Current Tariffs & their impact

ISA: Titanium USA 2018

Presented by Mike Lowell & Jeffrey Orenstein

October 9, 2018

Las Vegas, Nevada
Current Tariffs & their impact

Agenda:
• Overview of Tariffs on Chinese Imports (Sec. 301)
• The Three Tariff Lists
• Titanium Impacts
• Strategies
• Product Exclusions
• Steel and Aluminum Tariffs (Sec. 232)
• Negotiations with China
• Questions
Tariffs on Chinese Imports

Sec. 301
Overview of Tariffs on Chinese imports

- 25% or 10% ad valorem tariff on Chinese imports
- USTR has announced 3 lists of product categories (HTS classification codes) for application of the tariff.
- The lists underwent public notice and comment review
- After this review, USTR issued a final determination on the products subject to the additional duty
- The additional duty (25% or 10%) is assessed in addition to any other applicable duties (e.g., general customs duties, antidumping, etc.)
Overview of Tariffs on Chinese imports

Origin of the tariff:

• Authority: Under Section 301 of the Trade Act of 1974, the President ordered the USTR to investigate whether China’s practices related to IP and technology were unreasonable or restricted U.S. commerce.
• Finding: USTR and interagency team found China’s policies harmed the U.S. economy by at least $50 billion per year.
• Response: President ordered: (1) 25% ad valorem duties on certain Chinese-origin goods; (2) WTO case on China’s licensing practices; (3) restrictions on Chinese investment aimed at obtaining key U.S. technologies.
Overview of Tariffs on Chinese imports

Pros
- China engages in unfair trade practices and these tariffs may pressure China to make concessions
- Domestic producers of covered products will benefit from a cost advantage.

Cons
- A tax on Chinese imports is effectively a tax on U.S. manufacturers that will, at a minimum, increase costs, and likely cause job losses and other disruptions to U.S. industry
- Retaliation by China covering U.S. agricultural products, cars, aircraft, and high-tech industries. This would hurt U.S. industry and its ability to compete both in the domestic market and abroad.
The 3 Product Lists
Tariff on “List 1” Products

Currently in Effect

• Duty: 25%
• Effective: July 6, 2018
• Products: 818 HTS codes (original list was 1,333)
• Deadline for Exclusion Requests: Due October 9, 2018.
Tariff on “List 2” Products

Currently in Effect

- **Duty**: 25%
- **Effective**: August 23, 2018
- **Products**: 279 HTS codes (original list was 284)
- **Deadline for Exclusion Requests**: Due **December 18, 2018**.
Tariff on “List 3” Products

Currently in Effect

• **Duty:**
  - 10% in effect now
  - 25% on January 1, 2019

• **Effective:** September 26

• **Products:** 5,745 HTS codes (original list was 6,031)

• **Deadline for Exclusion Requests:** TBD
Tariff on “List 4” (threatened)

Fourth List Threatened:

• September 17, 2018: the administration announced that if China "takes retaliatory action against our farmers or other industries" they will initiate a process aimed at increasing tariffs on an additional $267 billion worth of goods from China.

• No proposed list has been issued.
Titanium Impacts
## Titanium Products on List 3

<table>
<thead>
<tr>
<th>Description</th>
<th>HTS Code</th>
</tr>
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<tbody>
<tr>
<td><strong>TITANIUM AND TITANIUM DIOXIDE</strong></td>
<td></td>
</tr>
<tr>
<td>Titanium oxides (unfinished TiO2 pigments)</td>
<td>2823.00.0000</td>
</tr>
<tr>
<td>TiO2 pigments, 80% or more TiO2</td>
<td>3206.11.00</td>
</tr>
<tr>
<td>TiO2 pigments, other</td>
<td>3206.19.0000</td>
</tr>
<tr>
<td>Ferrotitanium and ferrosilicon titanium</td>
<td>7202.91.0000</td>
</tr>
<tr>
<td>Unwrought titanium metal</td>
<td>8108.20.0010</td>
</tr>
<tr>
<td>Titanium waste and scrap metal</td>
<td>8108.30.0000</td>
</tr>
<tr>
<td>Other titanium metal articles</td>
<td>8108.90.3000</td>
</tr>
<tr>
<td>Wrought titanium metal</td>
<td>8108.90.6000</td>
</tr>
</tbody>
</table>

**Sponge Imports:** Japan (78%) China (8%) Kazakhstan (6%) Ukraine (6%) other (2%)

**TiO2 Pigment Imports:** Canada (31%) China (24%) Germany (10%) other (35%)

<table>
<thead>
<tr>
<th>Description</th>
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<tbody>
<tr>
<td><strong>TITANIUM MINERAL CONCENTRATES</strong></td>
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<tr>
<td>Synthetic rutile</td>
<td>2614.00.3000</td>
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<tr>
<td>Ilmenite and ilmenite sand</td>
<td>2614.00.6020</td>
</tr>
<tr>
<td>Rutile concentrate</td>
<td>2614.00.6040</td>
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<tr>
<td>Titanium slag</td>
<td>2620.99.5000</td>
</tr>
</tbody>
</table>

