President Trump’s “Tariff Relief” is Problematic and Will Have Negative Consequences

The decision announced late in the evening on Sunday, April 19 by the Trump administration to allow a 90-day deferment of tariff payments and other fees paid by importers comes after weeks of denials and mixed signals sent by administration officials. On the surface, the move is being pitched as relief for importers that have faced significant financial hardship due to the coronavirus pandemic response, but a closer look reveals that it is problematic and will have negative consequences.

This special treatment for importers is likely to adversely impact American workers and manufacturers who are stepping up for their nation in a time of crisis, or facing widespread layoffs, furloughs, and closures. Manufacturing has been slower to rebound during previous economic downturns than other sectors, and this administrative action will likely slow the sector’s recovery this time as well. Adding more imports to an already fragile domestic manufacturing economy is ill-timed and unwise.

It is our hope that the Trump administration will significantly alter this plan, without delay, to ensure that loopholes are not exploited and to clearly communicate that this action is temporary and strictly limited in time and scope. The administration must make clear that accumulated debts will be collected and that there will not be unjustified gifts granted to importers.

- **First, this misguided deferral action should not be extended in any way.** Already, retailers are asking to double the tariff holiday for up to 180 days of deferral. This payment deferral should not exceed 90 days, and the period of applicability should not extend beyond April. That will limit gaming the system and offshoring. Imagine a retailer that could now source from a desperate factory in a low-wage nation with deferred duties, taking business away from their traditional American supplier. Don’t think it couldn’t happen? Ask the thousands of former domestic Walmart suppliers squeezed out of business over the past several decades.

- **Second, the deferral action should be modified to require current proof of a demonstration of hardship, similar to requirements placed on firms applying for Small Business Administration (SBA) loans.** Currently, importers must only keep internal records, which Customs and Border Protection (CBP) may ultimately decide not to review. This self-policing process invites fraud and abuse. We already know that duties are often circumvented with some success by some unscrupulous buyers, sellers, and customs brokers. According to the Government Accountability Office (GAO), CBP has already failed to collect $2.3 billion in duties, raising doubts as to whether future accumulated balances resulting from duty payment extensions or other flexibility mechanisms will ever be collected. Rather than delaying duty payments, CBP should be taking meaningful steps to implement the 2017 executive order aimed at enhancing bonding requirements.

- **Third, the deferral action should be significantly altered and limited to imports for which domestic substitutes are not available.** Why should an import-dependent retailer receive special treatment over a retailer that sources domestically? This policy directly undermines the stated desire of the administration and Congress to reshore manufacturing jobs and supply chains, a task that has only become more urgent in the wake of covid-19.
• Fourth, the tariff deferral stimulates circumventers to turbocharge their efforts. Count on many ineligible Made in China products to be mislabeled with country of origin data and routed through countries like Vietnam. So, while the administration claims that products subject to Section 301 tariffs, for example, are not impacted, look for Chinese products to be re-routed through third-party countries in order to benefit from this tariff relief.

• Fifth, retailers and others who may benefit from this policy should pledge not to shift any of their supply chains out of the United States now or in the aftermath of this crisis. Otherwise, unscrupulous actors can be rightfully accused of betraying our nation at a time when millions of Americans are newly unemployed. These pledges should be supported by documentation that can be reviewed by officials in the administration and in Congress.

It should be noted that the action could have been even worse. Duties on imports subject to trade enforcement actions – including antidumping and countervailing duties, and Section 201, 232, and 301 trade remedies – must still be paid in full and on time. And, the deferral – at this time – is reportedly limited to products imported during the month of April and for part of March. This is a glimmer of good news, but cannot be taken for granted as powerful importer lobbying groups will be making the deferral of these duties and an extension of the applicable time periods their top policy goals moving forward.

It’s worth noting that the survival of retailers and other importers is not pegged to the deferral of import duties. Rather, they all face a collapse in demand. This deferral won’t change that equation in any way, although it may create some unanticipated demand in foreign factories. We’d be better served by a focus that gets us to the other side of this public health crisis safely and with income support, and then stimulate domestic demand through policies such as infrastructure investment.