The Impact of Trump's Policies and Tariffs on US Trade

FTZs Offer Max Relief for Importers and Manufacturers

IMS Worldwide, Inc.

- *For over 50 years, IMSW has been working in the global logistics and industrial real estate market guidance and expertise to investors, companies, brokers, and tenant representatives related to the impact of global logistics on the site selection process.*
- *IMSW also specializes in the designation, activation, and management of Foreign-Trade Zones having completed over 500 projects throughout the US.*

Top 3 Policies to watch

- The **De-Minimus** rule (goods imported into the USA under $800 are not subject to any tariffs or even a normal Customs entry) has been dramatically reformed. More changes coming!
- **Tariffs** against are enemies and allies will be used to level the playing field and extract trade or policy concessions from other nations.
- **Sanctions** will be imposed on enemy nations much more vigorously. (China, Russia, Iran, N. Korea)

De Minimis Rule Overview

- The current de minimis rule allows goods valued at $800 or less to enter the US without paying duties.
- In the last 10 years the number of shipments entering the US under de minimis exemption has increased over 600%
  - FY 2015 = 139M
  - FY2023 = 1B
  - FY2024 = 1.36B

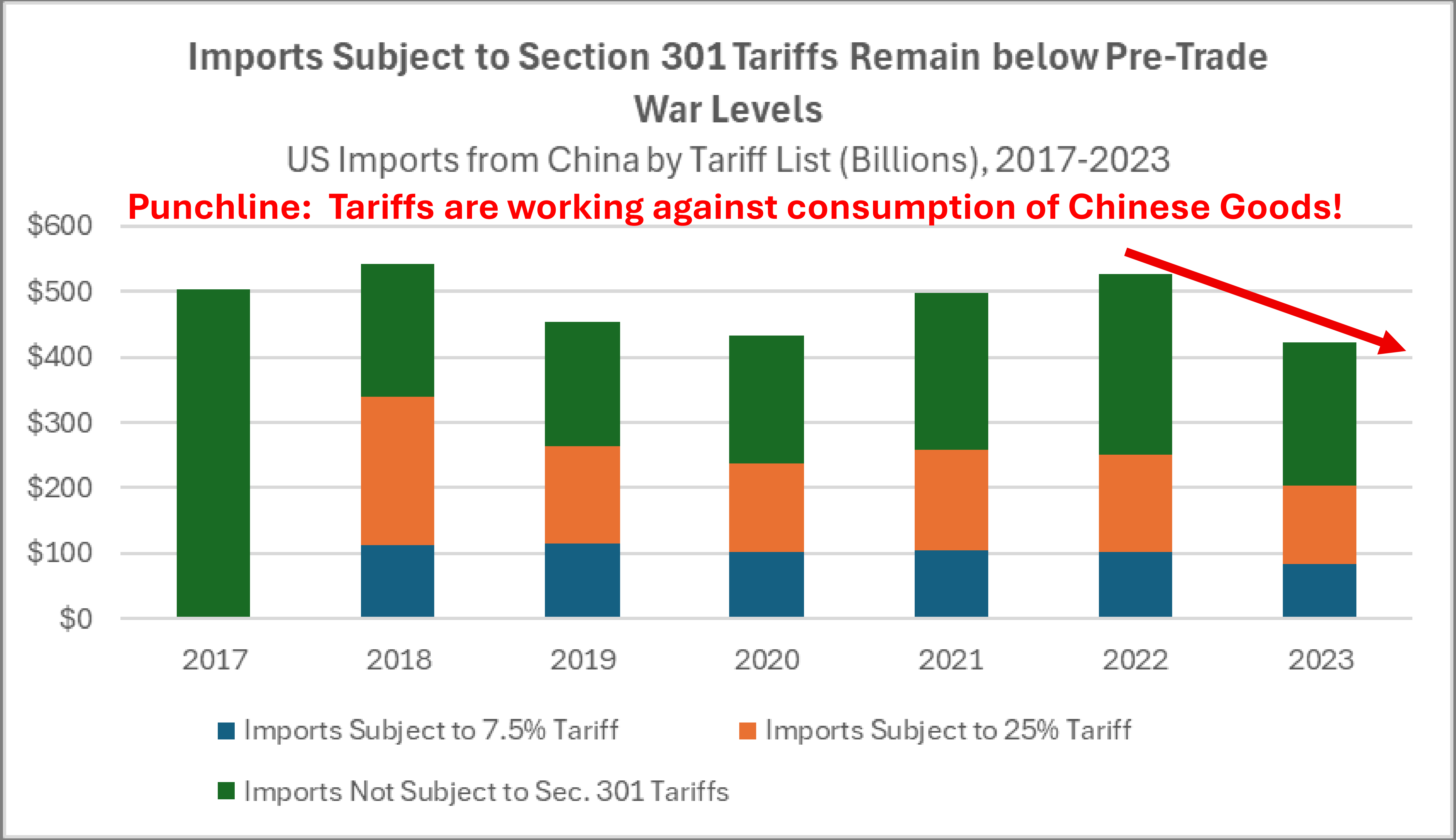
CBP Proposes Change to De Minimis Rule

- Under the New Rule
  - Merchandise subject to national security tariffs imposed under Section 232, 201, and 301 will be **excluded** from the de minimis exemption.
