



# Trade and Tariff Update

ISM-Twin Cities January Professional Development Meeting

KPMG Trade & Customs

# Today's speakers



**Andy Doornaert**

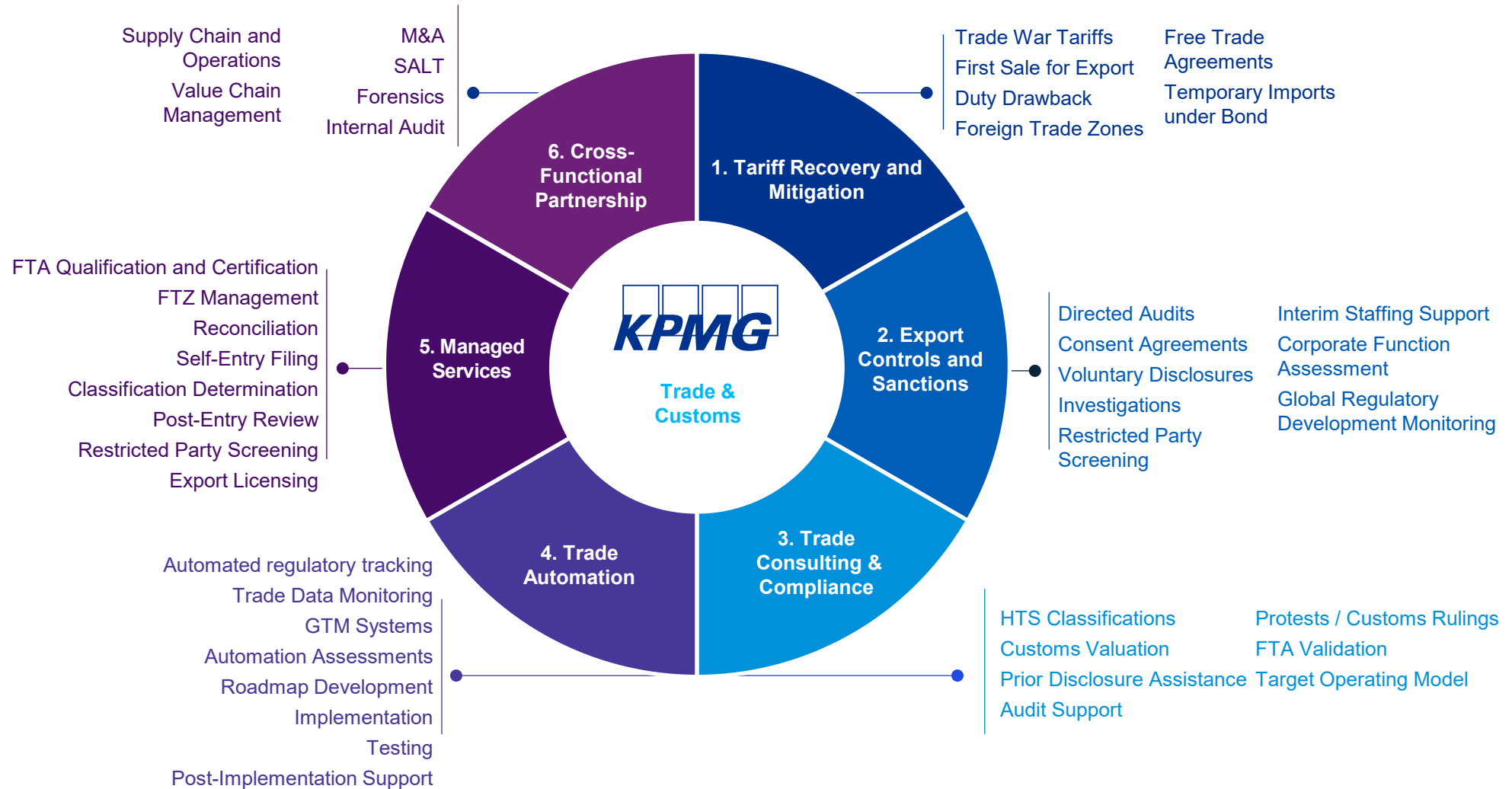
Senior Managing Director  
Detroit



**Michael Quigley**

Manager  
New York

# Trade & Customs: How we can help



# Agenda

01

**Trade Outlook – What to expect?**

02

**Policy Impact – How to assess impact?**

03

**Tools to mitigate the cost of tariffs**

# Trade Outlook

Michael Quigley



# Trade War or Leverage

Throughout President-elect Donald Trump's campaign for the 2025-2029 term, he emphasized the idea that the U.S. would use tariffs to raise federal revenue and increase jobs and manufacturing in the United States.

