Insight

Tariffs and the Energy Sector

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Executive Summary

- The Trump Administration's tariffs on both products specific to solar panels as well as broader intermediate goods such as aluminum have driven up the cost of green technology designed and manufactured in the United States.
- These tariffs have not only resulted in higher prices on solar panels in the United States but also reduced the number of domestic jobs.
- While Congress has not been an active participant in the recent rounds of tariffs, the best way to reduce tariffs now is for Congress to pass legislation.

Introduction

Commitments around the world to combat climate change, especially from large developing economies such as China and India, present an opportunity for U.S. manufacturers to export domestic clean energy technologies. In his September 2020 remarks to the United Nations General Assembly, Chinese President Xi Jinping announced that China aims to reach peak emissions before 2030 and achieve carbon neutrality before 2060. Meanwhile, China is the largest market for the installation of solar photovoltaics despite slowed installation in 2018 and 2019.[9] Similarly, China is the largest market for electric vehicles and overtook the United States in sales in 2015.[10]

In order to compete globally, domestic manufacturers must be able to price their products competitively. In today's globalized supply chain, domestic manufacturers import the intermediate goods that serve as the components of their finished product from abroad. Under the Trump Administration, however, multiple tariffs on the import of foreign goods have been instituted that impact energy technologies. These tariffs have proven costly for domestic manufacturers and consumers.

The following discusses the tariffs imposed on intermediate goods with a specific focus on energy technology. It then describes the impact of tariffs. The imposition of tariffs disadvantages the performance of clean energy technology by increasing the cost of goods, making them less competitive globally and deterring investment in energy infrastructure. In order to most effectively disseminate the innovation and technology developed in the United States to address climate change globally, trade barriers such as tariffs should be eliminated.

Tariffs under the Trump Administration

The Trump Administration was able to impose import tariffs by relying on Section 201 and 301 of the Trade Act of 1974, as well as Section 232 of the Trade Expansion Act of 1962. The president can impose tariffs unilaterally under Section 301 or 232. Section 232 tariffs are imposed following a finding at the Department of Commerce that imports threaten national security. Section 301 tariffs are imposed following a finding by the United States Trade Representative (USTR) that a foreign government is engaged in unfair trade practices.[1] Under Section 201, on the other hand, domestic industry, USTR, the House Committee on Ways and Means, Senate Committee on Finance, or the president may petition the United States International Trade Commission (ITC) when domestic industry has been "seriously injured or threatened with serious injury by increased imports." Remedies are recommended to the president, however, who determines which actions to take.[2] As a result, regardless of the statutory basis for imposing a tariff, the president has significant authority.

The Trump Administration has employed tariffs to implement its protectionist policies in an attempt to strengthen the domestic economy. Broadly, studies of the president's import tariffs determine that they are responsible for the reduction of imports and exports, increased prices and weakening economic wellbeing. In addition, they have harmed domestic manufacturers. Studies suggest that the cost imposed by tariffs is carried by the importer.[3] To see the impact of Trump's tariffs, in combination with corresponding retaliation, on over $460 billion of goods annually, see this analysis at the American Action Forum.

Solar Tariffs

In May 2017, two domestic manufacturers, Suniva and SolarWorld, petitioned the ITC under Section 201 requesting relief from cheap imports that were injuring domestic manufacturing.[4] In January 2018, following the ITC's recommendations, the President instituted import tariffs on solar cells and solar modules.[5] Solar cells are connected to create modules, or colloquially, "solar panels."

As of February 2018, imports were subject to a 30 percent tariff in the first year of the tariff's implementation that would decrease by 5 percent each year to 15 percent in the fourth year. Since, the president has issued a proclamation suggesting that the rate should be increased to 18 percent in its fourth year.[6] The tariff was accompanied by a 2.5-gigawatt quota for tariff-free cell imports due to domestic manufacturers' dependence on imports.[7] In addition, an exemption was provided for bifacial solar panels, as they have not been produced in the United States since 2016.

Although the administration has focused on the impact of Chinese imports in particular, a Section 201 tariff applies globally unless exemptions are provided. As a result, imports from South Korea and southeast Asia, which make up a majority of U.S. imports, are also subject to the tariff as they were not among the exempted countries.

Tariffs on Chinese Products

A series of tariffs were imposed on Chinese goods throughout 2018 and 2019 following an investigation instigated by President Trump under Section 301.[8] Tariff rates were applied to a wide array of products in a series of three rounds at 25 percent, with a fourth round initially announced at 15 percent but later scaled back to 7.5 percent following negotiations with the Chinese. [9] Following the institution of the United States' tariffs, the Chinese government responded with retaliatory tariffs. In 2020, the Trump Administration and Chinese government reached a trade deal that resulted in the reduction of some tariff rates.[10]

The products subject to the tariff varied from agricultural goods to home appliances. Domestic clean energy technology was most impacted by the tariffs on intermediate goods, such as electronic, electrical and mechanical components of hardware manufactured in the United States. Despite the imposition of the tariffs, China remains the second-largest source of intermediate goods imported into the United States while importers bear the brunt of the additional costs.[11]

National Security Concerns

The Trump Administration has leveraged national security as a means to its protectionist ends on a number of occasions. These have impacted the energy sector at least twice. Under Section 232, the Trump Administration instituted tariffs on both steel and aluminum in March 2018 at a rate of 25 percent and 10 percent, respectively, tariffs that were later revised in February 2020 to include derivatives of steel and aluminum, as well.[12] These goods are important to various types of manufacturing including energy technology. For example, the racks on which solar panels are mounted and wind turbine blades rely on these

metals.

