

Impact of Tariffs on Arkansas Industry and Agriculture

Presentation before the:
Agriculture, Forestry and Economic Development Committee
August 14, 2018

Current US Trade Agreements

- ✓ Israel-ILFTA (1985)
- ✓ NAFTA (1994)
- ✓ Jordan-JOFTA (2001)
- ✓ Australia-AUSFTA (2004)
- ✓ Singapore-SGFTA (2004)
- ✓ DR-CAFTA (2005)
- ✓ Bahrain-BHFTA (2006)
- ✓ Morocco-MAFTA (2006)
- ✓ Oman-OMFTA (2006)
- ✓ Peru-PETPA (2007)
- ✓ Panama-PATPA (2012)
- ✓ Colombia-COTPA (2012)
- ✓ South Korea-KORUS (2012)

Major trade actions under Current Administration

I. North American Free Trade Agreement (NAFTA)

- Currently under renegotiation
- Canada, Mexico, United States

II. US-Korea Free Trade Agreement (KORUS)

- South Korea and United States

III. Sect. 232 – “National Security” - Steel and aluminum tariffs

- 25% on steel imports and 10% on Aluminum imports

IV. Section 301 – Unfair trade practices / intellectual property theft

- Focuses on China

V. Section 201 – “Solar & Washing Machines Tariffs” - Harm to domestic industry

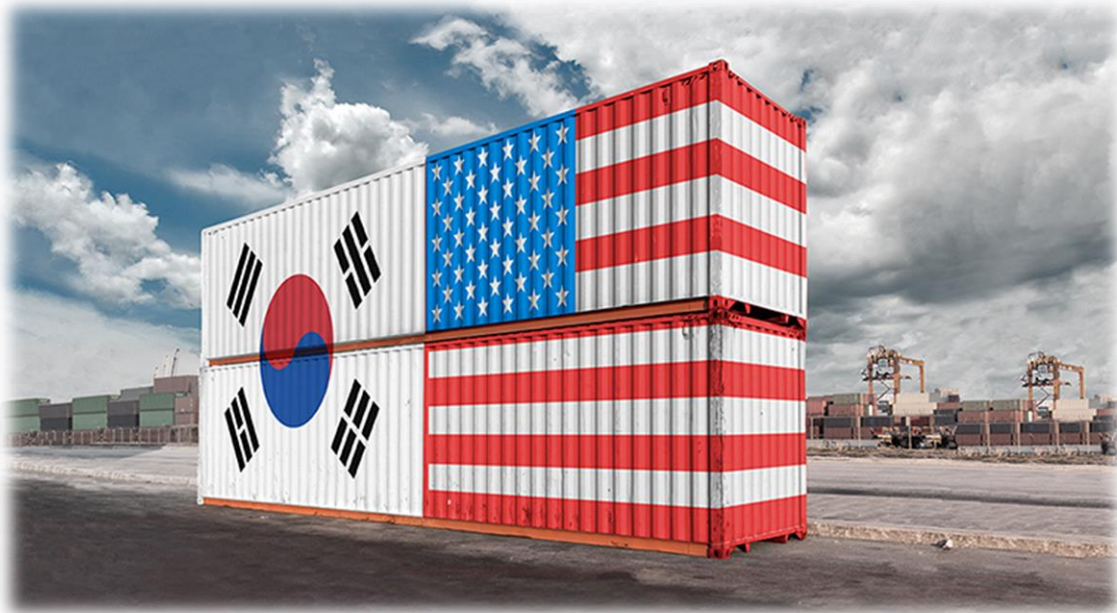
- “GSP-Eligible” developing nations are exempt, except for Philippines and Thailand