  - This proposed new rule is under the public comment period which will then require final issuance of Customs Regulations.

What is a Tariff?

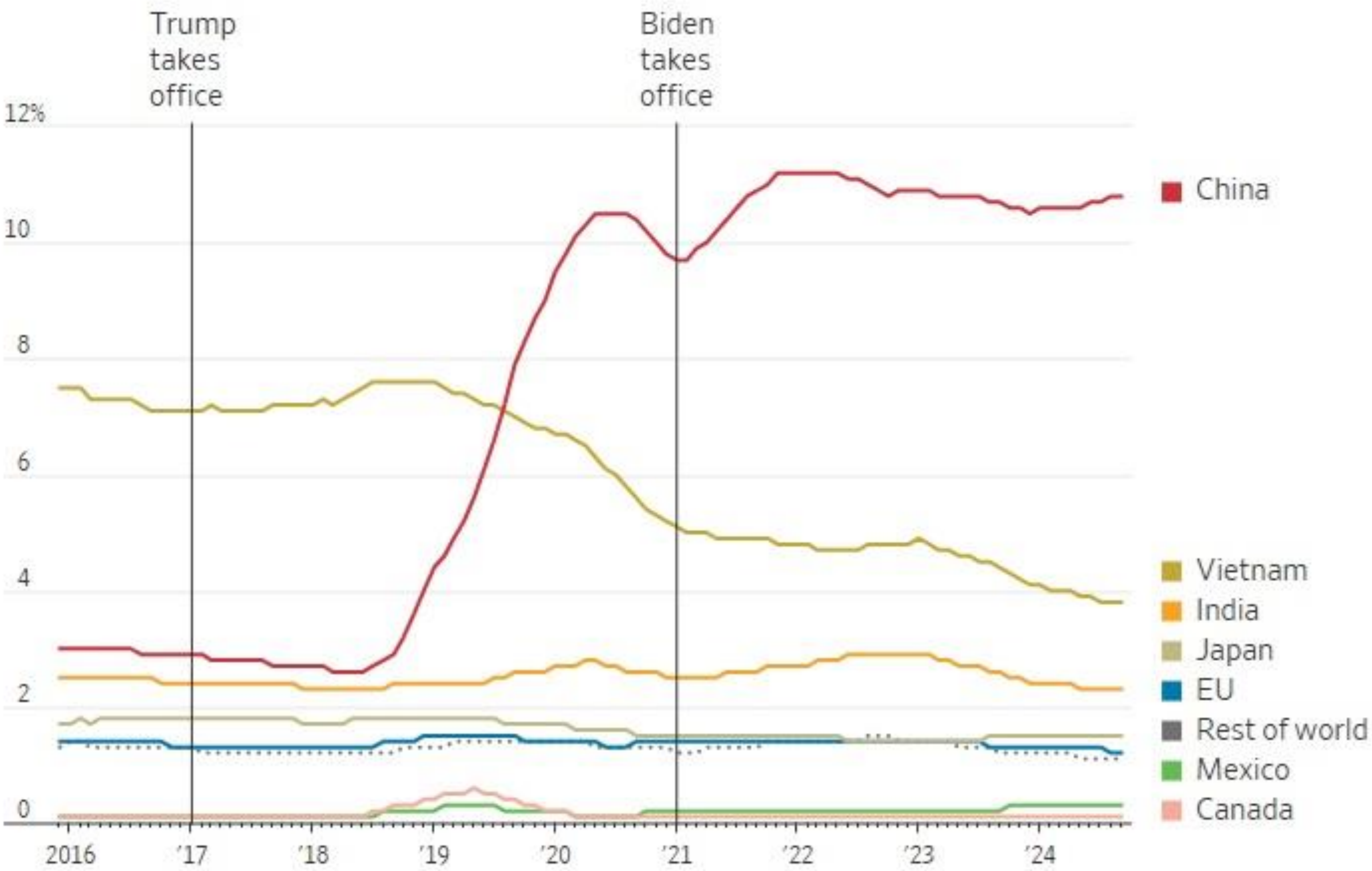
- The most common type is an **import tariff**, which is a “tax” on goods brought into a country.
- Tariffs are typically imposed for **protection** or **revenue** purposes.
    - A **protective** tariff increases the price of imported goods relative to domestic goods, encouraging consumers to buy from local producers, who are thus “protected” from foreign competition.
    - A **revenue** tariff is mainly used to generate money for the government.
    - A **punitive tariff** (China 301, 202, 232, etc.) is by Executive Order and can occur anytime