**On November 25, 2024, Trump announced on Truth Social Media:**  
On January 20th he will sign an executive order placing 25% tariffs on imports from Mexico and Canada and an additional 10% on imports from China (in addition to existing tariffs).

**"One tariff will follow another in response and so on, until we put our common businesses at risk."**

**Mexican President Claudia Sheinbaum in a letter to President-Elect Trump**

*"We are going to have 10% to 20% tariffs on foreign countries that have been ripping us off for years."*

**August 2024: Trump's Campaign Rally in Asheville, NC**

*"To me, the most beautiful word in the dictionary is 'tariff.' It's my favorite word."*

**October 2024: Economic Club of Chicago Annual Luncheon, co-hosted by Bloomberg News**

*"We're going to be a tariff nation. It's not going to be a cost to you. It's going to be a cost to another country."*

**September 2024: Trump's Campaign Rally in Wisconsin**

**"No one will emerge as the winner in a trade war."**

**China's President Xi Jinping addressing the World Economic Forum**

*"If India, China, or any other country hits us with a 100 or 200 percent tariff on American-made goods, we will hit them with the same exact tariff. In other words, 100 percent is 100 percent. If they charge US, we charge THEM—an eye for an eye, a tariff for a tariff, same exact amount."*

**June 2023: Agenda47 Video**

*One of the things that is really important to understand is that when Donald Trump makes statements like that, he plans on carrying them out*

**Canadian Prime Minister Justin Trudeau, November 2024**

# Navigating Additional Tariffs – What to Anticipate

## Trump Trade Policy Themes



America First Approach: Reducing trade deficits with other countries and promoting US jobs and industries.



Tariff and Trade Wars – Threat of tariffs to make other governments address the President’s concerns (illegal migration, drug trafficking).



Renegotiate Trade Agreements like USMCA



Expect retaliatory tariffs are anticipated from Mexico, Canada and China in response to US tariffs

## Anticipated Trade Policy Actions by Region, according to public statements

### China

- **Stated Concern: National and Economic Security**
- **Tariff:** 10-60% additional tariff on most imports
- **Export controls:** Significant expansion of listed entities/ restricted parties across major industries
- **Proposed China software bans:** Software integrated into the Vehicle Connectivity System (VCS) and software integrated into the Automated Driving System (ADS). Software – 2027 for Model Year 2030; Hardware: 2029

### Mexico

- **Stated Concern: Illegal Migration, Fentanyl Trafficking**
- **Tariff:** 25% rate on all MX goods
- **Auto:** Specific action against MX automotive sector

### Canada

- **Stated Concern: Illegal Migration, Fentanyl Trafficking**
- **Tariff:** 25% duty on all Canada goods
- **Response by CA:** Increase spend on border security; Higher Tariffs

### EU

- **EU charges higher tariff on some US goods plus VAT**
- **For example – Vehicles 10% for US to Germ.; 2.5% for Germany to US**
- **Tariff:** 10% duty on all EU-origin goods
- **Tariff:** 25% duty on steel, 10% on aluminum
- **Section 301:** Investigation into CBAM impairments on US companies