I. North American Free Trade Agreement (NAFTA)

- ✓ US talks with Mexico on NAFTA revision are continuing.
- ✓ Despite a New Mexican President and upcoming midterm elections in the United States this coming November, officials remain confident that a deal can be reached soon. A bilateral agreement has been discussed which will include the automobile industry.
- ✓ US requests:
 - ✓ Option to opt-out of dispute resolution panels
 - ✓ Review trade deal every 5 years
 - ✓ Amend Automotive rules of origin
 - ✓ Currently 62.5% parts made in N. America
 - ✓ US request: 75% parts made in N. America and 40% of components built by workers making at least \$16 per hour



II. US-Korea Free Trade Agreement (KORUS)



- ✓ Under the agreement, nearly 95% of bilateral trade in consumer and industrial products becomes duty free
- ✓ More than half (\$1.6 billion) of current US farm exports to Korea will become duty free.
- ✓ Greater Protection for Intellectual Property Rights

III. Sect. 232 – “National Security” Steel and aluminum tariffs

- ✓ March 8, 2018, the US announced a 25% tariff on imported steel and a 10% tariff on imported aluminum¹
- ✓ Several Arkansas companies have conveyed to us steel and aluminum price increases of up to 38%, requiring immediate cost allocations to their customers
- ✓ Arkansas companies reporting potential closing Arkansas facilities if exemptions are not awarded²:
 - ✓ Bekeart Corporation
 - ✓ Kiswire America
 - ✓ Tokusen USA

1. "Section 232 Tariffs on Aluminum and Steel." Border Patrol Overview | U.S. Customs and Border Protection. Accessed August 09, 2018. <https://www.cbp.gov/trade/programs-administration/entry-summary/232-tariffs-aluminum-and-steel>

2. Bowden, John. "Three Arkansas Companies Say They'll Close If Trump Doesn't Give Them Exemption from Steel Tariffs." TheHill. June 07, 2018. Accessed August 10, 2018. <http://thehill.com/policy/finance/391185-three-arkansas-companies-say-theyll-close-if-trump-doesnt-give-them-exemption>

Companies Effected by New Tariffs



- ✓ Escalating trade tensions and tariffs on beef and pork have resulted in an excess supply of meat and falling prices¹



- ✓ Employees approximately 9,204 people ², with 2,000 in Arkansas.
- ✓ 50% of tires made out of steel
- ✓ Companies are now stating they have trouble filling the gap with steel imports, stating that they require imports of steel because domestic producers can't fill the gap ³

1. "Tyson Blames Tariffs, Excess Meat Supply for Lower Earnings Guidance." Talk Business & Politics. July 31, 2018. Accessed August 08, 2018. <https://talkbusiness.net/2018/07/tyson-blames-tariffs-excess-meat-supply-for-lower-earnings-guidance/>.

2. "Number of Cooper Employees 2017 | Statistic." Statista. Accessed August 08, 2018. <https://www.statista.com/statistics/277407/number-of-cooper-employees/>.

3. As They Seek Exemptions from the Tariffs. "Companies That Want out of New Steel Tariffs Describe a Nightmare." CNNMoney. Accessed August 08, 2018. <https://money.cnn.com/2018/06/29/news/companies/tariffs-companies-exclusions/index.html>.

Impact of U.S. – China Trade Tariffs on U.S. Companies with Arkansas Operations / Offices

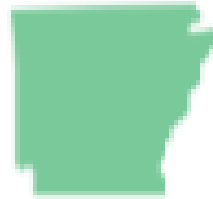
- ✓ **Caterpillar Inc:** Chinese imports are expected to increase its material cost by about \$100 million to \$200 million in the second half of the year due to US tariffs
- ✓ **General Electric Co.:** imports from China could raise costs by \$300 to \$400 million
- ✓ **General Motors Co, Ford Motor Co** and **Fiat Chrysler** lowered full-year profit forecasts due to escalating tariffs
- ✓ **Boeing Co.:** concerned about increasing costs from supply chain, but has not seen impact from U.S.-Chinese trade tensions on its business
- ✓ **Honeywell International:** increase the use of supply chain sources from non-China countries
- ✓ **At Home Group Inc.:** make adjustments to its supply chain to mitigate the impact of the proposed tariffs
- ✓ **Pier 1 Imports:** does not expect financial results in fiscal 2019 to be materially affected by proposed tariffs