The Impact of the Current Trump Tariffs



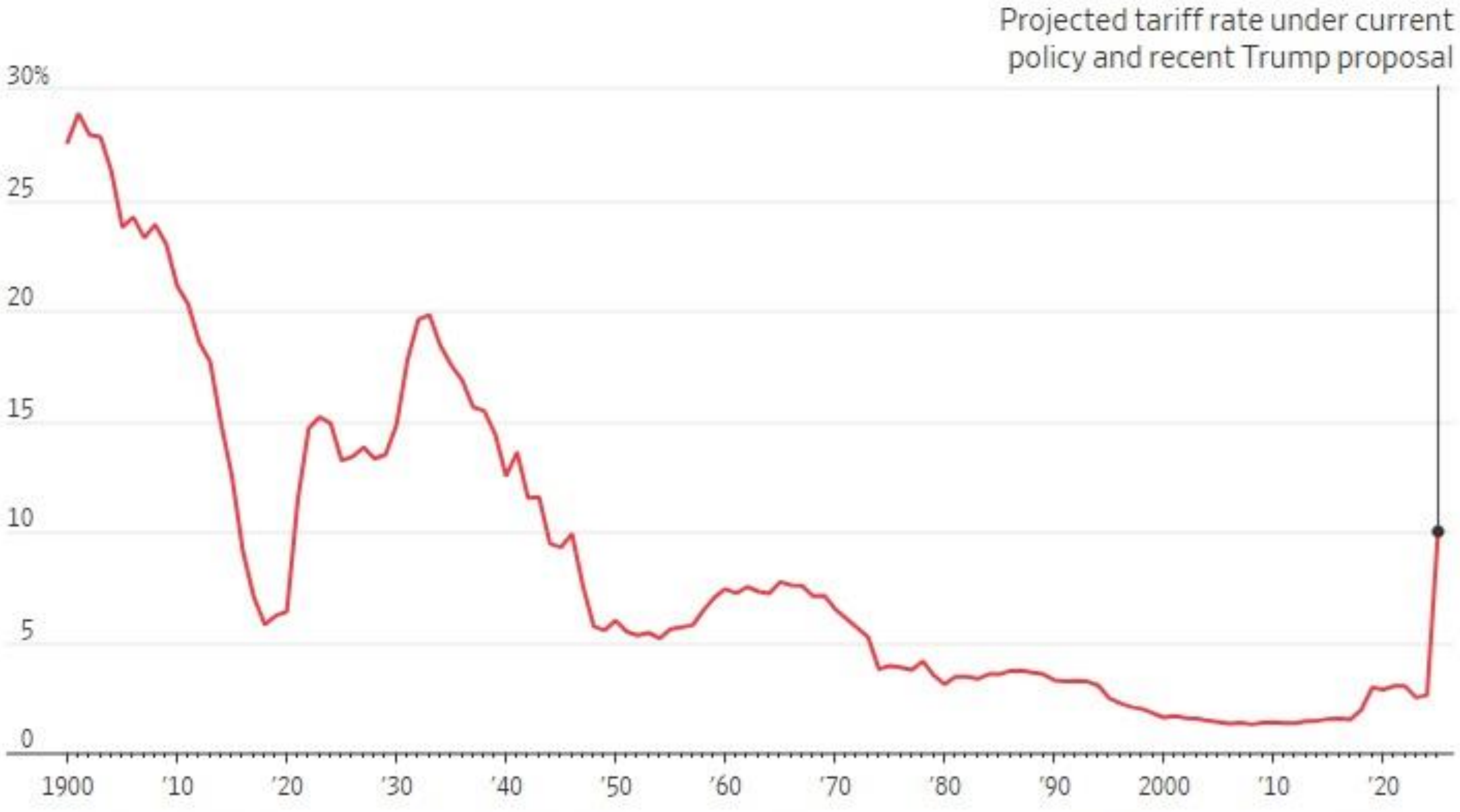
Source: USITC DataWeb; Author calculations; Inspired by Chad P. Bown, "US imports from China are both decoupling and reaching new highs. Here's how."

U.S. effective tariff rate by import source country, 12-month rolling average



Source: Trade Partnership Worldwide, Census Bureau

U.S. average effective tariff rate



Note: Trump proposal assumes additional 25pp tariff on Canada and Mexico goods imports and 10pp tariff on Chinese goods imports

Source: The Budget Lab at Yale, Historical Statistics of the United States Ea424-434, Monthly Treasury Statement, Bureau of Economic Analysis

New Tariffs Expected in 2025 and Beyond

Impact of Tariffs on Global Trade

- The average effective tariff rate on imports from all countries has moved from 1% to more than 2%. (IPW)
- Since 2018, the average effective tariff rate on Chinese imports has jumped from around 3% to 11% according to the Trade Partnership Worldwide (IPW).

- President Elect Trump is proposing an additional 10% tariff on all products from China and a 25% tariff on all Mexican and Canadian imports.
  - The current U.S.-Mexico-Canada Agreement signed in 2020 maintained largely duty-free trade between the three North American countries.
- Increasing tariffs could result in consumer price increases until other sourcing can be determined and implemented resulting in inflation.

What is the Real Impact of Tariffs?

Example: Nike shoes are taxed at 10% normal+ 25% China 301 tariffs.

- However, this is NOT on the $150 price we pay as consumers. It is on the “transaction price or import price” of $15!
- So, 10% is $1.50. And 25% is $3.75, so overall cost increase of $5.25 per each pair of Nike’s. Significant Tariff, but how does that affect You and Me?
- Against the $150 retail price, that is an increase of 3.5 %. Negligible in the big picture!!!
- **However, for Nike that is a significant cost increase (profit drain)** as there are a lot of other costs that go into a $150 pair of sneakers…..just put it all into perspective and Higher Tariffs are not truly that inflationary.

