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OCTOBER 15, 2018

MANUFACTURERS' STRATEGIES TO DEAL WITH TARIFFS

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How manufacturers and distributors are tackling the issue of the recent tariffs seems to be directly related to their size and resources. Companies with an intimate knowledge of their supply chain and diversified global client base have been able to pivot quickly, enacting strategies like opening facilities overseas to sell their product from those countries to clients around the world without it ever touching U.S. soil. By comparison, smaller companies have struggled with reliable resources for information, lack of in-house expertise, and the inability to compete for limited, domestically produced raw materials and components.

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COST INCREASES

Many Puget Sound manufacturers and distributors have already seen 25 percent increases in their cost for raw materials, whether they use domestic or imported steel and/or aluminum. In anticipation for a shortage in domestically produced steel and aluminum, suppliers were already increasing their quotes before the Chinese tariffs event went into effect in March.

Some manufacturers were able to pass the cost along to their clients, while others couldn't assume that their competitors would do the same and chose to take the hit themselves, finding other places to cut costs internally. Brad Root, president of GM Nameplate, the largest manufacturer in the city of Seattle, posed a different question to his team: "How can we be more innovative and add value to what we're doing here as a U.S. manufacturer to offset cheap labor elsewhere?"

STREAMLINING OPERATIONS

Rachel Camarillo, the vice president of operations and finance at NorthStar Ice, a second generation small business also located in Seattle, has been leaning on the manufacturing community for education and strategy. With less than 50 employees, most of NorthStar's workers wear multiple hats. Therefore, she has been digging into their supply chain relationships and implementing lean strategies she's learned through service providers, colleagues in the industry, and industry organizations.

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With more standardized procedures and workflows, she's cut out operational costs to offset increases in purchasing materials. "Bottom line - we can't do it ourselves and we are better together than we are apart," says Camarillo. "Sharing best practices with one another makes us stronger as a manufacturing community, especially when it comes to issues that we have limited control over, such as tariff rates."

PLANNING AHEAD

Nytec, a product design and manufacturing management firm headquartered in Kirkland, Washington, has identified their costs all the way through the supply chain and have been monitoring the price of raw materials closely. They do anticipate that a jump in the cost of metal components would substantially affect their bottom line, and have already taken steps to partner with contract manufacturers in various countries to avoid unnecessarily importing components.

When asked what other manufacturers can do during this time of uncertainty, COO Ben Griner suggests, "Stay informed, look for alternatives, polish your brand, and make sure that you are keeping your relationships intact through this volatile time."

CUSTOMS BONDS

In addition to obvious price increases, another side effect of the current trade environment that some manufacturers have had to consider is the increase in the required limit for customs bonds. Manufacturers and distributors that are importing everything from raw materials to finished products are required to pay duties, taxes, and fees to the U.S. Customs and Border Protection (CBP) agency.

Because these duties, taxes, and fees are based on the declared value and tariff code for a specific product, the CBP can audit the transaction up to 314 days later (and sometimes longer) and assess an increase. This potential to assess an increase in the duties, taxes, and fees means the importer must obtain a customs bond every year for 10 percent of the duties, taxes, and fees they've paid on imports over the past 12 months.

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However, with the depth and breadth of tariff codes that have been added to the list since March, importers are having a difficult time estimating for how much to secure their bond. Further, once their current bond amount is fully utilized, they are required to purchase another to keep up with the increases in duties, taxes, and fees. Most of these bonds are required to be at least 75 percent collateralized, with many surety groups requiring 100 percent collateral, and often in the form of cash. John Sheppard from C.A. Shea & Company, a specialty surety broker in New Jersey, has seen numerous mid-market companies required to secure bonds in excess of $20 million that were formerly only required to secure the minimum bond of $50 thousand in recent months.

SEEKING HELP

Many companies use a freight forwarder that handles this bonding process on their behalf. Sheppard suggests, "Companies should do the exercise and estimate their potential exposure. If you will be paying more than $500 thousand in duties, taxes, and fees in

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the next year, then you will need to do more research to understand how much your customs bond may be, and the collateral and underwriting process associated with securing that bond."

Manufacturers and distributors can also engage an experienced customs broker to help navigate the tariffs – they file the paperwork and handle the compliance to ensure that companies are using the correct tariff codes. Some freight forwarders are also licensed customs brokers, while others use a third party; it is important to ensure they are knowledgeable and reputable, as audits can occur years down the road.

Tariffs can be considered a supply chain disruption akin to a natural disaster, and will affect different businesses in different ways. How well manufacturers prepared in advance for the disruption and how quickly they are able to adjust, if they haven't prepared, will dictate the long term effects on the local industry. In addition to a customs broker, an experienced risk management consultant or insurance broker can help manufacturers and distributors prepare for and deal with any disruptions, including the recent tariffs.