Cont: Impact of U.S. – China Trade Tariffs on U.S. Companies with Arkansas Operations / Offices

- ✓ **Newell Brands Inc.:** annualized impact of tariffs could be as much as \$100 million
- ✓ **Polaris Industries:** raised its 2018 cost estimates related to tariffs to \$40 million from \$7 million
- ✓ **3M Co.:** impact of about \$10 million, or 1 cent per share, on an annualized basis from the tariffs passed so far
- ✓ **International Paper:** has so far not had any direct impact from tariff disputes
- ✓ **United Technologies Otis Elevators Corp:** expects to see 5 cent per share impact in 2018
- ✓ **Tyson Foods Inc.:** cut its full-year profit forecast, citing the uncertainty in trade policies and increased tariffs that have hurt domestic and export prices of meat
- ✓ **Hasbro Inc.:** moving more production out of China as a result of the tariffs
- ✓ **Danaher Corp:** expected an earnings impact of 1 cent per quarter, and that it would look to modify manufacturing locations

III. Sect. 232 – “National Security” Steel and aluminum tariffs

Arkansas steel exports to Canada



Arkansas
\$122M

Canadian steel tariffs increased to 25%

Potential Impact of Tariffs in Arkansas

- 90% of Arkansas businesses surveyed communicated some foreseen impact⁴
- Farming repercussions by tariffs imposed by China and the European Union are of concern¹
- “Tariffs faced by Arkansas farmers could result in an output loss of \$243.7 million in oilseed farming and \$191 million in grain farming”¹
- **Total export impact for Arkansas is estimated at \$339 million²**
- Economic impact estimated to cost the state more than 4,428 jobs, diminish labor income by \$261 million and produce a negative economic impact of more than \$890 million^{1,3}