Estimated Impact of President-Elect Trump's Proposed Tariffs

Economic Indicator	Impact
GDP	-0.4%
Capital Stock	-0.3%
Pre-Tax Wages	0.0%
Full Time Equivalent Jobs	-344,900

Source: Tax Foundation General Equilibrium Model, November 2024.

10-Year Tariff Revenue, Conventional, 2025-2034

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2025-2034
Revenue in (billions)	$111.40	$113.50	$115.10	$116.70	$118.90	$121.20	$123.50	$125.80	$128.20	$130.60	$1,204.80

Source: Tax Foundation General Equilibrium Model, November 2024.

Impact of Tariffs on Global Trade

- As tariffs are raised on Chinese goods, shifts to other producers do occur, but incrementally this shift has been minimal in the past.
- This shift resulted in nearshoring and reshoring into the US, and it has already begun.
- The planned changes to the de minimis provision which allows duty-free entry on all packages with contents under $800 will directly impact many current global discount shippers such as TEMU and Shein. **This will require US footprint (warehousing!!)** Will need to be located inside a Foreign-Trade Zone to be effective!
- **A solution for manufacturers and retailers in the U.S. is to consider utilizing a Foreign-Trade Zone to Mitigate duties and add Profit!**

Assumptions Used in FTZ Cost-Benefits Analysis
IMSW Manufacturing Case 1 Higher Trump Tariffs

Annual cost, dutiable imports	$25,000,000
Weighted average duty rate (10% current + 25% added)	35.00%
Percent reject or scrap imported merchandise	1.00%
Percent of imported merchandise re-exported to Mexico	2.00%
Percent of imported merchandise sold to the military	0.00%
Annual cost, imports subject to duty inversion Non Chinese	$5,000,000
Inverted tariff (finished product duty rate)	3.40%
Affected raw material/component duty rate	10.00%
Inventory turns per year	4
Opportunity cost of capital	6.0%
Drawback system in place?	No
FTZ cost advantage (FTZ differential) over drawback	100.0%
Average "Merchandise Processing Fee" per entry	$58
Average number of entries per year	1500
Annual growth rate, FTZ operating expenses, etc.	3.0%
Annual growth projections from current year	
Year 1	20.0%
Year 2	20.0%
Year 3	20.0%
Year 4	20.0%
Application, Tax Work and Activation expense (estimated)*	$105,000
Internal operating and monitoring expenses (acctg/tracking/reporting/systems mod.)	$195,000
Grantee fees (estimated)	$8,000

Foreign-Trade Zone Cost-Benefits Projections:
IMSW Manufacturing Case 1 Higher Trump Tariffs

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5	5-YEAR TOTAL
FTZ Benefits						
Re-Exports[1]	$175,000	$210,000	$252,000	$302,400	$362,880	$1,302,280
Reject, scrap, & military sales	87,500	105,000	126,000	151,200	181,440	651,140
One-time benefit[2]	---					
Ongoing duty deferral	127,313	152,775	183,330	219,996	263,995	947,409
Inverted Tariffs	320,100	384,120	460,944	553,133	663,759	2,382,056
Merchandise Processing Fee savings	54,672	65,606	78,728	94,473	113,368	406,847
Total FTZ Benefits	$764,585	$917,501	$1,101,002	$1,321,202	$1,585,442	$5,689,732
FTZ-RELATED EXPENSES						
Internal FTZ Operation Expenses	$195,000	$200,850	$206,876	$213,082	$219,474	$1,035,281
Grantee fees	8,000	8,240	8,487	8,742	9,004	42,473
TOTAL FTZ-RELATED EXPENSES	$203,000	$209,090	$215,363	$221,824	$228,478	$1,077,755
NET FOREIGN-TRADE ZONE BENEFITS	$561,585	$708,411	$885,639	$1,099,378	$1,356,964	$4,611,977

