News Flash
China Tax and Business Advisory

Biden Administration announces tariff increases on Chinese imports from key sectors

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In brief

President Biden announced on May 14, 2024 and published in the Federal Register on May 22 a series of tariff increases on $18 billion of imports from China under Section 301 of the Trade Act of 1974 (Section 301). The White House on the same day released a Fact Sheet setting forth the purpose and the details of the increases. Although Section 301 has created obstacles for Chinese exporters, they could adopt a series of strategies to cope with and mitigate its impact. Fully understanding its context and timely exploring the alternatives when facing the tariff challenges will be the key for the exporters to optimize their supply chain arrangements.

In detail

Background

The Fact Sheet notes that President Biden is taking this action based on an in-depth review undertaken by the United States Trade Representative (USTR) to protect American workers and American companies from China's unfair trade practices. The USTR's findings were published in a 193-page report the USTR released May 14 as the culmination of its lengthy Section 301 investigation, entitled *Four-Year Review of Actions Taken in the Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*.

In addition to serving as the basis for the newly proposed tariffs, this extensive report also notes that 352 formerly expired product exclusions that were reinstated by the USTR on March 28, 2022, will expire again on May 31, 2024. The report does not indicate what the USTR intends to do about these expiring exclusions, but the USTR has announced that it is planning to issue a Federal Register Notice in the near future that will explain what will happen to these exclusions.

On May 16, The Chinese Ministry of Commerce responded to the U.S. decision to upgrade Section 301 measures. A spokesperson from the Ministry expressed strong opposition to the U.S. arbitrarily raising Section 301 tariffs on China once again. China opposes all forms of trade protectionism and will take necessary measures to firmly defend its own rights and interests. This round of tariff increases will impact various industries, including steel and aluminium, semiconductors, electric vehicles, batteries, critical mineral resources, solar panels, container cranes, and medical products. The new tariff rates will vary depending on the product, ranging from 25% to 100%. It is foreseeable that the significant tariff increase will directly affect the cost of importing these products from China into the U.S. market and may have far-reaching effects on the U.S. supply chain and market.

Additionally, it's worth noting that the specific goods exempted by the U.S. for 429 categories that are "extremely difficult" to source from China will expire simultaneously on May 31, 2024. The USTR will provide a 14-day transition period for all current exempted products, extending until June 14, 2024, and some exemptions will be extended until May 31, 2025. After the expiration of these exemptions, the cost of products entering the U.S. market is expected to increase significantly, affecting supply chains and market prices.

The following table summarizes the tariff increases and their effective dates:

Product	Current tariff rate	New tariff rate	Effective date
Steel and aluminum products	0-7.5%	25%	2024
Semiconductors	25%	50%	2025
Electric vehicles	25%	100%	2024
Lithium-ion EV batteries	7.5%	25%	2024
Lithium-ion non-EV batteries	7.5%	25%	2026
Battery parts	7.5%	25%	2024
Natural graphite and permanent magnets	0%	25%	2026
Certain other critical minerals	0%	25%	2024
Solar cells	25%	50%	2024
Ship-to-shore cranes	0%	25%	2024
Syringes and needles	0%	50%	2024
Certain personal protective equipment (PPE)	0-7.5%	25%	2024
Rubber medical and surgical gloves	7.5%	25%	2026

Exclusions

The USTR has published a list of machinery used in domestic manufacturing and classified within certain subheadings under Chapters 84 and 85 for temporary exclusions through May 31, 2025, comments on these proposals are to be submitted online by June 28.

The takeaway

The tariff increases are likely to have significant impacts on the US economy, consumers, and trade partners, depending on the availability and feasibility of alternative sources of supply or production for the affected products and sectors. Chinese companies that export, the affected products should conduct a comprehensive analysis of their supply chain risks and opportunities and consider various mitigation strategies, such as applying for exemptions, diversifying sources of supply, or the feasibility of passing on the costs of the tariffs to customers or suppliers.

Affected companies might consider seeking assistance from relevant professionals to reassess export activities and identify duty mitigation opportunities, which may include:

- Researching supply chain transformation solutions, including site selection, tax considerations, customs, and trade arrangements from multiple dimensions.
- Analysing relevant rules of origin and assist the companies to determine the Country of Origin by combining relevant rules with information of the composition of materials from China and foreign sources.
- When companies shift production to a third country during supply chain transformation, analysing whether substantial changes in origin can be achieved to eliminate the impact of Section 301 tariffs.

- Exploring opportunities to reduce U.S. tariffs for companies using the First Sale Rule.
- Analysing product tariff codes to identify tariff optimization opportunities.
- Investigating tax refund opportunities for China origin products when exported to the U.S., such as imported into US for processing and re-export.
- Practical solution relating to export control laws, regulations, and compliance framework construction.
- Seeking advanced rulings from both China and the U.S. to enhance certainty in supply chain transformation, covering country of origin, Customs classification, and valuation.
- Implementation of customs and international trade related matters during the supply chain transformation process (such as, customs registration, license applications, bonded warehouse, and system setup).

Let's talk

For a deeper discussion of how this impacts your business, please contact **PwC's China Tax, and Customs & International Trade**:

North

Nathan Pan
Worldtrade Management Services Partner
+86 (10) 6533 3730
nathan.pan@cn.pwc.com

Helen Han
Worldtrade Management Services Partner
+86 (10) 6533 2811
helen.y.han@cn.pwc.com

Central

Jeff Yuan
Asia Pacific Transfer Pricing Services Leader
+86 (21) 2323 3495
jeff.yuan@cn.pwc.com

Paul Tang
Transfer Pricing Services Partner
+86 (21) 2323 3756
paul.tang@cn.pwc.com

Asta Nie
Worldtrade Management Services Leader
+86 (21) 2323 2269
asta.nie@cn.pwc.com

Geogy Ge
Worldtrade Management Services Partner
+86 (21) 2323 8089
geogy.z.ge@cn.pwc.com

Douglas Mackay
China Supply Chain Advisor
+86 (21) 2323 4084
douglas.d.mackay@cn.pwc.com

South

Ryan Wu
Worldtrade Management Services Partner
+86 (755) 8261 8891
ryan.ga.wu@cn.pwc.com

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For more information, please contact:

Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

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