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TRUMP'S TARIFF STRATEGY: GLOBAL TRADE AT A CROSSROADS

On 2 April 2025, a day dubbed as "Liberation Day", President Trump announced a sweeping set of tariffs targeting multiple trade partners, including China, the UK, the European Union, Japan and South Korea.

The new wide-ranging tariffs included a 10% baseline tariff on all U.S. imports, a 20% tariff on goods originating from the E.U. and (at least initially) a 34% tariff on various Chinese imports.

In response, several of America's key trading partners announced retaliatory tariffs on U.S. exports. The biggest response came from China, who initially imposed a 34% tariff on all U.S. goods. Over the past week, a series of tit-for-tat measures subsequently followed, resulting in China increasing tariffs to 84% on U.S. goods, whilst the U.S. has since imposed tariffs of up to 145% on Chinese imports.

Elsewhere, the E.U. announced retaliatory measures on U.S. goods with duties of up to 25% on products such as machinery, aircraft components and agricultural items. Japan and South Korea also introduced surcharges on U.S. industrial and agricultural imports.

However, these retaliatory measures are now on hold following the announcement on 10 April that most U.S. tariffs would be paused for a period of 90 days. This pause excludes the increased tariffs

imposed on China, the baseline 10% tariff on all goods and the 25% tariff on cars, steel and aluminium imports

Naturally, the imposition of tariffs by the U.S. initially sent financial markets into a tailspin, wiping trillions of dollars from share values, with many leading indexes suffering their worst single day losses since the COVID-19 pandemic.

While the news that most tariffs will be on hold for 90 days has led to some recovery in the markets, the fears of an all-out trade war between the U.S. and China – as well as the uncertainty moving forward – remain very much alive.

In this article, we aim to explain the rationale behind the U.S. tariff policy, which represents one of the most significant shifts in U.S. trade strategy in modern history. We will consider how your business may be affected by the impact of a trade war and outline various potential steps to mitigate any fallout arising from the same.

WHAT ARE TARIFFS?

A tariff is a tax also referred to as a "duty" collected by the customs authorities of one country and imposed on goods that are typically imported from another country. The import value of the goods in question generally dictates the cost of the tariff that is ultimately payable.

The responsibility for payment of the tariff usually rests with the party importing the goods into the country and this cost is often passed on to the consumer by an increase in the price of the goods.



WHY HAS THE TRUMP ADMINISTRATION IMPOSED HIGHER TARIFFS?

With his policy of “America First”, President Trump has made no secret of his desire to use tariffs to achieve his objectives, which can briefly be summarised as follows:

Address trade imbalances

One of the aims of tariffs is to address the significant U.S. trade deficit, which has been described by President Trump as a national emergency. Trump is firmly of the view that there is an imbalance in the way that the U.S. trades with most of its key trading partners and that there are deficits which must be harmonised. By imposing tariffs in the way that he has, Trump is aiming to change the international trade landscape as we know it.

Encourage domestic manufacturing and job creation

President Trump has expressed his view that imposing tariffs will revitalise American manufacturing and repatriate jobs, particularly in the automotive sector.

Leverage in negotiations with trade partners

Treasury Secretary Scott Bessent indicated that the administration views aggressive tariffs as a strategy to bring U.S. allies to the negotiating table. The intention is to reach agreements that address trade imbalances and to create a unified front to confront China's trade practices.

These motivations underscore the administration's multifaceted approach to using tariffs as tools for economic policy and international negotiations.

For nearly a century, international trade has been relatively straightforward, with many well-known U.S. companies choosing to base their manufacturing centres in overseas developing countries, where it is more cost-effective.

However, with the imposition of significant tariffs on goods imported from those countries, it very

quickly becomes undesirable to manufacture and ship goods overseas.

Accordingly, as Trump's higher tariffs begin to take effect, the business models of many established companies and the financial viability of their supply chains will be called into question.

It is also very likely that shipment volumes will be subject to a sudden downturn.

WHAT DOES THIS MEAN FOR YOU AND YOUR BUSINESS?

For all those involved in the international carriage of goods – particularly shipowners and operators – the imposition of higher U.S. tariffs will result in an initial period of confusion and hesitation, whilst everyone takes some time to adjust to what will essentially become the 'new normal'.

The container sector will likely be the hardest hit, it being noted that the U.S. is one of the biggest importers of containerised goods. Similarly – and noting the 25% tariff applicable to the import of all foreign-made motor vehicles – those involved in that trade may see an immediate decrease in both revenue and shipment volumes as manufacturers take time to reassess their overseas business strategies.

