

SEPTEMBER 2019



An Update on Tariffs

As part of his economic policy, President Trump has used tariffs as a method of reducing the trade imbalance between the U.S. and its trading partners. President Trump considers himself to be a great dealmaker, and most of his dealings in international trade have been to use tariffs to get deals from trading partners. President Trump has sought many changes to U.S. trade policy, including dropping out of the Trans-Pacific Partnership trade agreement negotiations, renegotiating the North American Free Trade Agreement, and seeking to increase the number of bilateral trade agreements. President Trump has also used tariffs to protect certain American industries including domestic solar panel production and steel and aluminum producers. In addition to protecting U.S. industries, the president has leveraged tariffs to begin negotiating a free trade agreement with China and the European Union.

The president's trade policies are very similar to the old mercantilism model of global trade, which was predominant in the 18th century and was the target of Adam Smith's "Wealth of Nations" published in 1776. Mercantilism relies on the belief that a country can be made more wealthy by increasing exports and decreasing imports. President Trump has said several times that he hates the trade deficit, especially the trade deficit with China. On May 2, 2016, President Trump said "We can't continue to allow China to rape our country and that's what they're doing. It's the greatest theft in the history of the world." This sentiment shows that President Trump views global trade simply as imports and exports of physical goods and is continued in his "America First" theme from his inauguration. Many of President Trump policies contain key characteristics of mercantilism: tariffs to reduce imports, non-tariff barriers to trade, and export subsidies such as the Export-import bank that helps companies export to foreign countries.

Tariffs on Steel and Aluminum

In March 2018, President Trump using his national security authority under Section 232 to impose tariffs on imports of steel and aluminum from nearly all foreign sources. According to the Department of Commerce, dumping of cheap steel and aluminum into the United States was making it harder for enough domestic producers to stay in business. If these domestic producers were to close it would have an impact on the ability of the U.S. to produce products necessary for national security. The president was given three options, tariffs on all imports, higher tariffs on imports from 12 countries accused of dumping, and quotas on imports from all countries with the president choosing tariffs on all imports. The tariffs, 25 percent on steel and 10 percent on aluminum, differed from the recommendations from the Department of Commerce that sought tariffs of 24 percent and 7.7 percent respectively because President

Trump reportedly said round numbers “look better.”

The Trump Administration has since granted exemptions to Argentina, Australia, Brazil, Canada, Mexico, and South Korea. In its agreement with Mexico and Canada, both countries were required to monitor imports of steel and aluminum to ensure they were not simply entering the respective countries to then be exported to the U.S. without the tariffs.

Many economists have said that tariffs are effectively a tax on American consumers and have an impact on the economy. This is due to the increase in the cost of the products with tariffs, since the steel and aluminum tariffs were announced the price of steel has seen double digit price increases. These price increases have an impact on manufacturing jobs that rely on lower cost steel and aluminum to stay in the United States. According to one study, the steel and aluminum tariffs have caused 16 job losses for every one job created.

Several steel importers sued the Trump Administration claiming that Section 232 violates the constitution by delegating the powers of Congress to the President. On March 25, 2019, the U.S. Court of International Trade ruled the law does not violate the constitution by meeting the intelligible principle standard. The Supreme Court refused to take up the case on June 24, 2019. With the loss in the courts, the only remaining options to remove the tariffs are an act of Congress, the administration voluntarily removing the tariffs, and World Trade Organization determination that the tariffs break WTO rules.

Tariffs on Chinese Goods

In March 2018, President Trump instructed his U.S. Trade Representative, Robert Lighthizer, to investigate China for unfair trade practices and identify \$50-\$60 billion worth of Chinese imports for tariffs under Section 301 of the Trade Act of 1974. USTR determined that China used unfair trade practices against the United States to harm American intellectual property (IP) rights, innovation, and technology development. Specifically, USTR targeted exports under the Made China 2025 Plan and with President Trump’s approval began imposing tariffs on August 23, 2018. After China retaliated with tariffs on the United States for imposing tariffs on \$50 billion in imports, President Trump asked for a larger list of \$200 billion worth of products. On September 24, 2018, President Trump announced tariffs at a rate of 10 percent would be imposed on the \$200 billion worth of Chinese imports and threatened to increase the rate to 25 percent on January 1, 2019. This led China to announce additional retaliatory tariffs. On December 1, 2018 in meeting between President Trump and Chinese President Xi Jinping, the U.S. and China agreed to a 90 day “cease-fire” to not increase any existing tariffs or apply new tariffs on imports, providing the two countries an opportunity to start negotiating a trade agreement.