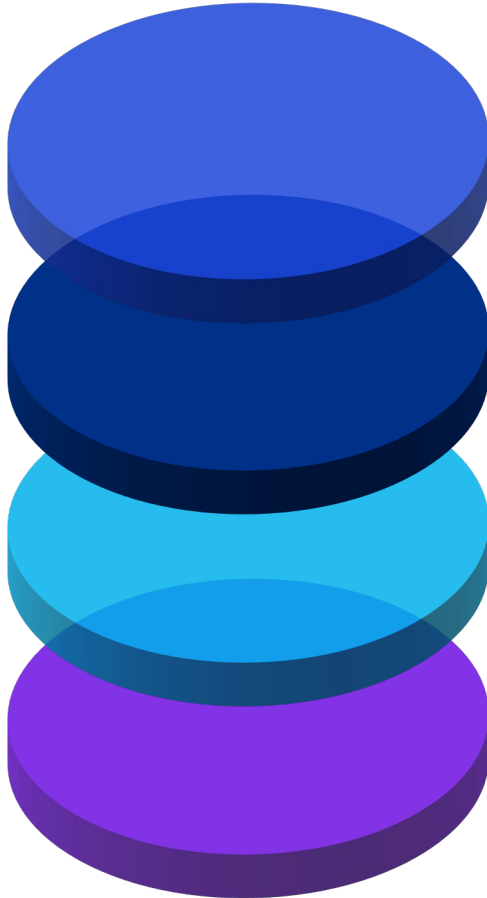
# When Can the President Impose Tariffs Without Approvals?

Presidential Authorities		Timeline
<b>Section 301, Trade Act of 1974 (19 USC § 2411)</b>	<b>Purpose:</b> Address unfair foreign trade practices <b>Trump's History:</b> Initial 25% tariffs affecting \$400 billion of Chinese goods and 10% on aircraft and 25% on other EU goods.	<b>Implementation:</b> After issuance of USTR* investigation report <b>Duration:</b> Undefined
<b>Section 232, Trade Expansion Act of 1962 (19 USC § 1862)</b>	<b>Purpose:</b> Restricts imports that threaten national defense or economic security <b>Trump's History:</b> Imposed 25% tariffs on steel and 10% of tariffs on aluminum	<b>Implementation:</b> Within 90 days of issuance of Dept. of Commerce investigation report <b>Duration:</b> Undefined
<b>Section 201, Trade Act of 1974 (19 USC § 2251)</b>	<b>Purpose:</b> Safeguard for US industries injured by a surge of imports <b>Trump's History:</b> Imposed 20% starting tariffs on first 1.2 million units of washing machines and 30% starting tariffs on solar panels	<b>Implementation:</b> Within 60 days of issuance of USITC* investigation report <b>Duration:</b> Up to 4 years ( <i>renewable up to 8 years</i> )
<b>International Emergency Economic Powers Act of 1977 (50 USC § 1702(a))</b>	<b>Purpose:</b> Empowers the President to address unusual and extraordinary threats <b>Trump's History:</b> Threatened 5% tariff on all goods imported from Mexico (although tariffs not actually imposed)	<b>Implementation:</b> Possibly immediately following declaration of national emergency <b>Duration:</b> Undefined ( <i>national emergency declaration must be renewed annually</i> )
<b>Section 338, Tariff Act of 1930 (19 USC § 1338)</b>	<b>Purpose:</b> Allows imposition of additional duties and/or import restrictions against products of foreign countries that discriminate against U.S. commerce <b>Trump's History:</b> Not used	<b>Implementation:</b> President's discretion upon determination of discrimination <b>Duration:</b> Undefined
<b>Section 122, Trade Act of 1974 (19 USC § 2132)</b>	<b>Purpose:</b> Allows temporary quotas or import surcharges up to 15% to address balance-of-payment deficits or protection of dollar stability <b>Trump's History:</b> Not used	<b>Implementation:</b> President's discretion <b>Duration:</b> Up to 150 days (unless extended by Congress)

United States Trade Representative (USTR)  
United States International Trade Commission (USITC)



# What Else to Anticipate



**USMCA Sunset Review**

**Permanent Normal Trade Relations  
("PNTR") for China**

**Section 321 Customs *De Minimis***

Post from Trump on Social Media, 1/14/2025:

"I am today announcing that I will create the EXTERNAL REVENUE SERVICE to collect our Tariffs, Duties, and all Revenue that come from Foreign sources."