Assumptions Used in FTZ Distribution-Only Cost-Benefit Analysis
Sample Apparel Distribution Case

Annual cost, dutiable imports	$125,000,000	
Weighted average duty rate	20.00%	+ 25% Tariff
Percent reject or scrap imported merchandise	0.25%	
Percent of imported merchandise re-exported	0.00%	
Percent of imported merchandise sold to the military	0.00%	
Inventory turns per year	3	
Cost of domestic goods used in exports	$0	
Opportunity cost of capital	4.0%	
Drawback system in place?	No	
FTZ cost advantage (FTZ differential) over drawback	100.0%	
Average "Merchandise Processing Fee" per entry	$289	
Average number of entries per year	1500	
Annual growth rate, FTZ operating expenses, etc.	3.0%	
Annual growth projections from current year		
Year 2	10.0%	
Year 3	10.0%	
Year 4	10.0%	
Year 5	10.0%	
Application and activation expense (estimated)*	$110,000	
Increased operating expenses (accounting/tracking/reporting/systems mod)	$185,000	
Grantee fees (estimated)	$25,000	

* Application preparation, Customs activation and Operator training.
Actual cost will depend on the sophistication of existing systems and other variables.

This is a preliminary analysis which is only as accurate as the assumptions used to generate the following results.
The analysis should not be relied upon until the assumptions, calculations, and results contained herein have been verified.

Prepared by IMS Worldwide, Inc., Houston, Texas

Foreign-Trade Zone Cost-Benefits Projections:
Sample Apparel Distribution Case **$125 Million in imports, no exports, no manufacturing**

FTZ Benefits & Expenses By Type	Year 1	Year 2	Year 3	Year 4	Year 5	5-Year Total
FTZ Benefits						
Re-Exports[1]	$0	$0	$0	$0	$0	$0
Reject, scrap, & military sales	62,500	68,750	75,625	83,188	91,506	381,569
One-time benefit[2]	---					
Ongoing duty deferral	332,500	365,750	402,325	442,558	486,813	2,029,946
Merchandise Processing Fee savings	401,072	441,179	485,297	533,827	587,210	2,448,585
Total FTZ Benefits	$796,072	$875,679	$963,247	$1,059,572	$1,165,529	$4,860,099
FTZ-RELATED EXPENSES						
Internal FTZ Operation Expenses	$185,000	$190,550	$196,267	$202,154	$208,219	$982,190
Grantee fees	25,000	25,750	26,523	27,318	28,138	132,728
TOTAL FTZ-RELATED EXPENSES	$210,000	$216,300	$222,789	$229,473	$236,357	$1,114,919
NET FOREIGN-TRADE ZONE BENEFITS	**$586,072**	**$659,379**	**$740,458**	**$830,099**	**$929,172**	**$3,745,181**

Totals may vary, due to rounding.

[1]Export benefits to Canada and/or Mexico subject to applicable free trade agreements.