These trade negotiations were seen as positive and moving forward for several weeks. The talks were productive enough that on February 24, 2019 President Trump suspended the countdown to increasing the tariffs indefinitely. Talks progressed positively over the next ten weeks with multiple meetings in the U.S. and China and agreements starting to form on enforcement offices to prevent intellectual property theft and banning of fentanyl in China. However, on *The information contained in this policy brief is not, and should not be construed as accounting, legal or tax advice. Tax rules are frequently changed, added, amended, and/or left to expire – always check with your CPA or accountant regarding the most current tax rules and how they apply to your specific circumstances.*

May 5, 2019 China reneged on part of the already agreed upon terms and talks fell apart. Also on May 5, 2019 President Trump announced plans to increase tariffs on \$200 billion in goods from 10 percent to 25 percent on May 10 and asked USTR to create a list of remaining imports (approximately \$300 billion) to go through the exclusion process with tariffs to be added at a later date.

On June 18, 2019, the White House announced plans for President Trump and President Xi to meet in person as a sideline to the G-20 meeting in Osaka, Japan with the goal of restarting trade negotiations. Following this meeting at the G-20, the U.S. and China resumed negotiations, however the lack of progress caused President Trump to announce on August 1, 2019 that he planned to put tariffs on the remaining \$300 billion in imports at a 10 percent rate. On August 13, 2019 the president announced that some of the tariffs would be delayed until December 15, 2019 because of fears the tariffs would affect Christmas sales on many consumer goods included in the latest round of tariffs. Finally, on August 23, 2019, President Trump announce he would increase all tariffs on Chinese imports by 5 percent, putting products at either 30 percent or 15 percent.

Following President Trump's announcement of new tariffs, China retaliated by devaluing their currency further to offset the tariffs and help boost their economy. In response, the U.S. Treasury Department labeled China as a currency manipulator. These latest actions have escalated the trade war to its highest point and have caused some economists to fear a recession in 2020 caused in part by the trade war.

Impact of tariffs

While many studies show the general impact of tariffs is negative in the long run, it is difficult to pinpoint if the latest rounds of tariffs have had an impact on the industry. This is due in part to the growing economy that has offset any negative effects, however growing fears of a recession could quickly cause the tariffs to have an impact. Additionally, distributors who maintain a stable margin percentage actually see larger profits from the tariffs as prices increase. As the U.S. economy begins to slow and the latest tariffs are added it will important for members to keep an eye on demand and adjust inventories accordingly. The recent increase in tariffs to 30 percent and the new tariffs on \$300 billion in additional imports has a lot of potential to further slow the economy and make any impacts more visible.

It will be important for distributors to keep an eye on the negotiations, if successful, the final agreement will see the tariffs rescinded after certain changes are met by China. While it is unlikely prices will decrease, it is important to keep an open dialogue with manufacturers about rebate programs that will take the place of price decreases and have a plan on how to pass those on to customers.

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NAHAD products on the tariffs list include:

