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Trump Will Likely Declare Universal Import Tariff In 2025 to Force Trading Partners into Negotiations; Foreign Sourcing Puts Apple, Target at Risk

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The Bottom Line:

Capstone assigns a 75% probability that the incoming Trump administration will announce a universal tariff on imports by the end of 2025. Trump has said the tariff could be 10%-20%. We believe Trump will negotiate specific exclusions with trading partners, which could temper the impact. Even with these negotiations, import-exposed companies such as Apple Inc. and retailers Walmart Inc. and Target Corp. will likely be impacted.

- **Capstone believes Trump will announce an unprecedented blanket tariff in 2025. Our conversations with trade policy experts and lawyers indicate Trump has the authority to implement the tariff without approval from Congress. During Trump's first term, he pushed the limits of his authority over trade policy far beyond what his predecessors did, and courts upheld his actions.**

- **We do not expect the new tariff to take effect immediately after Trump announces it. Rather, we believe the Trump administration will state its intention to enforce the tariff at a particular date and then give US trading partners time to negotiate agreements to avoid the tariff. Any separate agreements negotiated by the Trump administration and key trading partners will likely mitigate the impact of the tariff.**

- **At the same time key US trading partners are trying to negotiate exclusions, they will likely threaten their own tariffs in retaliation. We expect US agricultural products, which have historically been the target of retaliatory tariffs, to be particularly at risk.**

- **We believe it is more likely that Trump would administratively impose the tariff than push for legislation to codify it. We expect Republicans in Congress to prioritize extending the Tax Cuts and Jobs Act in 2025 and consider the tariff's revenue as offsetting the cost of tax cuts, even if Congress does not enact the tariff itself.**

Capstone's Call at a Glance	
Our Prediction	Capstone assigns a 75% probability that the Trump administration will announce a universal tariff of 10%-20% by the end of 2025.
Company Impacted	Apple Inc. (AAPL), Walmart Inc. (WMT), Target Corp. (TGT), Lowe's Companies Inc. (LOW), and Dollar Tree Inc. (DLTR)
Potential Impact	Higher prices of imported consumer goods will lead to decreased sales for retailers. Key US exports, including agricultural commodities, will likely be targeted by trading partners for retaliatory tariffs. Some of the impact on the cost of products could be offset by movements in currencies.

*Capstone's predictions are informed by rigorously examining historical occurrences and current conditions while rooting out cognitive biases systematically. We update our probabilities often to reflect the latest information. Read more here.

A DEEPER LOOK

Implementation of a Universal Tariff Likely

Capstone believes Trump will follow through on his campaign promise to introduce a universal tariff of about 10% or 20% on all imports and will have the authority to do so without approval from Congress. During his first term, Trump stretched the statutory authority granted to the president over trade policy further than his predecessors, introducing a range of country- and product-specific tariffs. Trump contends the universal tariff will generate revenue and lead companies to on-shore manufacturing jobs. Our contacts believe Trump is less concerned about the inflationary impacts of the universal tariff than the potential impacts he focuses on. They say Trump believes the tariff's ability to finance his tax plans and incentivize companies to manufacture in the US outweigh its impacts on consumers.

In addition to being a revenue generator and a source of job creation, the universal tariff could be used as leverage in negotiations. During his first term, Trump used new tariffs or their threat to negotiate the US-China Phase One deal and renegotiate the North American Free Trade Agreement to create the US-Mexico-Canada Agreement. We believe there will be opportunities to negotiate trade deals and exemptions from the universal tariff given Trump's interest in striking deals during his first administration, even if these exemptions reduce some of the revenue generated from the tariff.

Market reaction to the universal tariff could influence how Trump implements the move. For him, the market is an important metric of economic well-being. The market volatility likely to follow any announcement of a universal tariff could moderate Trump's plans. In response to this volatility, he could be more amenable to negotiating exemptions for trading partners and granting product-specific exclusions.

Timing Varies Based on the Trump Administration's Approach

We believe there are two strategies the Trump administration could deploy when implementing the universal tariff. Central to both strategies is the administration's use of the universal tariff as leverage to strike favorable trading terms. We discuss the statutory authorities Trump could leverage to implement the tariff later in this note.

First, Trump could enter office and quickly seek to introduce a universal tariff. This strategy would require countries to negotiate exemptions from the tariff while feeling the pressure of 'its impact on their economy.

We believe the second and more likely scenario is that the administration announces its intention to impose a universal tariff at a later date and sees what offers trading partners bring to the table in the interim. Countries could offer to buy more US exports such as agricultural products and liquified natural gas, and limit exporting particular goods to the US in exchange for product-specific or even broader exemptions to the universal tariff.

