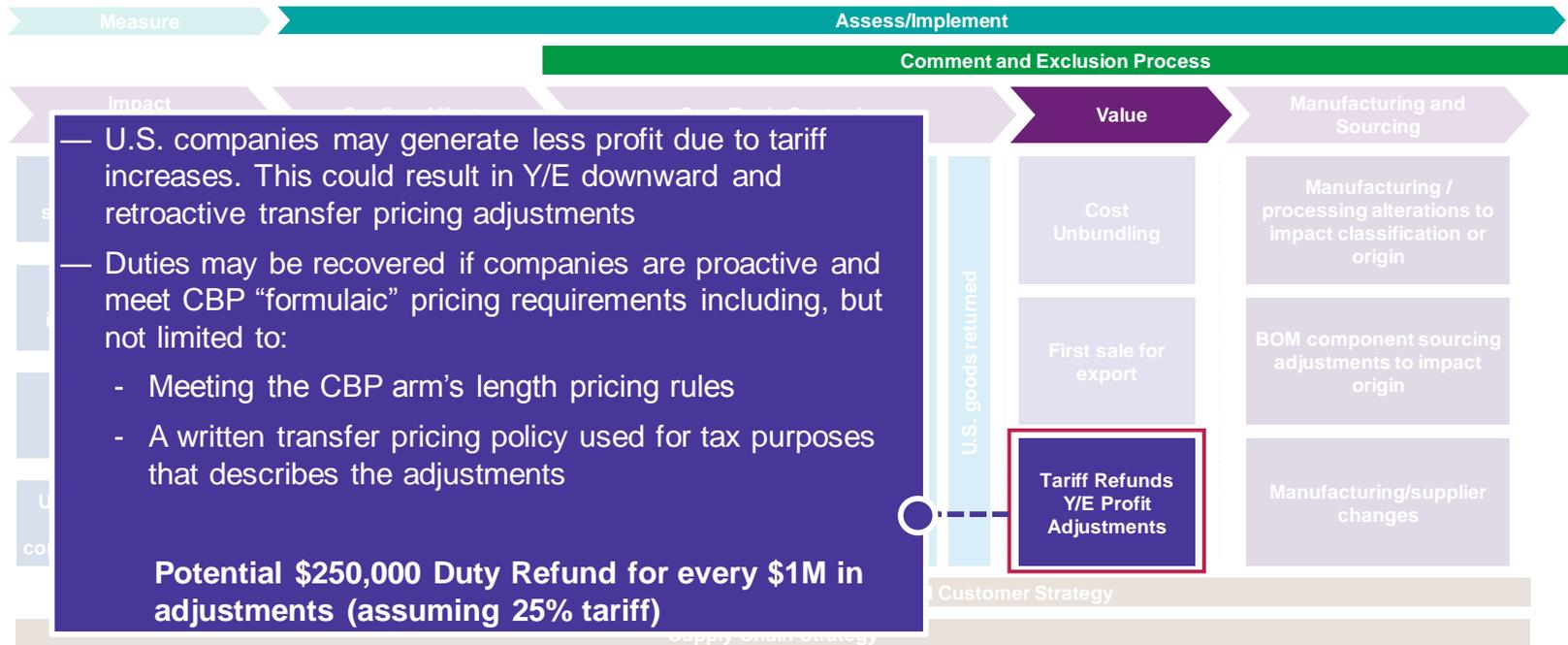
Case study #4 – First sale for export



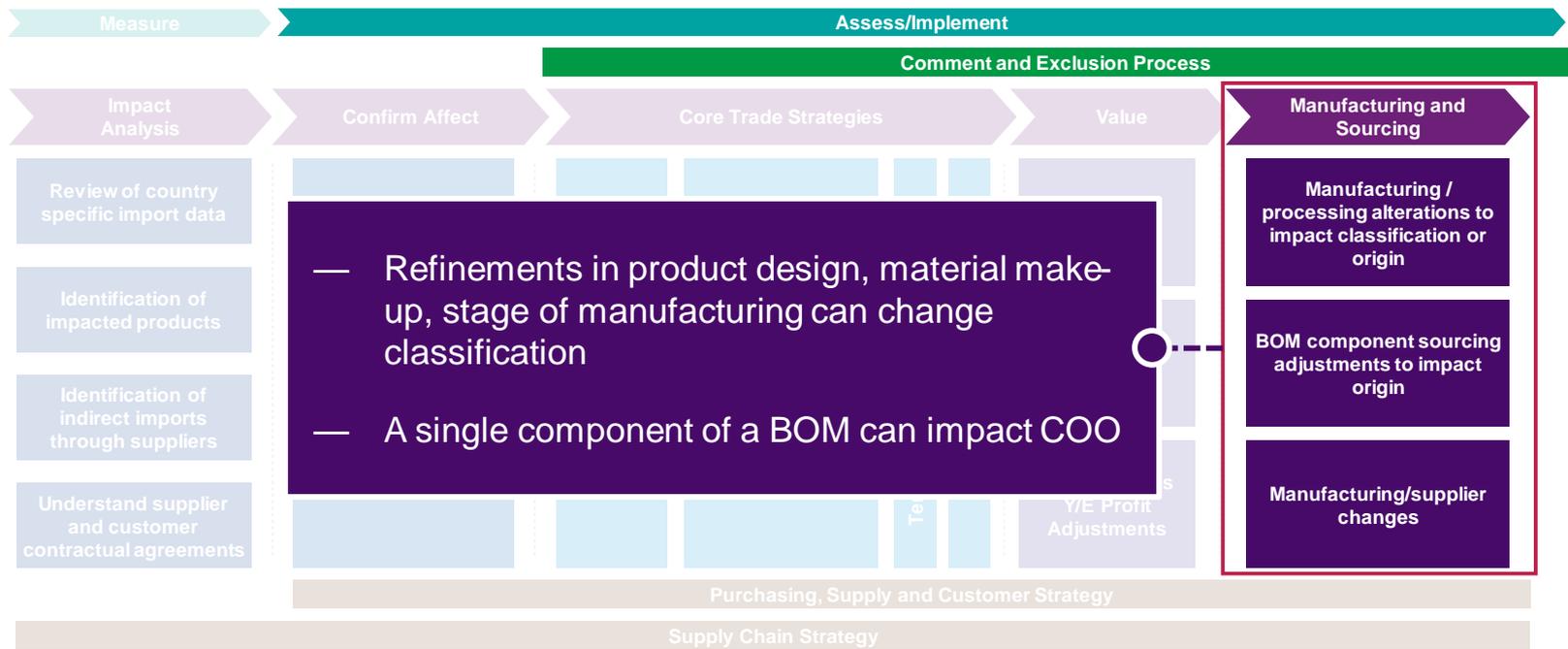
Companies should also review supply chains to see if “first sale” price can be used as the Customs value, which can significantly reduce dutiable value at the time of import