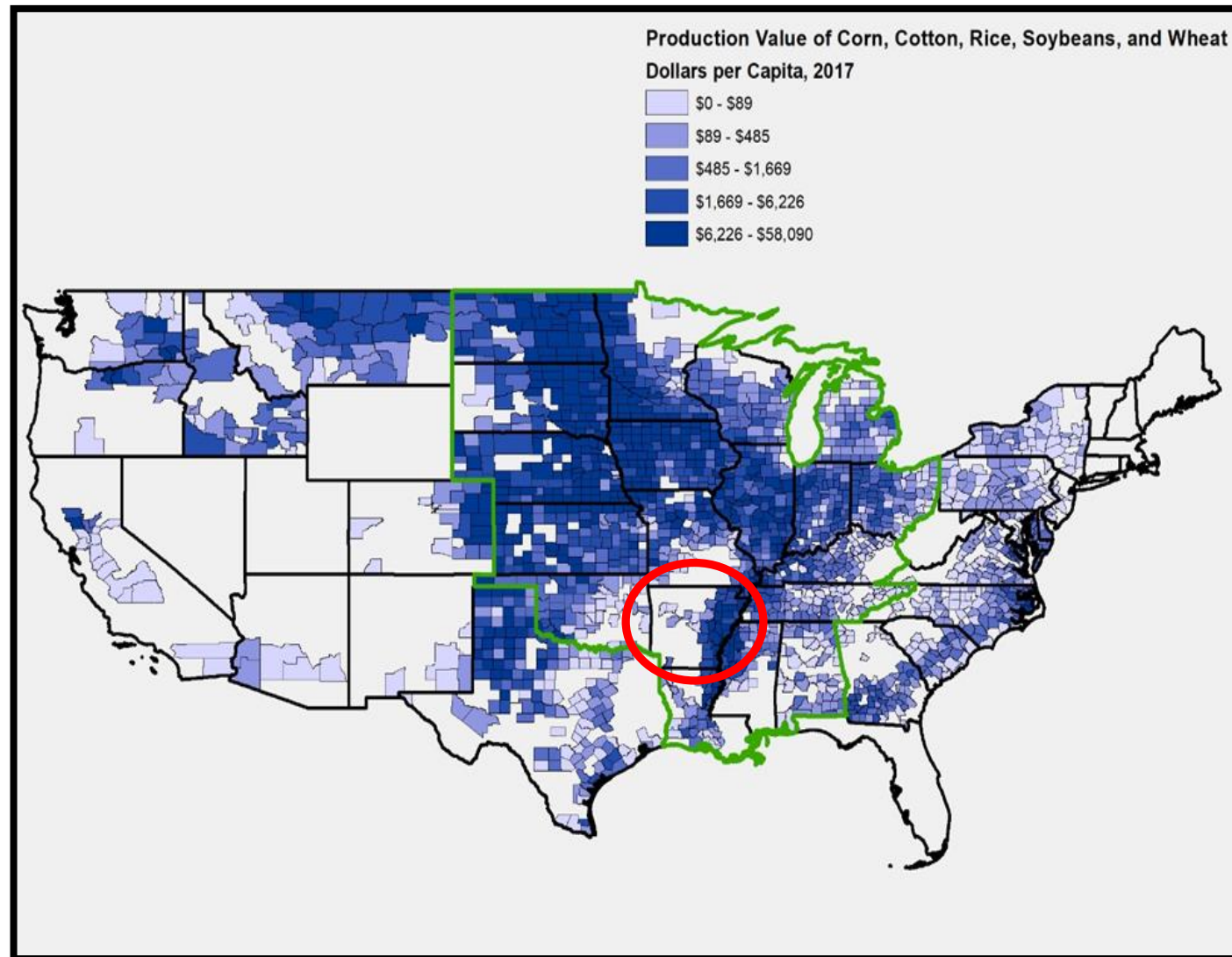
1. Jebaraj, Mervin. "Tariffs & Arkansas Trade." AMP. August 06, 2018. Accessed August 08, 2018. <http://amppob.com/tariffs-arkansas-trade/>.

2. "Trade Works For Arkansas. Tariffs Don't." Accessed August 9, 2018. https://www.uschamber.com/sites/default/files/tariff_data/one_pagers/ar.pdf.

3. "USA Rice Daily." Raising the U.S. Rice Profile in Guatemala. March 19, 2018. Accessed August 09, 2018. [https://www.usarice.com/news-resources/daily/usa-rice-daily/2018/03/19/uofa-arkansas-stands-to-lose-more-than-4k-jobs-\\$383-million-from-trump-tariffs](https://www.usarice.com/news-resources/daily/usa-rice-daily/2018/03/19/uofa-arkansas-stands-to-lose-more-than-4k-jobs-$383-million-from-trump-tariffs).

