VALSOURCE

Tariffs and CAPEX Project Impact

What's the deal with tarrifs?

The tariffs enacted in 2025 have caused uncertainty for project budgeting and significant cost implications to long lead CAPEX projects. Projects initiated prior to the 2025 tariffs may be scrambling to secure additional funding to address this increase in cost. Projects commonly build contingency into the budgets with the understanding that there will be discoveries as the project progresses that will necessitate changes in approach and design, and these changes will have a cost impact. In most cases, tariff changes were not part of the risk projections to project contingency, certainly not to the levels now being experienced. There is still some uncertainty around tariff rates with some countries, but trade deals are being negotiated. As an example, a client is importing a $1.1M piece of equipment from Switzerland. At the time of import (early 4th Qtr), the anticipated additional cost due to tariffs was 39%, or approximately $429K. Now, as of this writing, the tariff on machinery from Switzerland has been reduced to 15%. Certainly, this reduction is good news but still leads to updated forecast projections that exceed the project's allocated contingency estimates. This also highlights that the changing tariff policies make it difficult to forecast future tariff cost with a high level of confidence.

Looking at some of the top countries for supplying pharmaceutical equipment, most have negotiated agreements with the U.S. and increased tariff stability, but increased tariff rates remain in place that could influence CAPEX project of the future. Notably, EU countries are now generally stable at 15% depending on the item classification, Canada and Mexico back to 0%. China and India remain at a high risk in terms of stability, and the tariff rates are the highest.

To accurately forecast the tariff cost for an equipment package there are many nuances to consider, more than can practically be addressed here without some deeper understanding of the agreements in place, but there are a few steps and sources of information that can be used to facilitate a reasonable estimate without too much effort.

1. **Identify the HTS Code:** The HTS Code (Harmonized Tariff Schedule Code) is a 10-digit classification used by U.S. Customs to identify imported goods and determine applicable tariffs. All codes can be found in the Harmonized Tariff Schedule (hts.usitc.cov). For pharmaceutical manufacturing equipment, the most relevant HTS codes fall under Section XVI, Chapters 84 and 85 for Machinery.

The HTS code is used to determine the base duty rate. If the exporting country has a Most-Favored-Nation (MFA) relationship, the rates provided in the HTS Column 1 associated with the code should apply.

2. **Reciprocal Tariffs:** Next, identify the international equipment vendors that may be asked to bid on the project and determine the Reciprocal Tariffs from their country of origin. There are a few sources for determining Reciprocal Tariffs:
    a. The C.H. Robinson – U.S. Reciprocal Tariff Tracker
    b. USTR (United States Trade Representative) Website – Presidential Tariff Actions
    c. Fact Sheets – The White House

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The **C.H. Robinson – U.S. Reciprocal Tariff Tracker** lists current rates by country and implementation dates. This site also notes if the 10% Global Tariff is applicable.While it is generally kept up to date, at the time of this writing it did not yet reflect the change in the Reciprocal Tariff with Switzerland, so it would be wise to use the next two sources to verify if there are recent updates. The Tariff Tracker as a whole is dated so you will at least have an understanding of when it was last updated. It should also be noted; this is not an official government site.

The **USTR Website for Presidential Tariff Actions** provided a summary list of Executive Orders and a list of Trade agreements with the U.S. trading partners, presenting each partner with links to the related agreements with that partner. This is a current source for tariff information similar to the Fact Sheets discussed below.

The **official White House Fact Sheets** for each trade agreement explicitly state the reciprocal tariff rate agreed upon. This and the USTR Website may be the most current sources however the Fact Sheets Website does not provide a summary list of all reciprocal tariff agreements and requires a review of Fact Sheets by title to determine if there may be a recent agreement. That said, it would be wise to check this source as a final verification of any updates on tariffs.

3. **Section 232, Steel and Aluminum Tariffs:** The question of Steel and Aluminum Tariffs may also be considered but for project forecasting it may be difficult to apply. Section 232 tariffs on steel and aluminum are product specific and apply to raw steel or aluminum or a derivative product. As a rule, check the HS code for the product first. For Machinery, medical devices, and pharmaceutical equipment, Section 232 Steel and Aluminum tariffs may not apply but should be considered. For example, for a skid costing $1M as a finished product, the raw steel used to fabricate the skid may cost $200K. The Section 232 tariff would then only be applied to the value of the steel (up to 50% ad valorem on the steel and aluminum content for most countries (25% for UK)).

As you can see, the total import tariff imposed on a specific equipment package may be a combination of multiple tariffs.

Total Tariff = (Base MFN or FTA Rate) + (10% Global Tariff if applicable) + (Reciprocal Tariff if applicable) + (Section 232 Tariff if applicable)

It should be noted, regardless the effort to forecast an estimated tariff, the actual final tariff will be determined by the U.S. Customs and Border Protection (CBP) Officer and not the seller or the buyer.

EPREX is working with our clients to navigate the everchanging tariff landscape, recognize the project risk, and forecast the cost impact that now exists.

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