- Example Case Study – Leather bag manufacturer reduces dutiable value by 20%
- Importer of leather bags from China works with suppliers to determine the manufacturer “first sale” price;
- Reduced dutiable value determined and approved by KPMG trade consultants;
- Internal procedures adopted to ensure program compliance annually;
- Annual duty savings ~8 million

Value planning (cont.)



Manufacturing and sourcing



Purchase planning

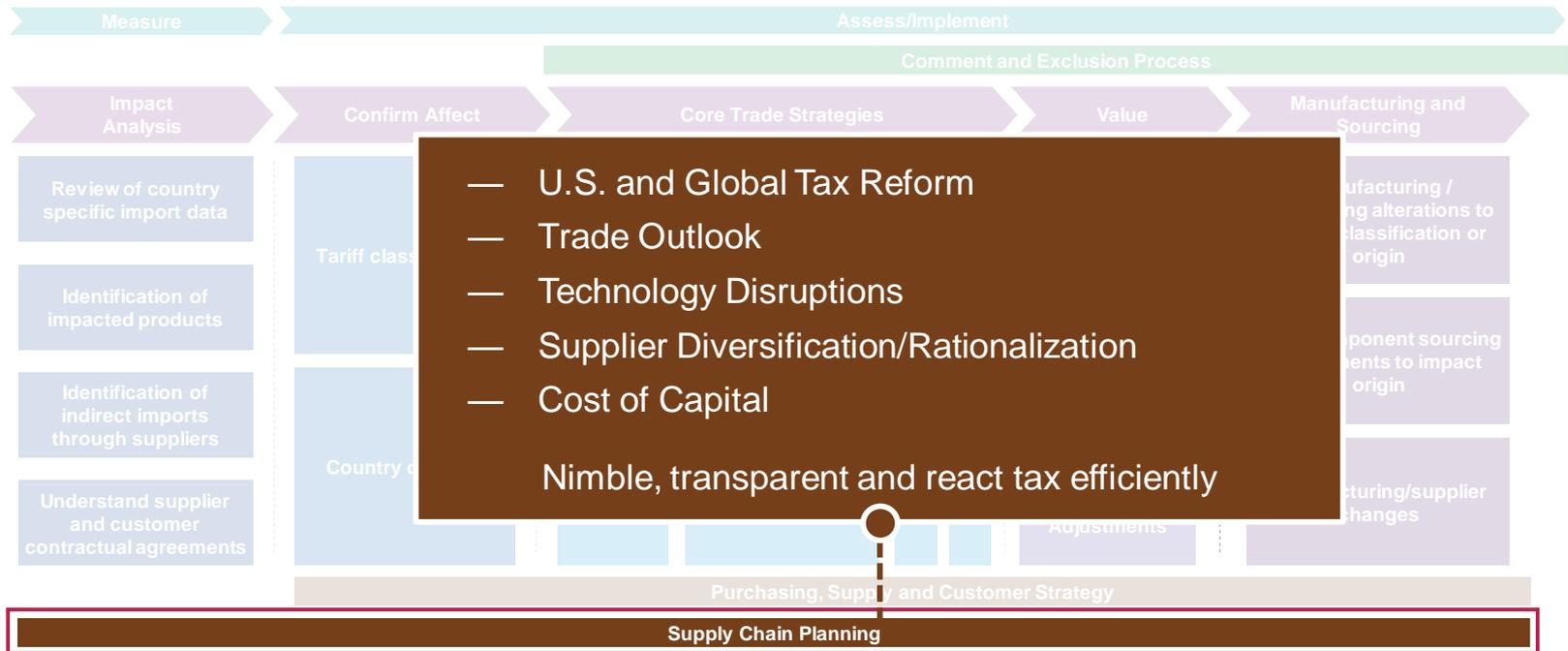


- What is the plan to get goods and services to market?
- What is your potential exposure vs that of our industry competitors?
- What is the amount of elasticity in your ability to price?
- What is substitution risk? Can you substitute or are you locked in?

Purchasing, Supply and Customer Planning

Supply Chain Strategy

Supply chain planning





Q&A



kpmg.com/socialmedia

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved. NDPPS 792930

The KPMG name and logo are registered trademarks or trademarks of KPMG International.