Trump Could Use Exclusions to Extract Concessions from Trading Partners

In Trump's first term, he used Section 232 of the Trade Expansion Act of 1962 to impose 25% tariffs on steel imports and 10% tariffs on aluminum imports from most countries. South Korea, Brazil, and Argentina got some relief from the tariffs in exchange for quota agreements and Australia was excluded entirely. Trump also excluded Canada and Mexico from the Section 232 tariffs in exchange for a joint monitoring and consultation system. We believe that Trump will again use the exclusions process as a negotiating tool if he imposes a universal tariff.

Lighthizer Will Likely Steer the Ship on Trade Policy

Capstone expects Trump to surround himself with veterans from his first term, who helped him implement tariffs, and believes in their utility. One key figure will be Robert Lighthizer, who served as USTR during the first Trump administration. Whether serving as the USTR or as “trade czar,” Lighthizer will play an instrumental role in crafting Trump’s trade policy. As the architect of the tariffs imposed during the first Trump administration, Lighthizer knows how to push the limits of executive authority over trade policy. He has also strongly advocated for the universal tariff, suggesting he has drawn up a plan for implementing it using executive authority. Even if Trump selects another loyal member of USTR from his first term, we are confident Lighthizer will remain a key adviser on trade policy.

Trump plans to staff other agencies with people who will support his tariff agenda. His nominee for Secretary of Commerce, Howard Lutnick, shares the president-elect’s vision for tariffs. In a September interview, Lutnick said, “I think what’s going to happen is we’ll make a bunch of money on the tariffs, but mostly everyone else is going to negotiate with us and we will be more fair.” Trump’s nominee for Secretary of the Treasury, Scott Bessent, views blanket tariffs through the lens of their use as negotiation leverage and has advocated for new tariffs to be “layered in gradually” to lower their impact. Bessent’s nomination has been received well by markets, but the Treasury Secretary has a less significant role in tariff policy than the Secretary of Commerce or USTR. During Trump’s first term, Treasury Secretary Steven Mnuchin played a small role on trade policy, and we believe Bessent could act similarly, primarily focusing on other issues within Treausury’s mandate.

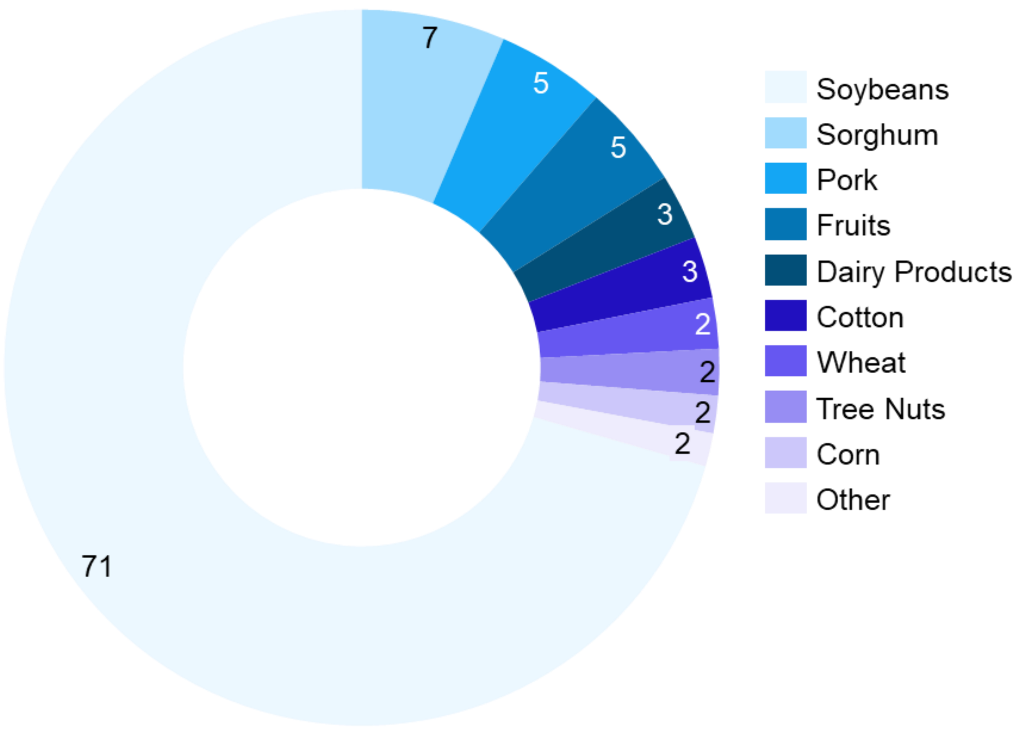
Retaliation Likely to Target US Exports

Capstone believes countries will retaliate against a universal tariff, in addition to trying to negotiate exemptions with the incoming Trump administration. We believe US products historically targeted by retaliation will continue to be at risk.