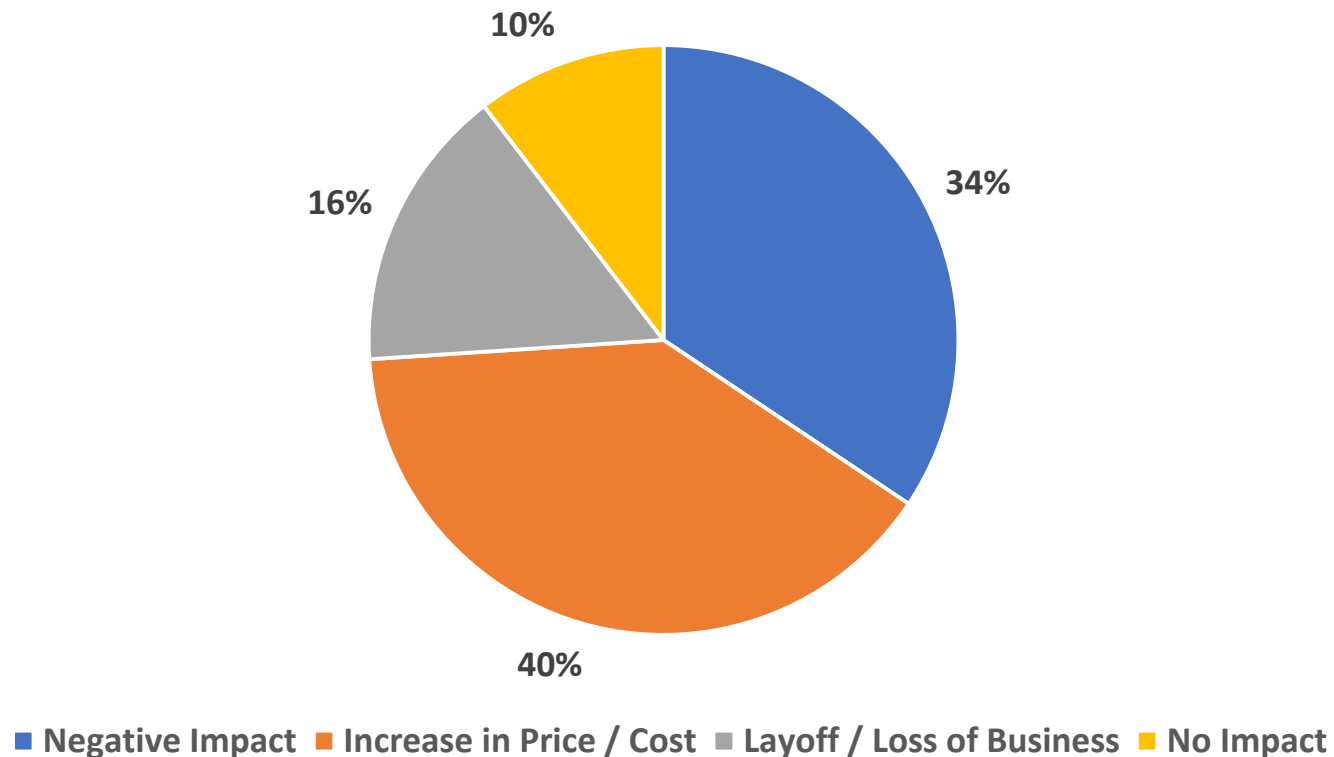
4. Impact of Steel and Aluminum Tariffs on Arkansas Manufacturers Survey Results Summary, Accessed August 8th, 2018. <https://arwtc.org/wp-content/uploads/2018/04/Tariffs-Survey-Summary-web.pdf>

Projection of Heartland Counties Impacted by Chinese Tariffs on U.S. Crops



Survey of Arkansas Companies that use Steel & Aluminum on how tariffs would Impact their business

- ✓ 90% of Arkansas businesses responded they would have some impact¹



1. Impact of Steel and Aluminum Tariffs on Arkansas Manufacturers Survey Results Summary, Accessed August 8th, 2018. <https://arwtc.org/wp-content/uploads/2018/04/Tariffs-Survey-Summary-web.pdf>

Arkansas Survey results

- ✓ **43%** of companies imported Steel and/or aluminum products because they were in short supply in the United States.
- ✓ **13%** of companies import metal products that are not available in the United States
- ✓ **84%** of companies stated their products use steel or aluminum as a finished product in the supply chain.

Impact by State

**Who has the biggest share of steel/
aluminum imports?**



Sources: Brookings Institution, Census Bureau

Canada

✓ Total Exports from Arkansas to Canada¹:

\$1,256,426,319

➤ Total Exports from Arkansas to Canada threatened by New Tariffs²:

\$225,108,656 (18%)



1. Detection Screen. Accessed August 08, 2018. <http://tse.export.gov/tse/MapDisplay.aspx>.

2. "U.S. Chamber Says Trump Tariffs Will Result in a \$339 Million Hit to Arkansas' Economy." Talk Business & Politics. July 03, 2018. Accessed August 06, 2018. <https://talkbusiness.net/2018/07/u-s-chamber-says-trump-tariffs-will-result-in-a-339-million-hit-to-arkansas-economy/>.