# Policy Impact

# Trade Compliance Fundamentals: Tariff Overview

Below outlines how to calculate a tariff (also commonly referred to as duties or import taxes) and what a tariff is composed of.

## Duty Rate Calculation:



Determining classification of the item based on technical characteristics and use.

Determining origin based on manufacturing processes, e.g., what steps occur where.

Duty rate is fixed for all imports of a given classification from a given country, and each is assessed in addition to the others.

Different classifications have different duty rates, and different countries are subject to §301/§232/§201.

## Tariff Calculation:



Duty rate is fixed for all imports of a given classification from a given country, and each is assessed in addition to the others.

Determining punitive tariffs such as Section 201, 232, 301, and AD/CVD

Customs value is based on specific rules but is often the price paid or payable by the importer plus certain additions and deductions.

Tariffs due represents the total amount owed

# Access your trade data – Automated Commercial Environment (“ACE”)



## Step I: Assess and Collect Data

### A Collect trade data

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- Collect U.S. trade data
- ACE or ITRAC (import)
- Export Data (AES, Shipping Data)
- Global Trade Data (potential retaliation)
- Customs Broker Data

### B Consider Other Sources

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Collect additional data sources to help ensure holistic picture

- 2<sup>nd</sup> and 3<sup>rd</sup> Tier supplier information
- Sales data
- Other Dutiable Costs
- Supplier contracts
- Supply Chain considerations

# The Power of Trade Data Visualization: Tariff Monitoring and Modeling

Companies can leverage global trade systems for real time overview of import and export activity across all jurisdictions, allowing for quick analysis of tariff impact as developments occur. Ability to model and action results is critical during these times.

Available Trade Data
Automated Commercial Environment (“ACE”)
Import Broker Entry Data
Export Filer (or Freight Forwarder) Data
Purchase Order
Commercial Invoice
Sales Order
Material Master
Partner Master
Bill of Material





# Tools to mitigate the cost of tariffs

# Mitigation Strategies – Partial Duty Exemption

## 9802.00.80, HTSUS: Foreign Assembly of U.S. Components

- Subheading 9802.00.80, HTSUS, provides for partial duty exemption for imported articles assembled abroad from fabricated components that are a product of the United States.
- This provision permits a reduction in duty for the value of components manufactured in the U.S. and assembled abroad.

### Requirements

- The articles must be of U.S. Origin;
- The articles must be exported in condition ready for assembly without further fabrication;
- The articles assembled abroad must not have lost their physical identity by change in form, shape, or otherwise;
- The articles must not have advanced in value or improved in condition abroad, except by operations incidental to the assembly process (e.g. cleaning, lubricating, painting).

\*Also, not part of supplier duty drawback

### Documentation

- The claim for exemption must be supported by: (1) Assembler's Declaration, (2) Importer's Endorsement
- Documentation must be retained to establish the value and origin of the U.S. manufactured components, including:
  - Manufacturer's affidavit
  - Invoices
  - Bill of lading
  - Bill of materials, Cost information
  - Description of assembly operations