- **Agricultural Products:** Trading partners targeted a range of US agricultural and food products in response to the first Trump administration’s tariffs on steel and aluminum imports. China slapped retaliatory tariffs on soybeans, pork, tree nuts, and other horticultural products. Canada responded by imposing tariffs on goods including prepared food products and coffee, and Mexico did so on products including pork, fresh and processed fruits, and processed vegetables (see Exhibit 1).

- **Signature US Brands:** In response to the Section 232 tariffs the first Trump administration levied on all steel and aluminum imports, the European Union (EU) imposed 25% tariffs on exports of signature American brands including Harley-Davidson Inc. (HOG) and Brown-Forman Corp.'s (BF.B) Jack Daniels whiskey.

Exhibit 1: Losses, By Percentage Share, in Export Value of Commodities Targeted by Retaliatory Tariffs in Response to Trump's Section 232 Tariffs on All Steel and Aluminum Imports



Note: Estimates reflect annualized losses calculated using data from mid-2018 through 2019 compared to 2017 trade values, which preceded the trade actions.
Source: US Department of Agriculture, Economic Research Service

Impacted Companies

Capstone believes that if implemented, the universal tariff will present a headwind to companies reliant on imported products, particularly those that do not have access to domestically produced equivalents (see Exhibit 2).

Exhibit 2: Import Reliance Creates Risk for Companies

Company	Analysis of Import Volumes
Apple	Apple relies almost entirely on foreign components and overseas labor to assemble its products. Apple's 2024 10k states, "substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in China mainland, India, Japan, South Korea, Taiwan, and Vietnam."
Dollar Tree	According to Dollar Tree's 2024 10k, merchandise imported directly accounts for 41% to 43% of Dollar Tree's total retail value purchases and 15% to 17% of the Family Dollar segment's total retail value purchases.
Lowe's	According to Chief Financial Officer Brandon Sink, "roughly 40% of our cost of goods sold are sourced outside of the US, and that includes both direct imports and national brands through our vendor partners."
Target	According to data aggregated by Panjiva, Target imported 40,000 shipments valued at $2.5 billion from May 31 to August 31. During the same period, Walmart imported $1.3 billion worth of goods.
Walmart	Walmart imports a significant share of its consumer products. However, its grocery business, predominantly selling domestic products, could mitigate some of the tariff's impact. Walmart US generates nearly 60% of its US net sales from groceries and only about a quarter from general merchandise.

Source: Capstone analysis

Trump Likely Has the Administrative Authority to Implement the Tariff Unilaterally

No president has used existing statutes to implement a universal tariff, which creates uncertainty about the legality of Trump's proposal. Based on our conversations with trade policy experts and lawyers, we believe the president will likely leverage a couple of different statutes to implement a global tariff.

We expect legal challenges to the universal tariff, regardless of which statute the Trump administration uses to implement it. Historically, the Court of International Trade, which hears challenges to US trade actions, has deferred to the executive on matters of national emergency and security, which are the circumstances underlying the president's authority to impose trade measures under the relevant statutes. During Trump's first term, the Court of International Trade affirmed his ability to impose Section 232 tariffs on steel imports against legal challenges, while at the same time asserting he had exceeded his authority, saying there was no "impending threat" to national security.

Statute Nixon Used to Impose a Universal Tariff Has Been Reformed

After ending the convertibility of the US dollar to gold in 1971, then-president Richard Nixon declared a national emergency based on the balance of payments crisis and introduced a universal 10% tariff on all dutiable imports via Proclamation 4074. The tariffs became effective the day after the proclamation was issued. Nixon declared a national emergency and then invoked his authority under the Trading with the Enemy Act of 1917 (TWEA) to introduce the tariff.

Nixon's universal tariff, which was in place for four months, withstood legal challenges. In *United States v. Yoshida Intern*, the US Court of Customs and Patent Appeals found that it was "incontestable that [TWEA] does, in fact, delegate to the President, for use during war or during national emergency only, the power to 'regulate importation'." The court upheld his tariff action, in part because it "bore an eminently reasonable relationship to the emergency confronted."

Congress has since limited the authority Nixon relied on for the blanket tariff. In 1977, Congress passed legislation restricting the application of TWEA to times of war. Congress introduced the International Emergency Economic Powers Act (IEEPA) as the new avenue by which the president could levy trade barriers during emergencies declared in times of peace. Unlike TWEA, IEEPA requires the president to consult with Congress on the national emergency.