Mexico

✓ Total Exports from Arkansas to Mexico¹:

\$850,549,576

➤ Total Exports from Arkansas to Mexico threatened by New Tariffs²:

\$92,725,920 (11%)



1. Detection Screen. Accessed August 08, 2018. <http://tse.export.gov/tse/MapDisplay.aspx>.

2. "U.S. Chamber Says Trump Tariffs Will Result in a \$339 Million Hit to Arkansas' Economy." Talk Business & Politics. July 03, 2018. Accessed August 06, 2018. <https://talkbusiness.net/2018/07/u-s-chamber-says-trump-tariffs-will-result-in-a-339-million-hit-to-arkansas-economy/>.

China

✓ Total Exports from Arkansas to China¹:

\$367,892,664

➤ Total Exports from Arkansas to China threatened by New Tariffs²:

\$15,305,820 (4%)



1. Detection Screen. Accessed August 08, 2018. <http://tse.export.gov/tse/MapDisplay.aspx>.

2. "U.S. Chamber Says Trump Tariffs Will Result in a \$339 Million Hit to Arkansas' Economy." Talk Business & Politics. July 03, 2018. Accessed August 06, 2018. <https://talkbusiness.net/2018/07/03/u-s-chamber-says-trump-tariffs-will-result-in-a-339-million-hit-to-arkansas-economy/>.

European Union

✓ Total Exports from Arkansas to the EU¹:

\$1,496,064,005

➤ Total Exports from Arkansas to the EU threatened by New Tariffs²:

\$5,463,833 (0.3%)



1. Detection Screen. Accessed August 08, 2018. <http://tse.export.gov/tse/MapDisplay.aspx>.

2. "U.S. Chamber Says Trump Tariffs Will Result in a \$339 Million Hit to Arkansas' Economy." Talk Business & Politics. July 03, 2018. Accessed August 06, 2018. <https://talkbusiness.net/2018/07/u-s-chamber-says-trump-tariffs-will-result-in-a-339-million-hit-to-arkansas-economy/>.