Application and activation expense	$110,000

[2]One-time benefit available after	9 weeks	$8,312,500

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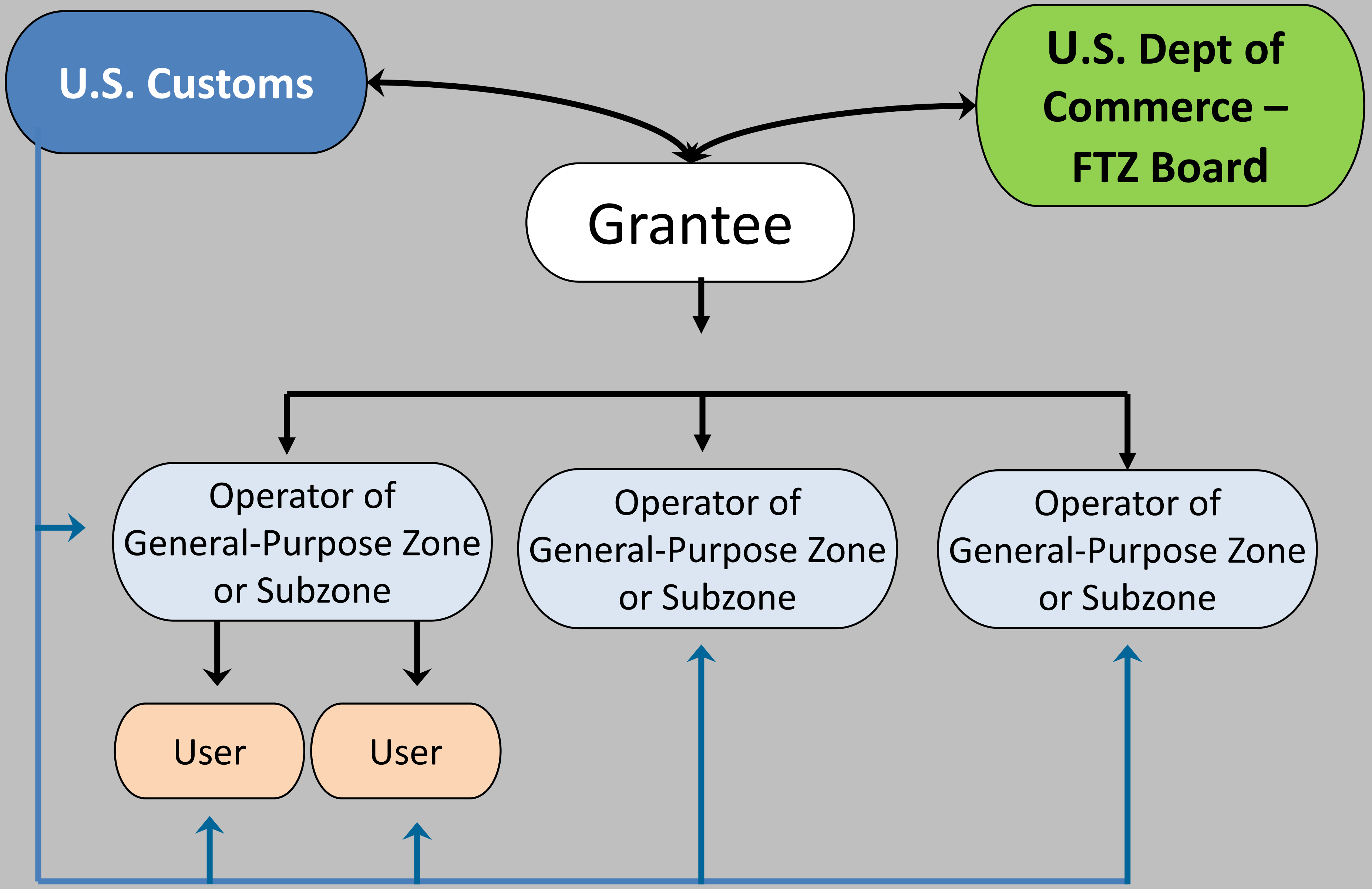
Foreign-Trade Zones are Designed to Help Companies Be More Competitive….

Even When It Comes to Tariffs

What is an FTZ?

- A Foreign-Trade Zone (or Free Trade Zone) is a Federal Program, started in 1934 with projects in all 50 states.
  - FTZ Board (Dept. of Commerce) Provides Designation Approval
  - US Customs & Border Protection – Provides Compliance and Oversight of activated Zone Operations
- Developed to make the United States competitive with other nations for manufacturing and operations.
- Provides FTZ Users:
  - Duty Deferral, Reduction and Inversion (Can offset tariffs)
  - Weekly Entry Process (Saves hundreds of thousand on Fees)
  - Duty-free Exports and Scrap (Can offset tariffs)

U.S. FTZ Structure



What is an FTZ?