Fortunately, in other markets, the position is not as bleak (at least for the moment).

In particular, oil, gas and refined products are generally exempt from the higher U.S. tariffs. The same applies for the dry bulk market, which is unlikely to face major disruption, at least until retaliatory tariffs begin to take effect.

Aside from the above, significant upheaval is likely in the shipping market generally, with fluctuations in freight rates, supply chain disruption (e.g. delays) and established route changes to follow.

With the announcement of a 90-day pause on most tariffs, some of the immediate impacts may be mitigated. The primary goal of the U.S. strategy appears to be using its economic strength as leverage in negotiations with its partners, while maintaining a firm stance against China.



WHAT DOES THIS MEAN FOR THE MIDDLE EAST REGION?

At first glance, the higher U.S. trade tariffs are expected to have minimal direct impact on the Middle East region. As outlined above, energy imports are generally exempt from the new U.S. tariffs, which is a relief for many in the broader MENA region. However, certain countries, specifically the UAE and Saudi Arabia, are now subject to a baseline increased tariff rate of 10%.

Many are concerned about the "indirect" effects of the U.S. tariffs, particularly the consequences of any trade war that may develop with China.

This is especially significant given that many countries in the region peg their currencies to the U.S. dollar. Although the Middle East is not the primary target of Trump's tariff policies, the region's strong ties to global supply chains – especially in energy, petrochemicals, and consumer goods – mean that disruptions in global trade will inevitably impact its economies.

A consequence of the higher U.S. tariffs may also come in the form of a downturn in global demand for oil and/or fluctuations in price. Even if the trade war is concentrated between the U.S. and China, this still constitutes almost 2% of all world trade which will inevitably have knock-on effects and will likely lead to a negative impact on the shipping industry as a whole.

HOW CAN YOU MITIGATE THE POTENTIAL ADVERSE EFFECTS OF THE NEW U.S. TARIFFS ON YOUR BUSINESS?

To mitigate the potential adverse impact of the higher U.S. tariffs on your business, it is very important to adopt a proactive (as opposed to a reactive) approach.

Potential considerations include, but are not limited to, the following:

- + **General contract review:** set some time aside to review all your existing contracts in order to highlight those that may be vulnerable to increased tariffs (directly and indirectly).
- + **INCOTERMS:** ensure that your contracts (new and old) include the correct INCOTERMS, it

being noted that certain terms can affect who is ultimately responsible for tariff payments.

- + **Protection clauses:** ensure that your contracts include clauses designed to protect you and your business (e.g. price review, force majeure and termination).
- + **Risk allocation:** to reduce the inevitable uncertainty, ensure that there is a clear allocation of risk, e.g. a clause allocating responsibility for payment of tariffs to your counterparty.
- + **Contractual chains:** if you find yourself in a contractual chain, ensure that your contracts are back-to-back where possible, ensuring a smooth flow of liabilities and responsibilities.
- + **Diversification:** reevaluate your current business model and assess whether it is possible to diversify your current customer base/supply chain, targeting countries with lower tariffs.
- + **Short-term strategies:** consider a shorter-term strategy whilst the true effect of the higher U.S. tariffs becomes known, e.g. avoid entering long-term contracts with unfavourable obligations (i.e. exclusivity, minimum purchase requirements and the like).
- + **Flexibility:** in an ever-changing landscape such as trade tariffs (similar to trade sanctions), flexibility is vital. You should therefore ensure that your contracts provide as much flexibility as possible if a new trade tariff is imminent (e.g. stockpiling and alternative sourcing).

SUMMARY

Unfortunately, there is no "one size fits all" solution for fully safeguarding your business against the potential adverse impacts of trade tariffs. The landscape is unpredictable and subject to sudden changes. However – and as noted above – adopting a proactive approach and considering the points raised in this article can



help mitigate disruption and reduce adverse exposure.

Moving forward, Middle Eastern nations are likely to focus on enhancing intra-regional trade and diversifying global partnerships to mitigate the risks associated with unpredictable U.S. trade policies.

A potential positive outcome could be that the U.S. tariff policy prompts more free trade agreements, as countries use the 90-day tariff pause to negotiate improved trade deals with the U.S. potentially leading to a more favourable, long-term outlook for global trade.

CONTACT US

The Maritime, Trade and Offshore team at Stephenson Harwood remain on hand to assist clients with all matters relating to tariffs, shipping and international trade generally.



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