Projected Impact Reported by US Chamber of Commerce

\$339 MILLION

ARKANSAS EXPORTS THREATENED
BY AN EMERGING TRADE WAR

\$225M

Arkansas exports to

Canada

targeted for retaliation

\$93M

Arkansas exports to

Mexico

targeted for retaliation

\$15M

Arkansas exports to

China

targeted for retaliation

\$5.5M

Arkansas exports to

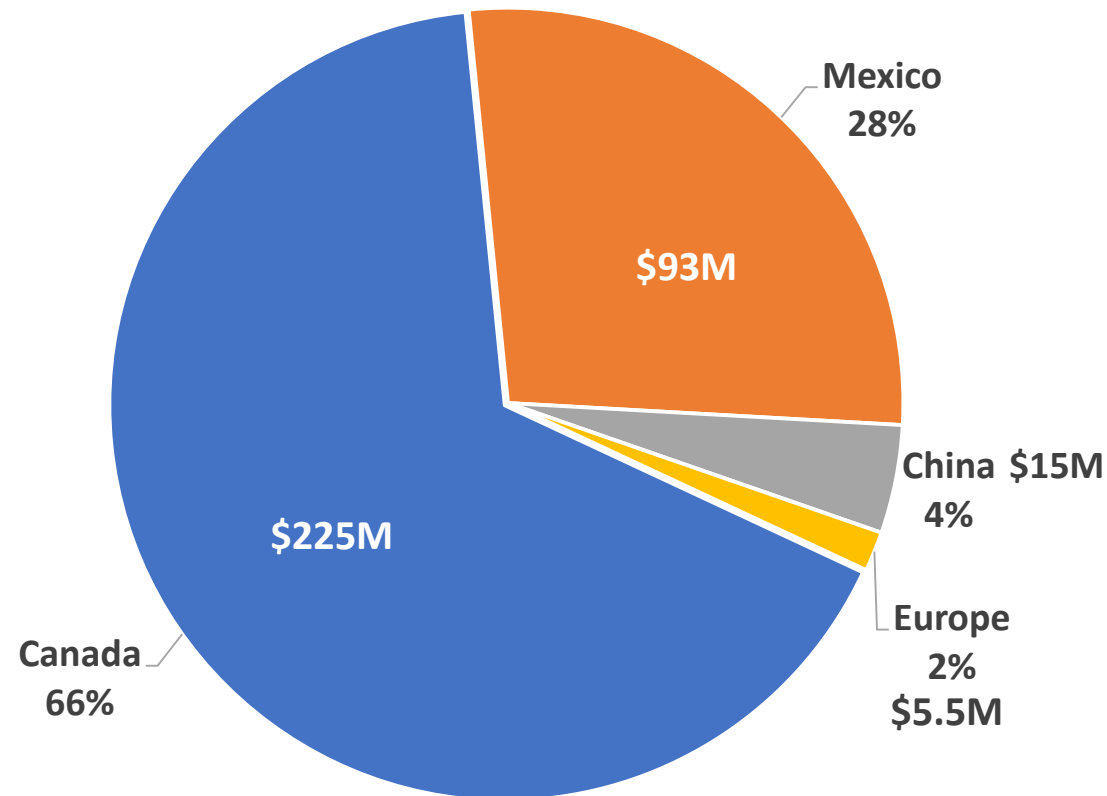
Europe

targeted for retaliation

Arkansas's hardest hit products:

1. Paper, Paperboard
\$48 million exported annually to Canada
2. Casing And Tubing, Oil, Gas Drilling,
Iron Or Steel
\$37 million exported annually to Canada
3. Printed Or Illustrated Post Cards,
Greeting Cards, Etc.
\$28 million exported annually to Canada

Tariff Share by Country of Total \$339M Targeting Arkansas Exports



Trade Matters in Arkansas

- ✓ State Level

- ✓ Since 2009, nearly every U.S. state has seen an increase in exports. Double digits in Arkansas.

- ✓ Arkansas Jobs Supported by International Trade¹ :

350,000

- Arkansas Jobs potentially in jeopardy⁴ :

4,428

- ✓ Total Arkansas Exports 2017³ :

\$6.3 Billion

- Total Arkansas Exports Threatened by New Tariffs² :

\$339,000,000

1. "Trade and American Jobs." The Impact of Trade on U.S. and State-Level Employment. January 2016. Accessed August 6, 2018. http://businessroundtable.org/sites/default/files/reports/Trade_and_American_2016_FINAL.pdf.

2. "U.S. Chamber Says Trump Tariffs Will Result in a \$339 Million Hit to Arkansas' Economy." Talk Business & Politics. July 03, 2018. Accessed August 06, 2018. <https://talkbusiness.net/2018/07/u-s-chamber-says-trump-tariffs-will-result-in-a-339-million-hit-to-arkansas-economy/>.

3. "International Trade Update." Trade.gov - State Reports - Index. Accessed August 09, 2018. <https://www.trade.gov/>.

4. "USA Rice Daily." Raising the U.S. Rice Profile in Guatemala. March 19, 2018. Accessed August 09, 2018. <https://www.usarice.com/news-resources/daily/usa-rice-daily/2018/03/19/uofa-arkansas-stands-to-lose-more-than-4k-jobs-3383-million-from-trump-tariffs>.

What is the future impact of Tariffs?