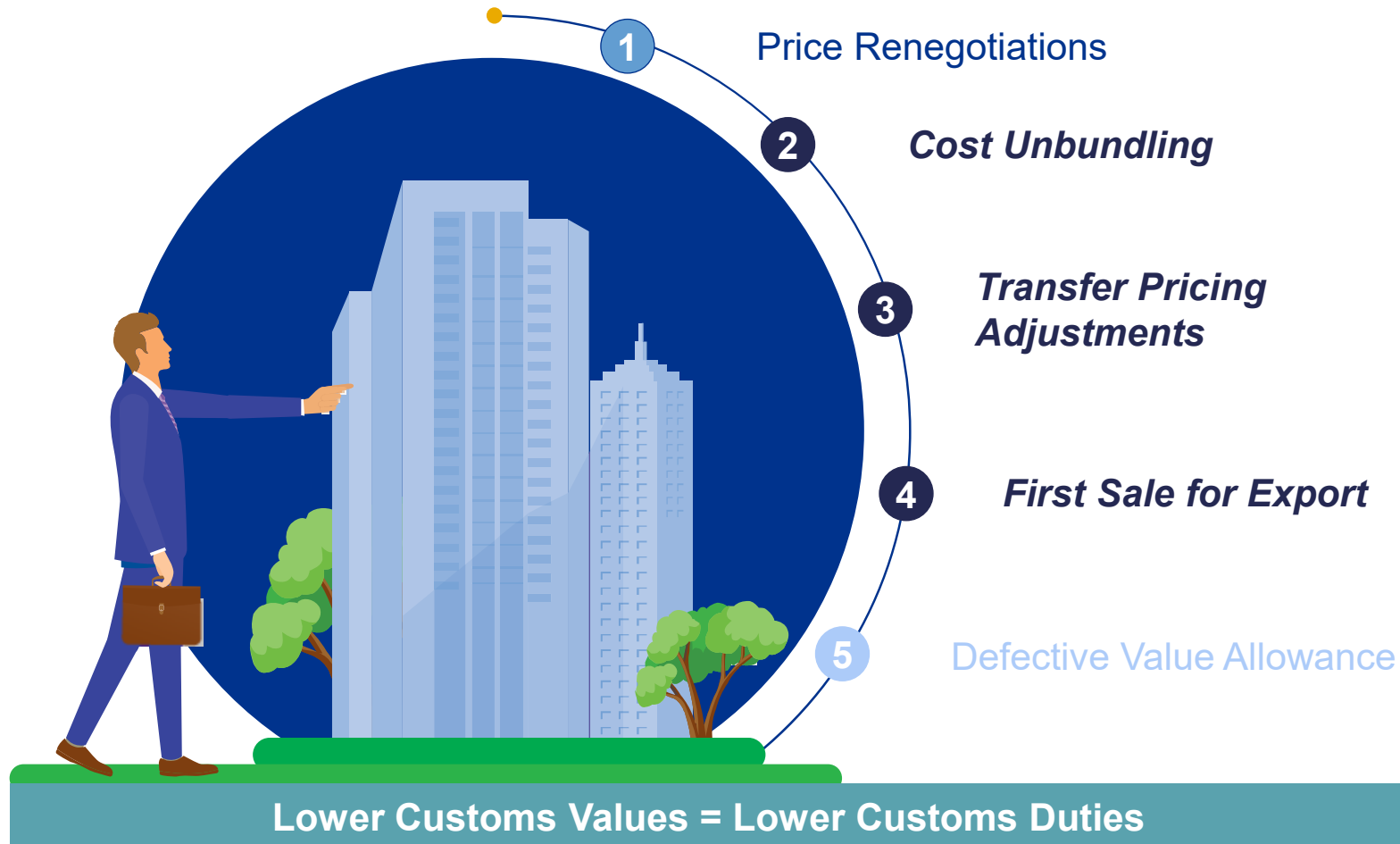
### Duty Mitigation

- Subheading 9802.00.80 involves a deduction from total duties due for qualifying components. (Even 301 duties)
- Qualifying goods are subject to a duty of the full value of the imported article, less the cost or value of the U.S. components.

