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Trump Tariffs – 2025 Expectations, Facts, and Options

Client Bulletins

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President-Elect Trump campaigned on the promise to increase tariffs on imports to the United States. Shortly after the election he announced significant tariffs on goods from the three largest trading partners: China, Mexico, and Canada. We know our clients across all industries and the global supply chains they use or support will need quick, concise, actionable advice. This bulletin summarizes what can happen, how it may happen, and what to do about it.

Three Sources of Presidential Tariff Authority – Congress has delegated authority for the President to impose tariffs in three types of scenarios: (1) threats to national security, (2) threats to domestic industry, and (3) during national emergencies. This explains the President-elect's "Crime and Drugs" rationale for tariffs against Canada and Mexico. The legislative basis for these grants of authority developed over the last ninety years. They include the Tariff Acts, the Trade Expansion Act, the Trading with the Enemy Act ("TWEA"), and conceivably the International Emergency Economic Powers Act ("IEEPA"). All other Constitutional powers to exercise tariff action rest exclusively with Congress.

Timelines for Presidential Tariff Action – Expect increased tariffs on certain imports early in the first year of the Trump 47 Administration. This is true regardless of whether the "Day One" threat of executive action is mere posturing. As an example, the Section 301 actions against China during the Trump 45 Administration commenced and yielded the "List 1" tranche within only nine months. The Biden Administration continued the Trump 45 trendline by completing its statutory four-year review of those Section 301 actions and adding its own developments over the course of a summer. It goes without saying that there will be legal challenges to what the President-Elect seeks to accomplish, just as was the case during the Trump 45 Administration. The threat of retaliation from our trading partners is also appreciable.

Global Supply Chain Impact – A steady protectionist theme of the last two Administrations was to drive trade away from China, preferably through reshoring. As we counseled clients through the Trump 45 trade actions many went on sourcing tours through Southeast Asia, Mexico, and Canada. Friendshoring and Nearshoring trends were born out of that procurement shake-up. It remains true that there is a spectrum of risk across sourcing jurisdictions although the proposal for significant tariffs on trade with Mexico and Canada overturns the logic of two Administrations. If production with our large North American trading partners is at risk, and with it continued viability of the USMCA (which was a victory for Trump 45 Administration), then the message is clear – nearshoring alone may not shield importers from the risk of dramatic volatility in landed price.

Procurement Options – The import supply chain playbook in this environment is in many ways similar to what we experienced during the Trump 45 Administration. Options include finding alternate supply in other jurisdictions, adjusting timing and inventory levels, and expectation setting on both buy- and sell-side across the supply chain.

- Alternate Supply – Finding new sources of supply is the classic option particularly if goods are available from lesser-risk suppliers or, ideally, those with domestic production. Today all foreign sourcing jurisdictions fall on a spectrum of more and less risk of volatility. China remains at the riskiest side of that spectrum followed by countries with Chinese investment and trade (due to the increased risk of transshipment and other forms of duty evasion).
- Import Surge – Much has been said about surging imports in advance of the new Administration and some statistics support its occurrence. This may be achievable in the near-term for some importers although it is a gamble. The surplus inventories must be purchased, transported, stored, and maintained on importer books at carrying cost, all without a guarantee in demand. In the long-term other more durable strategies will be required.
- Expectation Setting – Depending on the strength of supplier relationships it is likely time to discuss potential tariff impact and how volatility will be managed. The option of shifting all customs duty burden to suppliers through use of mechanisms such as Delivered Duty Paid ("DDP") Incoterms is conceivable but practically difficult. The more likely option is to land on contractual language accounting for this possibility with strong supplier and customer relationships. Establishing the roadmap for managing tariff increase impact in the near-term can save buyers and sellers from surprise at the very least. It may be possible to share some of the burden for a reasonable period of time until higher prices can be borne by domestic consumers.

The Benesch team is available to help all industry sectors navigate these potential challenges to inbound supply chains. No question is too broad or too narrow.

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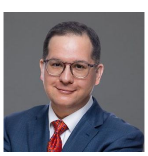

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