A United States Foreign-Trade Zone is a secure, geographical area authorized by the federal government, where domestic and foreign commercial merchandise is outside the commerce of the United States for Customs purposes.

International Location

Cargo

Re-Exports

Duty and Tariffs are never paid on components that remain within the FTZ and are exported.

US Foreign-Trade Zone

Goods within FTZ Can Be:

- Stored
- Manipulated
- Value-Added
- Exported
- Scrapped

US Commerce

Duty and Tariffs

Paid on Cargo or Finished Good

Deferring duties until goods are needed can provide significant savings.

How Does an FTZ Cut Costs?

1. Duty Deferral (Don’t pay duty/tariffs until goods enter US commerce.)
2. Duty Elimination on Exports (Zero Duty Paid)
3. Duty Reduction (manufacturing/assembly)
4. Export/Scrap (Zero Duty Paid)
5. Merchandise Processing Fee Reduction via Weekly Entry (Millions for large Retailer DC)

Manufacturing in FTZ - Duty is inverted if the duty of the Finished Good is less than the duty of the Components.

International Location

Cargo

Imported Components + Duty Rate:

Part 1 = 2%	Part 5 = 2.5%
Part 2 = 3.5%	Part 6 = 3.9%
Part 3 = 0%	Part 7 = 1.7%
Part 4 = 5%	Part 8 = 3.3%

With 301 (China Tariffs) +25% Duty on each of the imported components.

FTZ Manufacturing Center

US Commerce

Duty is due upon entering US Commerce

Vacuum Cleaner Duty Rate = 0%

Weekly Entry in FTZ –

Reduces Merchandise Processing Fees for Importers

Non-FTZ Facility

20 receipts <u>inbound</u> per week

$538 X 20 =

MPF $10,760

FTZ Facility

1 Weekly Entry filed covers all 20 receipts inbound;

1 entry filed = MPF $538

Savings:

1 Week = $10,222

1 Year = $531,544

Who Qualifies an FTZ User?

- FTZs require enhanced security measures and inventory and recordkeeping systems that can provide CBP with the required documents to keep the operation in compliance. Not hard to comply, just a process!!
- The IMSW Team can provide a FREE cost-benefit analysis that shows estimated FTZ operating costs against the real benefit levels that your company can obtain, to help you make an informed decision.
- ***Guidelines for company thresholds are typically,***
- If you are manufacturing, chances are 90% that you can qualify for FTZ--- IF….
  - You are importing at least $10 Million in raw materials, parts or sub-assemblies
  - You are exporting any products today (more than $5 Million)
- If you are a Retail Importer in over 300,000 Ft of Distribution Center

FTZs and Tariffs

- FTZs are the only Customs method of impacting (mitigating) against tariff creep.
- Manufacturers can use it to reduce a Cost of Goods Sold expense.
- Distributors/E-Commerce fulfillment centers can use it to mitigate the cost of the Tariffs until the goods are sold!
- Exports = NO TARIFFS
- Scrap/waste/obsolete, RTV = NO TARIFFS
- When Tariffs were 2%, FTZs didn’t make much sense, BUT NOW….

Why are FTZs important to Industrial RE Professionals?

- FTZ knowledge (just the basics) are important because EVERY Occupier is now dealing with New Tariff angst!
- You need to be the smartest in the room!
- You have a free resource partner in IMSW! These FTZ Cost Benefit Analyses are the best tool to appear “the smartest guy/girl in the room”!!
- Take advantage of it, and you’ll lease more! Guaranteed!
- Simple qualifiers: **Manufacturing with more than $10 Million in imports? DC/FC over 300,000 ft? They Qualify!**

IMS Worldwide, Inc.

- Contact IMSW for your FREE FTZ Cost-Benefit Analysis to see if your company can reduce overhead, protect revenue from tariff increases, and streamline supply chain velocity using the Foreign-Trade Zone Program.
- Have a question? Call an IMSW Team Member at 281-554-9099!