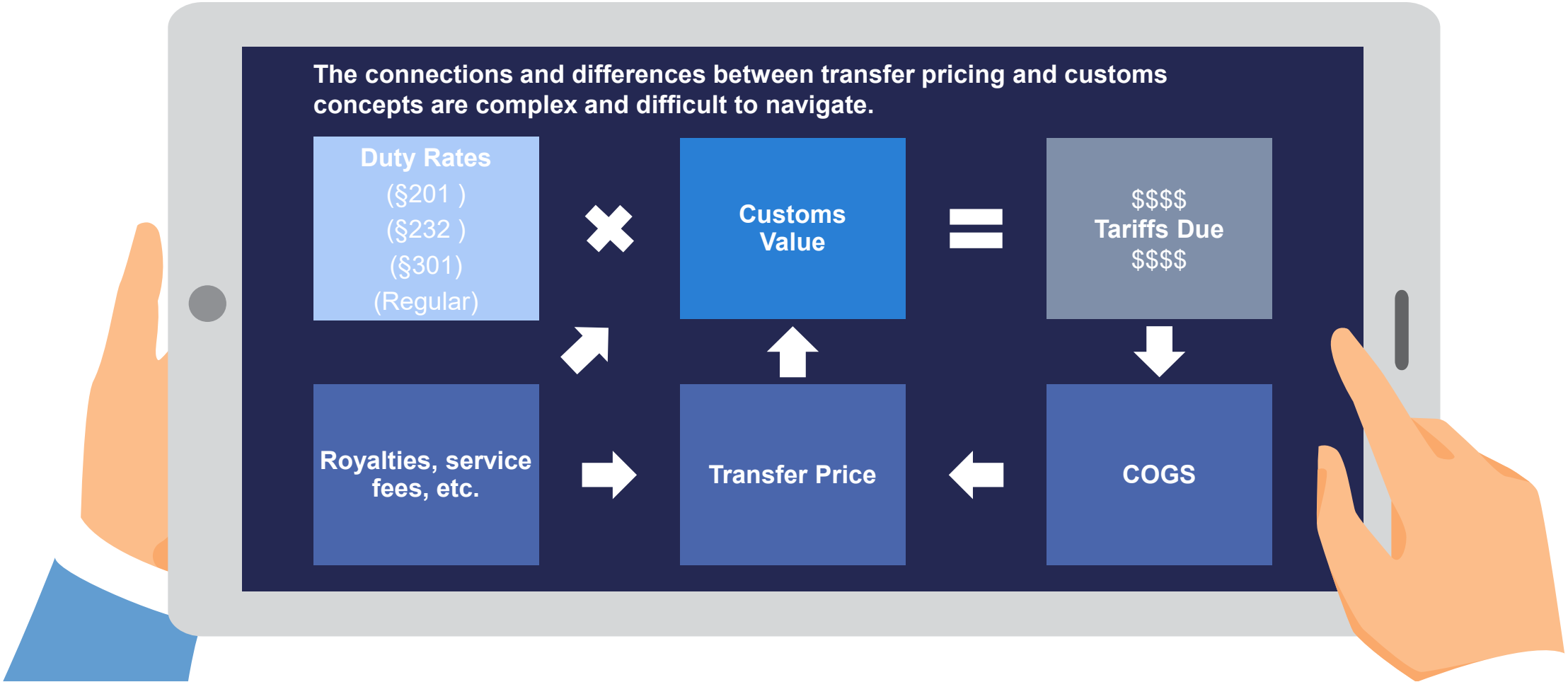
# Mitigation Strategies

Valuation

# Mitigation Strategies - Valuation Management

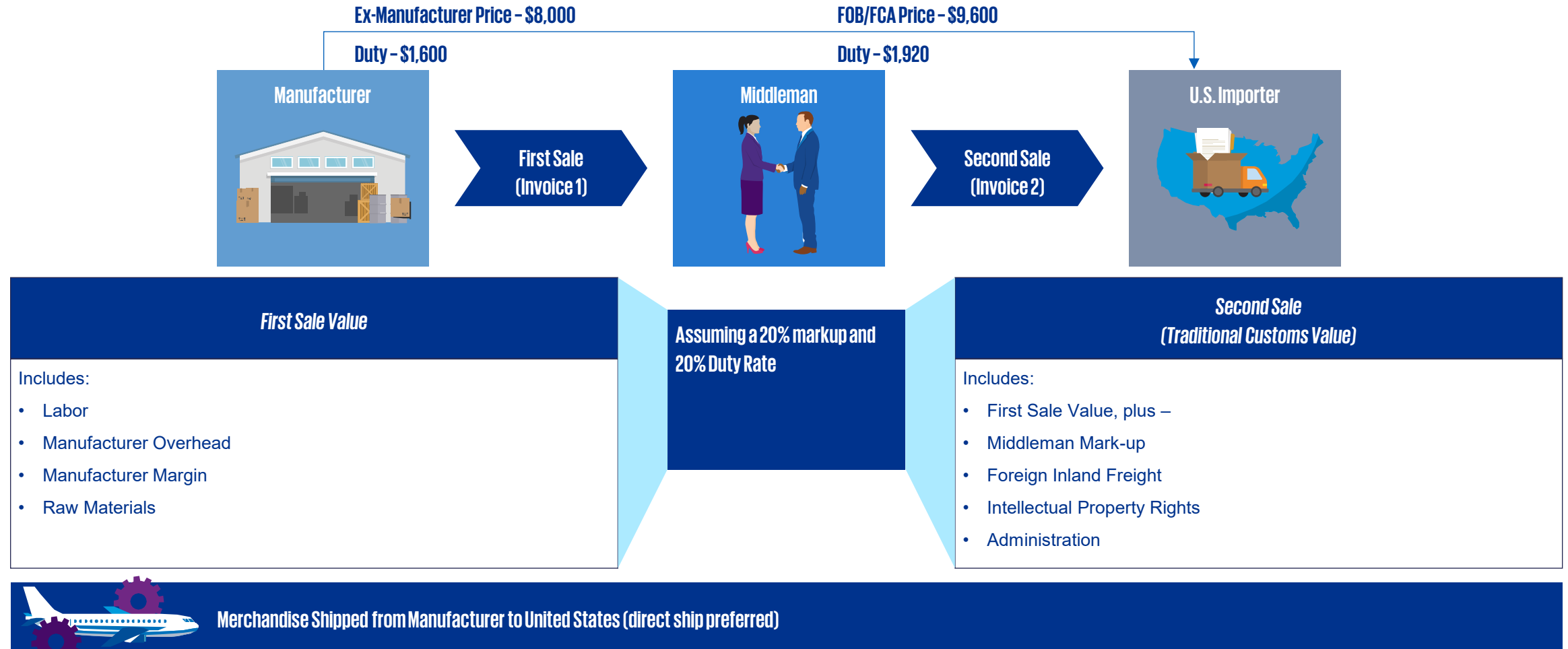


# Interconnection Between TP & TC





# Valuation Management: First Sale



# Mitigation Strategies

Drawback

# Mitigation Strategies - Drawback

## Background



Drawback is a 99% refund of duties, fees and taxes paid on goods imported into the U.S. that are ultimately exported or destroyed.

- Various types of drawback include unused, manufacturing and rejected merchandise drawback
- Potential for drawback on exported and goods destroyed in U.S. under certain conditions
- Some free trade agreements may impact drawback potential
- Statutory time frame: Import => Claim = 5 years

## Drawback eligibility



- Analyze trade lanes and data to evaluate drawback potential and eligible drawback
- Prepare and submit required drawback privilege applications and/or rulings
- Identify indirect drawback opportunities with domestic suppliers and customers
- 8-digit HTS substitution drawback provides a unique opportunity to expand potential recovery

## Drawback submission



Speed of recovery depends on your current privileges, rulings and data integrity