HTSUS Subheading	Description (abbreviation "nesoi" means "not elsewhere specified or included")	Tariff start date
	Pipes, Tubes, Valves, Fittings, etc.	
3917.21.00	Tubes, pipes and hoses, rigid, of polymers of ethylene	8/23/18
3917.22.00	Tubes, pipes and hoses, rigid, of polymers of propylene	8/23/18
3917.23.00	Tubes, pipes and hoses, rigid, of polymers of vinyl chloride	8/23/18
3917.29.00	Tubes, pipes and hoses, rigid, of other plastics nesoi	8/23/18
3917.31.00	Flexible plastic tubes, pipes and hoses, having a minimum burst pressure of 27.6 MPa	8/23/18
3917.32.00	Tubes, pipes and hoses, of plastics, other than rigid, not reinforced or otherwise combined with other materials, without fittings	8/23/18
3917.33.00	Flexible plastic tubes, pipes and hoses, nesoi, with fittings, not reinforced or otherwise combined with other materials	9/24/18
3917.39.00	Flexible plastic tubes, pipes and hoses, nesoi	9/24/18
3917.40.00	Fittings of plastics, for plastic tubes, pipes and hoses, nesoi	8/23/18
3926.90.45	Gaskets, washers and other seals, of plastics	9/24/18
4006.90.10	Rods, tubes, profile shapes, discs, rings, and similar articles, of natural, unvulcanized rubber	9/24/18
4006.90.50	Rods, tubes, profile shapes, discs, rings, and similar articles, of synthetic unvulcanized rubber	9/24/18
4009.11.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, not reinforced or combined w/other materials, without fittings	9/24/18
4009.12.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, not reinforced or combined w/other materials, with fittings	9/1/19
4009.21.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined only with metal, without fittings	9/24/18
4009.22.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined only with metal, with fittings	9/24/18

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4009.31.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined only with textile materials, without fittings	9/24/18
4009.32.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined only with textile materials, with fittings	9/24/18
4009.41.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined with other materials nesoi, without fittings	9/24/18
4009.42.00	Tubes, pipes and hoses of vulcanized rubber other than hard rubber, reinforced or combined with other materials nesoi, with fittings	9/1/19
4016.93.50	Gaskets, washers and other seals, of noncellular vulcanized rubber other than hard rubber, not for use in automotive goods in C87	9/24/18
7307.11.00	Cast nonmalleable iron, fittings for tubes or pipes	9/24/18
7307.19.30	Cast ductile iron or steel, fittings for tubes or pipes	9/24/18
7307.19.90	Cast iron or steel, fittings for tubes or pipes, nesoi	9/24/18
7307.21.10	Stainless steel, flanges for tubes/pipes, forged, not machined, not tooled and not otherwise processed after forging	9/24/18
7307.21.50	Stainless steel, not cast, flanges for tubes/pipes, not forged or forged and machined, tooled and otherwise processed after forging	9/24/18
7307.22.10	Stainless steel, not cast, threaded sleeves (couplings) for tubes/pipes	9/24/18
7307.22.50	Stainless steel, not cast, threaded elbow and bends for tubes/pipes	9/24/18
7307.23.00	Stainless steel, not cast, butt welding fittings for tubes/pipes	9/24/18
7307.29.00	Stainless steel, not cast, fittings for tubes/pipes, nesoi	9/24/18
7307.91.10	Iron or nonalloy steel, flanges for tubes/pipes, forged, not machined, not tooled and not otherwise processed after forging	9/24/18
7307.91.30	Alloy steel (o/than stainless), not cast, flanges for tubes/pipes, forged, not machined/tooled and not otherwise processed after forging	9/24/18

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7307.91.50	Iron or steel (o/than stainless), not cast, flanges for tubes/pipes, not forged or forged and machined, tooled & processed after forging	9/24/18
7307.92.30	Iron or steel (o/than stainless), not cast, threaded sleeves (couplings) for tubes/pipes	9/24/18
7307.92.90	Iron or steel (o/than stainless), not cast, threaded elbow and bends for tubes/pipes	9/24/18
7307.93.30	Iron or nonalloy steel, not cast, butt welding fittings for tubes/pipes, w/inside diam. Less than 360mm	9/24/18
7307.93.60	Alloy steel (o/than stainless), not cast, butt welding fittings for tubes/pipes, w/inside diam. less than 360mm	9/24/18
7307.93.90	Iron or alloy steel (o/than stainless), not cast, butt welding fittings for tubes/pipes, w/inside diam. 360mm or more	9/24/18
7307.99.10	Iron or nonalloy steel, fittings for tubes/pipes, nesoi, forged, not machined, not tooled and not otherwise processed after forging	9/24/18
7307.99.30	Alloy steel (o/than stainless), fittings for tubes/pipes, nesoi, forged, not machined/tooled and not otherwise processed after forging	9/24/18
7307.99.50	Iron/steel (o/than stainless), n/cast, fittings for tubes/pipes, nesoi, not forged or forged and machined, tooled & processed after forging	9/24/18
7411.10.10	Refined copper, tubes and pipes, seamless	9/24/18
7411.10.50	Refined copper, tubes and pipes, other than seamless	9/24/18
7411.21.10	Copper-zinc base alloys (brass), tubes and pipes, seamless	9/24/18
7411.21.50	Copper-zinc base alloys (brass), tubes and pipes, other than seamless	9/24/18
7411.22.00	Copper-nickel base alloys (cupro-nickel) or copper-nickel-zinc base alloys (nickel-silver), tubes and pipes	9/24/18
7411.29.10	Copper alloys (o/than brass/cupro-nickel/nickel-silver), pipes and tubes, seamless	9/24/18
7411.29.50	Copper alloys (o/than brass/cupro-nickel/nickel-silver), pipes and tubes, other than seamless	9/24/18
7412.10.00	Refined copper, fittings for tubes and pipes	9/24/18
7412.20.00	Copper alloys, fittings for tubes and pipes	9/24/18