**Imports:** S. Africa (37%) Australia (29%) Canada (14%) Mozambique (11%) Other (9%)
# Titanium Products on List 3

**Impact on Duties: Reaching 40%**

<table>
<thead>
<tr>
<th>Description</th>
<th>HTS Code</th>
<th>Regular Duty</th>
<th>+10%</th>
<th>+25%</th>
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<tr>
<td>Titanium oxides (unfinished TiO2 pigments)</td>
<td>2823.00.0000</td>
<td>5.5%</td>
<td>15.5%</td>
<td>30.5%</td>
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<tr>
<td>TiO2 pigments, 80% or more TiO2</td>
<td>3206.11.00</td>
<td>6.0%</td>
<td>16%</td>
<td>31%</td>
</tr>
<tr>
<td>TiO2 pigments, other</td>
<td>3206.19.0000</td>
<td>6.0%</td>
<td>16%</td>
<td>31%</td>
</tr>
<tr>
<td>Ferrotitanium and ferrosilicon titanium</td>
<td>7202.91.0000</td>
<td>3.7%</td>
<td>13.7%</td>
<td>28.7%</td>
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<tr>
<td>Unwrought titanium metal</td>
<td>8108.20.0010</td>
<td>15.0%</td>
<td>25%</td>
<td>40%</td>
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<tr>
<td>Titanium waste and scrap metal</td>
<td>8108.30.0000</td>
<td>Free</td>
<td>10%</td>
<td>25%</td>
</tr>
<tr>
<td>Other titanium metal articles</td>
<td>8108.90.3000</td>
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<td>Free</td>
<td>10%</td>
<td>25%</td>
</tr>
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</table>
Impact of Tariffs on Titanium Products

• **Price Changes**
  
  – Higher demand for domestic product
  
  – Pricing competition

  – Titanium distributors, suppliers, and consumers will have to prepare for, and adjust to, price shifts.
Impact of Tariffs on Titanium Products

• **Impact on Products that use Titanium**
  - Cost increases from tariffs will inevitably lead to an increase in price of certain products that utilize titanium.
  
  - This could include:
    - Aerospace
    - Medical devices
    - Pigments
    - Sporting equipment
    - Etc.
Impact of Tariffs on Titanium Products

- **U.S. Jobs & Capital Investments**
  - Maintenance of current U.S. workforce
  - Capital investments may decline
  - U.S. titanium producers may need to expand.

- Competition
Strategies for Dealing with Tariffs
Strategies for Coping with Tariffs

- **Confirm Applicability**: Make sure you have the right:
  - HTS classification
  - Country of Origin.

- **Shifting Supply**: In many cases, importers will shift to non-Chinese suppliers.

- **Passing On the Costs**: If Chinese origin goods are the only option, the cost increase will typically get passed on to customers.

- **Absorbing the Costs**: Companies that cannot pass-on the full 10% due to price competition may have to absorb some or all of the cost increase.
Strategies for Coping with Tariffs

• **Stockpiling in a Bonded Warehouse:** Delay payment of duties by keeping imported goods in a bonded warehouse. This has its own costs, but it is an option if: (1) payment at the time of entry is not practical; or (2) if you want to see if the tariff will be repealed (e.g., due to a trade deal or political change).

• **Drawback:** Goods manufactured with imported components subject to tariff may be eligible for “drawback” if the finished products are exported.

• **Product Exclusions:** Product exclusion requests can be submitted by “interested persons,” which would include various parties impacted by the tariffs, such as U.S. importers, U.S. manufacturers, consumers, brokers, and trade associations representing parties impacted by the tariffs.
Product Exclusion Procedure

In order to address situations that warrant excluding a particular product from the 25% tariff, the USTR is implementing a product exclusion procedure with the following features:

- **Eligible Requestors:** Product exclusion requests can be submitted by “interested persons,” which would include various parties impacted by the tariffs, such as U.S. importers, U.S. manufacturers, consumers, brokers, and trade associations representing parties impacted by the tariffs.

- **Scope of Exclusions:** Requestors are permitted to seek exclusion for specific products within a specific subheading of the HTSUS, but not the tariff subheading as a whole. A separate request is required for each distinct product.

- **Granted Exclusions:** If granted, an exclusion will apply to all imports of the product, regardless of whether the importer filed a request. CBP will apply the tariff exclusions based on the product.

- **Retroactive Refunds:** If granted, an exclusion will entitle an importer to be refunded for Sec. 301 duties already paid.