- With accelerated payment approval and bond, you can receive a refund appr. 3 – 6 weeks from filing
- Data integrity is the largest roadblock to fast-tracking drawback claim submissions
- U.S. Customs' tariff data formats create challenges with data-driven rejections
- Drawback slowed down by mismatches between drawback filing and ACE data
- Drawback amount impacted by exclusion refund filings and customs value adjustments

## Leading Practice

Include modeling of your exclusion recovery and potential drawback refunds in your strategy

# Mitigation Strategies - Drawback

## Process

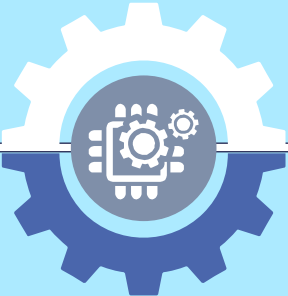
- Cleanse the data on the front-end to minimize compliance gaps and optimize savings
- Develop strategic models of drawback claim types to maximize savings
- Automate manual processes to increase efficiencies and accelerate recovery



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## Robust review and validation process through technology

- Utilize the latest technologies to aid in overall compliance and efficiency for robust data standardization/validation
- Review hard copy documentation based on CBP CF28 audits in depth
- Review Drawback Claim and ABI error mitigation, based on best practices and continuous process improvement