In May 2020, the Secretary of Commerce initiated a Section 232 "investigation into whether laminations for stacked cores for incorporation into transformers, stacked and wound cores for incorporation into transformers, electrical transformers, and transformer regulators are being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security."[13] Transformers are one element of electric transmission and distribution systems. The Department of Commerce has not yet provided its findings as it has 270 days to complete its investigation.

Impacts of the Tariffs

The breadth of products subject to tariffs, whether they be directly generation-related products such as solar cells or more broadly applicable materials such as aluminum, means that costs rise throughout the supply chain, contributing to some manufacturers' insolvency. When you consider the solar sector, for example, "the cumulative impact [of these tariffs] means that imports of almost every solar hardware could be under some form of trade restriction," according to Ravi Manghani, head of solar research at Wood Mackenzie Power & Renewables.[14] According to the Solar Energy Industry Association, the solar tariffs alone have resulted in the loss of 62,000 jobs, loss of 10.5 gigawatts of solar generation capacity, and $19 billion of private investment, as well as solar panel prices that are 43-57 percent higher than the global average.[15]

The combination of tariffs and retaliatory tariffs has led some domestic manufacturers to move production abroad to countries that are less directly impacted, doing just what protectionist policies aim to prevent. From the perspective of infrastructure developers, increased materials costs caused by tariffs make the development of new energy infrastructure less appealing to investors. This reluctance to invest in new projects can stifle the use of U.S.-developed or manufactured technologies around the world and delay the implementation of clean energy technology necessary to address climate change globally. Eventually, the costs imposed by tariffs increase prices for the consumer when this green infrastructure becomes operational.

Repealing the Tariffs

President-elect Biden voiced his disapproval of the tariffs imposed by the Trump Administration, but his staff has since suggested they would be reevaluated rather than ended.[16] Upon taking office, he will be faced with solar tariffs that are effective until 2022, tariffs on Chinese goods that the Trump Administration considers effective until a

second trade deal is reached, and steel and aluminum tariffs that are effective indefinitely. In addition, the Department of Commerce investigation into threats to national security posed by imports of electric distribution equipment will be ongoing.

Congress, under the Constitution, has the authority to set tariffs as part of its broader responsibilities in regulating commerce with foreign governments. While Congress delegated some of its authorities to the executive branch by way of the statutes employed by the Trump Administration, it was not an active participant in the recent rounds of new tariffs, either. Nevertheless, legislation would be the most efficient means of removing the multiple rounds of tariffs imposed by the Trump Administration. Doing so would strengthen the ability of U.S. manufacturers to compete and sell their products around the world.

[1] https://www.americanactionforum.org/research/the-total-cost-of-trumps-new-tariffs/

[2] https://www.usitc.gov/press_room/us_safeguard.htm

[3] https://www.nber.org/papers/w25672; https://www.nber.org/papers/w25638; https://www.nber.org/papers/w26610

[4] https://www.natlawreview.com/article/international-trade-commission-issues-recommendations-tariffs-imported-solar-pv

[5] https://www.govinfo.gov/content/pkg/FR-2018-01-25/pdf/2018-01592.pdf

[6] https://www.whitehouse.gov/presidential-actions/proclamation-facilitate-positive-adjustment-competition-imports-certain-crystalline-silicon-photovoltaic-cells/

[7] https://www.pv-magazine.com/2018/01/23/trump-levies-graduated-tariffs-starting-at-30-exempts-2-5-gw-in-cells/

[8] https://ustr.gov/sites/default/files/2018-13248.pdf; https://ustr.gov/sites/default/files/enforcement/301Investigations/2018-17709.pdf; https://ustr.gov/sites/default/files/enforcement/301Investigations/Tariff%20List%20%2883%20FR%2047974%2C%20as%20amended%20and%20modified%20by%2083%20FR%2049153%29.pdf; https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_of_Modification_%28List_4A_and_List_4B%29.pdf; https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_of_Modification_%2

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[9] https://fas.org/sgp/crs/row/IN10943.pdf

[10] https://www.americanactionforum.org/insight/the-details-of-trumps-phase-one-trade-deal-with-china/

[11]https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/2018/TradeFlow/Import/Partner/all/Product/UNCTAD-SoP2

[12] https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-steel-united-states-4/; https://www.whitehouse.gov/presidential-actions/presidential-proclamation-adjusting-imports-aluminum-united-states-4/; https://www.federalregister.gov/documents/2020/01/29/2020-01806/adjusting-imports-of-derivative-aluminum-articles-and-derivative-steel-articles-into-the-united?federalregister.gov; https://www.federalregister.gov/documents/2020/01/29/2020-01806/adjusting-imports-of-derivative-aluminum-articles-and-derivative-steel-articles-into-the-united?utm_medium=email&utm_campaign=subscription+mailing+list&utm_source=federalregister.gov

[13] https://www.commerce.gov/news/press-releases/2020/05/us-secretary-commerce-wilbur-ross-initiate-section-232-investigation

[14] https://www.greentechmedia.com/articles/read/trump-administration-mulls-further-tariffs-on-steel-products-after-industry-pressure

[15] https://www.seia.org/research-resources/high-cost-tariffs

[16] https://www.forbes.com/sites/stuartanderson/2020/08/06/biden-says-he-will-end-trumps-tariffs-on-chinese-made-goods/?sh=5c97ce9523ab