- **Request Process:** To apply for a product exclusion, the requestor must submit a comment in the relevant docket number accompanied by a special request form prepared by the USTR.
Product Exclusion Procedure (cont.)

- **Criteria**: The USTR will consider three main criteria:
  - Whether the particular product is available only from China.
  - Whether duties would cause severe economic harm to the requester or other U.S. interests.
  - Whether the product is strategically important or related to “Made in China 2025” or other Chinese industrial programs.

- **Response Period**: After a request is publicly posted on Regulations.gov, the public will have 14 days to file responses to the request for product exclusion. After the close of the 14 day response period, interested persons will have an additional 7 days to reply to any responses received in support of or opposition to the request.

- **Approval of Exclusions**: After the Response period, the USTR will decide whether to grant the exclusion request or not. Once granted, a product exclusion will be effective for one year.
Tariffs on aluminum & steel

Sec. 232
Tariffs on aluminum & steel (Sec. 232)

Origin of the tariff:

- Section 232 of the Trade Expansion Act gives President broad discretion to “adjust” imports that impact national security
- The President ordered the Dept. of Commerce to evaluate the impact of steel and aluminum imports
- Commerce concluded steel and aluminum imports presented a risk to national security and recommended a 24% tariff on steel and an 7.7% tariff on aluminum products

On March 8, 2018, President Trump issued Proclamations 9704 and 9705, imposing tariffs on steel (25%) and aluminum (10%).
Tariffs on aluminum & steel (Sec. 232)

Which products types are subject to the tariffs?

Steel: HTS Codes
• All steel products under 7206.10 through 7216.50.
• All steel products under 7216.99-7301.10.
• All steel products under 7302.10.
• All steel products under 7302.40-7306.90.

Aluminum: HTS Codes
• Unwrought aluminum under 7601.
• Wrought aluminum under 7604-7609.
• Castings and forgings under 7616.99.51.
Tariffs on aluminum & steel (Sec. 232)

Effective date:

• Tariffs are assessed by U.S. Customs and Border Protection (CBP) on all covered products entered with CBP or withdrawn from warehouse for consumption on or after March 23, 2018.
• The Department of Commerce has said this applies even to shipments that were en route prior to the March 23, 2018 effective date or even the March 1 announcement.

Country of origin

• The tariff applies to steel and aluminum based on country of origin, not the country of export
• U.S.-origin products are exempt
Tariffs on Aluminum & steel (Sec. 232)

Applies to most countries of origin, including:
- Canada, Mexico, and European Union:
  - Tariff was suspended to facilitate trade negotiations, but no deal was reached.

Exceptions:
- Argentina, Australia, and Brazil:
  - Agreements reached for both steel and aluminum

- South Korea:
  - Deal reached on steel only
  - No tariff for first 2.68m tons of Korean steel per year (about 70% of past avg)
  - US gets changes to U.S.-Korea Free Trade Agreement (e.g., auto standards)
  - Aluminum tariff still in effect
Tariffs on Aluminum & steel (Sec. 232)

Industries Impacted:

Everything from pipelines to beer cans…

- Aerospace
- Automotive
- Medical Devices
- Construction
- Manufacturing/fabricating
Tariffs on Aluminum & steel (Sec. 232)

Ford Motor Co.

- Ford announced that it expects the steel and aluminum tariffs to reduce its profits by roughly $1 billion.
- Ford sources the majority of its metals from within the U.S.

Honda North America

- Increased steel prices have cost Honda hundreds of millions of dollars.
- More than 90% of the steel in the cars Honda assembles in North America is domestic.
- Honda faces retaliatory tariffs from both Canada and China.

Ford and Honda say they may raise prices due to tariffs.
Tariffs on Aluminum & Steel (Sec. 232)

Product Exclusions:

• Commerce is accepting requests for product “exclusions”
• Two Main Criteria:
  – The **quantity** of the product produced in the U.S. is not sufficient.
  – The **quality** of the product produced in the U.S. is not satisfactory.
• National Security
  – Commerce will also consider national security factors.
  – E.g., imports are needed for defense articles or critical infrastructure.
Tariffs on Aluminum & steel (Sec. 232)

Product exclusion procedure:
- Requesters must be parties using covered steel or aluminum products in business activities in the U.S.
- Forms and supporting materials submitted online to BIS
- No deadline
- No filing fee
- Each product requires its own request
- Requests are public and accessible online
- Public objections can be made during a 30-day comment period
- 90-day processing time was announced, but will not be met.
Negotiation with China
Negotiation with China

- Trade negotiations have stalled and tensions have escalated.
- Chinese officials have said they cannot hold talks while the U.S. “holds a knife” to Beijing’s neck by imposing tariffs.
- List 3 tariffs triggered Beijing to retaliate with announcement of $60 billion in new tariffs on U.S. goods.
- Additional tariffs are likely before a deal is reached.
Questions?

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