## Claim optimization

- Perform Claim Modeling using a variety of value threshold and date range scenarios
- Review Claim fall-out, providing a wide range of options to maximize Drawback recovery:
- Drawback types, 3rd Party Opportunities, Reconciliation, New Product Lines, Volumes/Seasonal Inventory Shifts



# Mitigation Strategies

Foreign Trade Zones



# FTZ Benefits Overview

An FTZ is considered outside the U.S. customs territory and allow companies opportunities to reduce import taxes (i.e., import duties) through multiple ways noted below:

## Customs Fee and Duty Deferral

- Interest benefits of deferring duty payment until foreign merchandise leaves the FTZ for US Consumption
- Deferment of harbor maintenance fees
- Deferment of cotton fees

## Inverted Tariff

- Manufacturing / kitting environments allow for duties to be paid on the finished goods that are produced within an FTZ instead of the components as in a non-FTZ environment.

## Weekly Entry

- Reduce Merchandise Processing Fees (MPF) payable
- Reduce Customs Broker Entry filing fees

## Cash Flow Enhancement

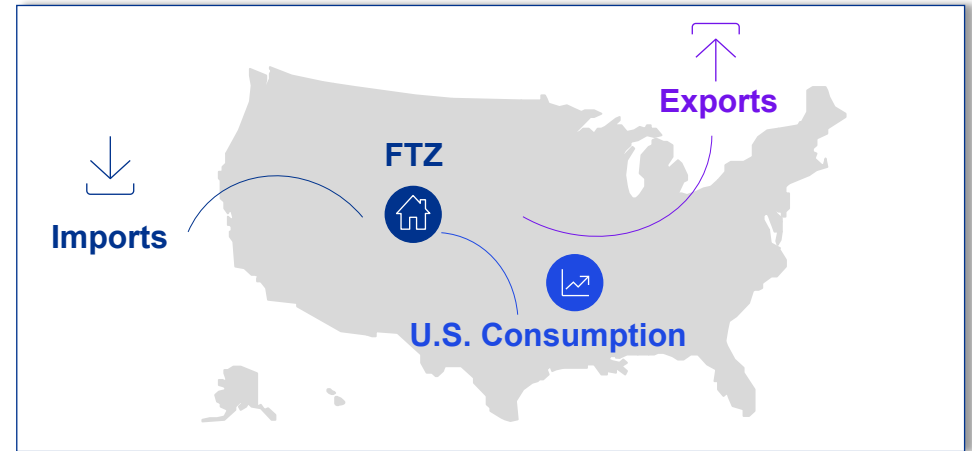
- Start-up period, unpaid "Duty in Inventory" tied to normal inventory level resulting in perpetual cash flow savings for the life of the FTZ

## Duty Elimination

- Products directly exported from FTZ not subject to United States duties
- Inventory Scrap/Waste occurring after FTZ admission normally not dutiable

### Example: MPF Savings with FTZ Weekly Entry Filing

- **With FTZ:** Max \$634.62 x 52 (1 weekly entry) = **\$33,000**
- **Without FTZ:** Max \$634.62 x Individual Entries (est. 3/day/250 workdays) = **\$475,965**
- **Estimated Annual MPF Savings with FTZ = \$442,965**



### Efficient Supply Chain/Direct Delivery

- Products that traditionally take a number of days to clear Customs at the port can be moved in-bond directly and more rapidly to the importer's FTZ
- Enhanced Security Control and C-TPAT
- Theft from an FTZ considered a federal crime, thus reducing the potential for inventory shrinkage

# Planning Considerations



**Review import/sales structures and supply chains**



**Ability to pivot quickly should changes to the import structure be required**



**Ship goods to the US from Canada in advance of the tariffs taking effect**



**Acquire goods from countries not affected by the tariffs for shipment directly to the US**



**Consider transfer pricing to potentially lower import values**



**Consider potential impact on goods of Chinese origin**



**Review and renegotiate purchase contracts**

# Q&A

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