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8302.41.60	Iron or steel, aluminum or zinc mountings, fittings & similar articles, nesoi, suitable for buildings, & base metal pts thereof	9/24/18
8302.41.90	Base metal (o/than iron/steel/aluminum/zinc) mountings, fittings and similar arts, nesoi, suitable for buildings & base metal parts thereof	9/24/18
8302.49.60	Iron or steel, aluminum, or zinc, mountings, fittings & similar articles nesoi, and base metal parts thereof	9/24/18
8302.49.80	Base metal (o/than iron/steel/aluminum/zinc) mountings, fittings & similar articles nesoi, and base metal parts thereof	9/24/18
8307.10.30	Iron or steel flexible tubing, with fittings	9/24/18
8307.10.60	Iron or steel flexible tubing, without fittings	9/24/18
8307.90.30	Base metal (o/than iron or steel) flexible tubing, with fittings	9/24/18
8307.90.60	Base metal (o/than iron or steel) flexible tubing, without fittings	9/24/18
8481.10.00	Pressure-reducing valves for pipes, boiler shells, tanks, vats or the like	7/6/18
8481.30.10	Check valves of copper for pipes, boiler shells, tanks, vats or the like	9/24/18
8481.30.20	Check valves of iron or steel for pipes, boiler shells, tanks, vats or the like	7/6/18
8481.30.90	Check valves other than of copper or iron or steel, for pipes, boiler shells, tanks, vats or the like	7/6/18
8481.40.00	Safety or relief valves for pipes, boiler shells, tanks, vats or the like	7/6/18
8481.80.10	Taps, cocks, valves & similar appliances for pipes, boiler shells, tanks, vats or the like, hand operated, of copper, nesoi	9/24/18
8481.80.30	Taps, cocks, valves & similar appliances for pipes, boiler shells, tanks, vats or the like, hand operated, of iron or steel, nesoi	9/24/18
8481.80.50	Taps, cocks, valves & similar appliances for pipes, boiler shells, tanks, vats or the like, hand operated, not copper, iron or steel, nesoi	9/24/18

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8481.80.90	Taps, cocks, valves & similar appliances for pipes, boiler shells, tanks, vats or the like, other than hand operated, nesoi	9/24/18
8481.90.90	Parts of taps, cocks, valves and similar appliances for pipes, boiler shells, tanks, vats or the like, nesoi	7/6/18
8484.10.00	Gaskets and similar joints of metal sheeting combined with other material or of two or more layers of metal	7/6/18
8484.20.00	Mechanical seals	7/6/18
	Raw or nearly raw materials	
7314.50.00	Iron or steel, expanded metal	9/24/18
7403.13.00	Refined copper, billets	9/24/18
7403.19.00	Refined copper, unwrought articles nesoi	9/24/18
7403.21.00	Copper-zinc base alloys (brass), unwrought nesoi	9/24/18
7407.10.15	Refined copper, hollow profiles	9/24/18
7407.10.30	Refined copper, profiles (o/than hollow profiles)	9/24/18
7407.10.50	Refined copper, bars and rods	9/24/18

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