

Apple escapes China tariff hit for now, but threats loom

September 18 2018, by Rob Lever



Apple, whose CEO Tim Cook is seen here at the September 12 iPhone launch event, won't face an immediate impact from new tariffs on Chinese-made goods

The latest round of tariffs imposed on China imposed by President Donald Trump appeared to largely spare Apple and other consumer

electronics makers but they face increasing threats from the deepening trade war between the two economic giants.

US officials on Monday slapped the tariffs on \$200 billion of Chinese imports, but skipped [consumer electronics](#) like smartwatches and Bluetooth devices, in a reprieve for firms like Apple and fitness tracker maker Fitbit.

But with retaliation from China expected, and Trump threatening to impose new tariffs on all Chinese-made goods, the relief may not last, according to analysts.

"Consumer electronics makers got a short term reprieve, but what we're witnessing is a chess match and we don't know who will blink first," said Patrick Moorhead of the research firm Moor Insights & Strategy.

"Both countries would be hurt significantly."

Moorhead said Apple would be uniquely affected because it manufactures most of its products in China and also sells a lot there.

"Most of Apple's revenue and profits are driven by the iPhone which is almost exclusively manufactured in China," the analyst said.

Once the new round of tariffs takes effect on September 24, punitive duties will be in place on \$250 billion in goods the US buys from China.

The trade war has fueled concerns in the United States, especially in the technology and consumer electronics sectors, just ahead of the holiday shopping season that is important for both manufacturers and retailers.

The tariffs "will create lasting harm to communities across the country," said Dean Garfield, president and chief executive of the Information

Technology Industry Council, a trade group that includes Apple, Amazon and other large tech firms.

"China must change, but this is not the way to achieve the needed market access in China. More tariffs not only punish American consumers, manufacturers, and businesses of all sizes, they will also diminish the opportunity to negotiate with the Chinese and address longstanding trade issues."

The Consumer Technology Association, which represents some 2,000 large and small firms in the tech sector, called the tariffs "bad policy" even if some key products were excluded.

"We are especially concerned about retaliatory tariffs on printed circuit assemblies, routers and networking equipment," said CTA president Gary Shapiro.

"They will stifle our global leadership in 5G (wireless networks), create an internet tax on businesses and cause uncertainty for companies."

Apple's plea

The administration excluded smartwatches and other connected devices after Apple warned of a negative impact in a letter to the US Trade Representative.

"Tariffs increase the cost of our US operations, divert our resources, and disadvantage Apple compared to foreign competitors," Apple said in comments submitted September 5.

"More broadly, tariffs will lead to higher US consumer prices, lower overall US economic growth, and other unintended economic consequences. As a result, tariffs will ultimately reduce the economic

benefit we generate for the United States."

Gene Munster of the research firm Loup Ventures said in a note to clients last week he did not expect Apple to take a major hit from the tariffs.

A tariff on smartwatches and connected earbuds, Munster said, would lower Apple's yearly profits by just one percent. And he predicted the trade frictions would eventually wind down.

"We believe, beyond two years, these [tariffs](#) will go away," he said.

Moorhead said he believed some tech firms, however, are "secretly applauding" the tough stand by Trump because it may over time impact the imbalance in trade between the two countries.

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