

Meeting the China Challenge

Brian Amero, Teradyne Inc.

Eugene Laney, DHL Express USA

Timothy Linderman, China Business – Dimensional Insight, Inc.

Massachusetts Export Center



US Tariff Actions

Section 232 tariff's administered by BIS

- Steel 25%
- Aluminum 10%

Exclusion request via on-line portal

China 301 tariff's, administered by USTR

- List 1, 25% \$34b 7/19/2018
- List 2, 25% \$16b 8/23/2018
- List 3, 25% \$200b 5/10/2019
- List 4A, 15% effective 9/1/2019
- List 4B 15% effective 12/15/2019?

Exclusion Process

- Valid for 1 year, retroactive
- Extensions can be requested
- Narrowly defined but available to anyone

China Retaliation

Retaliation by China

- 232 Retaliation List April 2, 2018
- 301 Retaliation List One July 6, 2018
- 301 Retaliation List Two, August 23, 2018
- 301 Retaliation List 3.1 - 10% & 25% Tariff*
- 301 Retaliation List 3.2 - 10% & 20% Tariff*
- 301 Retaliation List 3.3 - 5% & 10% Tariff*
- 301 Retaliation List 3.4 - 5% & 5% Tariff*
 - *September 24, 2018 at lower tariff rate specified
 - *June 1, 2019 at higher tariff rate specified
- 301 Retaliation List In Response to US List 4A September 1, 2019
- 301 Retaliation List In Response to List 4B December 15, 2019

Tariff Mitigations Strategies

Change the origin of the goods from China to another country

- Change supply source
- Substantially transform in a country unaffected by the tariff's

Disaggregate Products

- Tariff ready supply chain strategy
- Define and diversify critical production operations

Optimize Valuation

- Explore changes that affect the value of the goods
- Use 'first sale for export' principle

Product classification

- Design products for a favorable tariff classification

Utilize trade facilities

- Bonded manufacturing, free trade zones
- duty drawback
- relocate hubs to trade free zones

Access preferential rates

- Increased use of trade agreements

File for exclusions

- Apply and advocate for exclusions

Increased risk of audits

Risk management:

- Conduct health checks
- Prepare defense documents
- Develop an audit strategy

Changing Export Landscape

- Huawei (+114 affiliates), Fujian Jinhua, Dahua, Hikvision + 31 others added to the BIS Entity List
 - Items 'subject to the EAR' restricted
 - Temporary General License revised and extended
- Emerging and Foundational Technologies
 - ANPRM for Emerging in released
 - ANPRM still forthcoming (maybe January?)

What will the future hold?

- License Exception: Possible elimination of CIV / RPL / APR?
- Changes to de minimis from 25% controlled US content?
- Expansion of Direct Product Rule from NS to AT or EAR99?
- Will Hong Kong remain a Group B country?
- Will the US obtain multilateral support or continue to go alone?

Supply Chain (Import Controls)

- NDAA 889 Direct and Indirect Ban
 - On federal agencies procurement of systems or services that use covered telecommunications equipment
 - On federal contracting with any entity that uses covered telecommunications equipment
- A proposed rule would establishing a process by which DOC will determine whether a particular transaction should be prohibited.
Focus of Import of Telecommunication equipment
- Who and how will imports be regulated?

In summary:

- The pace of regulatory change is increasing
- Tariffs and export controls are playing an expanded geo-political role
- Changes may impact fundamental aspects of export controls
- Controls expanding to imports
- Risks are increasing

Be Prepared for 2020