Trump Administration Likely to Use the International Emergency Economic Powers Act

Trump could use his authority under IEEPA, the successor to TWEA, to introduce a universal tariff. IEEPA grants the president the authority to introduce barriers during declared emergencies. These emergencies do not have to be geographically specific and have been declared in response to weapons proliferation and global terrorism. Trump could declare a national emergency, potentially citing the US trade deficit as the basis, and introduce a universal tariff as a remedy. IEEPA grants the president broad authority over trade measures, but no president has used the act to introduce tariffs. Rather, presidents have used their authority under IEEPA to impose sanctions.

IEEPA requires that the president consults with Congress before exercising the authorities granted under the statute, but this consultation requirement does not amount to Congressional approval. The president must submit a report to Congress outlining the circumstances, the actions to be taken, their reasoning for such actions, and the countries targeted. IEEPA does not require the president to receive approval from Congress for the actions ultimately taken.

While Congress has the authority to overturn trade actions taken unilaterally by the executive, we do not expect a Republican-controlled Congress to mobilize against one of Trump's signature policies. As of March 2022, presidents declared 67 national emergencies invoking IEEPA and most of them lasted nearly a decade. Congress has never passed legislation terminating a national emergency invoking IEEPA.

Section 232 and Section 301 Offer Pathways to Approximate a Universal Tariff

Capstone believes Trump could use his authority under Section 232 of the Trade Expansion Act of 1962 and Section 301 of the Trade Act of 1974 to approximate a universal tariff. Trump would not be able to levy one "universal" tariff using Section 232 or Section 301 because the statutes allow the president to impose trade barriers on specific products and countries. Still, Trump could use the powers granted under these statutes to raise tariffs piecemeal.

Before the president can introduce tariffs under Section 232 or Section 301, an investigation must be completed. The investigation requirements under Section 232 and Section 301 would delay the effective date of Trump's tariff action. Section 232 requires the Commerce Department to investigate the impact specific imports have on national security within 270 days and Section 301 mandates that USTR evaluate the foreign countries engaging in "unreasonable" or "unjustifiable" trade actions burdening US commerce within a year.

Universal Tariff is Unlikely to be Enacted by Congress

Congress could use universal tariff revenues to offset the costs of extending the Tax Cuts and Jobs Act (TCJA), which we expect to be Republicans' primary legislative goal in 2025. In 2017, the Congressional Budget Office (CBO) determined TCJA would add $1.438 trillion to the deficit between 2018 and 2027. The Tax Foundation estimates that a TCJA extension through 2034 would cost $3.590 trillion when considering dynamic macroeconomic factors (see Exhibit 3). Trump campaigned on several other tax cuts—including exempting tips and overtime pay from income tax and restoring the full State and Local Tax deduction (SALT).

Exhibit 3: Costs of Trump Campaign Pledges and Tariff Offsets

Campaign Pledge	Cost (in billion)
TCJA Individual Tax Cut Extension*	-$3,392.1
TCJA Estate Tax Cut Extension*	-$205.6
TCJA Business Tax Cut Extension*	-$643.0
SALT Deduction Restoration	-$1,040.5
15% Corporate Tax Rate	-$361.4
Exempting Overtime and Tips from Income Tax	-$865.6
Auto Loan Deductions	-$61
Exempt Americans Abroad from Income Tax	-$100.0
Total Costs	-$6,669.2
60% Tariff on Chinese Imports and 20% Tariff on All Imports	$3,823.9
Net Total	-$2,845.3

*Estimates before dynamic scoring considered
Source: Tax Foundation

If Republicans tried to pass every tax provision Trump promised on the campaign trail, the CBO score could be significantly higher than the 2017 TCJA CBO figure and create headline risks for Republicans. To offset some of the costs of a broad tax package, Republicans could look to CBO to include the revenues from a universal tariff. However, CBO will only formally consider tariff revenues in its scoring if the tariffs are included in the legislative package. CBO would not consider revenues from a universal tariff if Trump acted unilaterally through IEEPA, Section 232, or Section 301. Ultimately, we believe that Republicans will not be dissuaded by a large CBO score that does not include tariff revenues because they will implicitly consider tariff revenues as a significant offset.

Trump may be interested in passing the tariffs through a legislative package if it could be done quickly. However, we believe Congress would be less supportive of legislating a universal tariff. Republicans will have slim majorities in both chambers of Congress and representatives of agricultural districts could be uncomfortable exposing their constituents to retaliation risk. In response to Trump's Section 232 and Section 301 tariffs, Canada, China, the EU, Mexico, India, and Turkey imposed retaliatory tariffs on US agricultural exports. Pro-business Republicans may want to avoid scrutiny for imposing a universal tariff and could vote against the measure.

Unpacking our Probability and Timing

As no president has implemented a universal tariff using existing statutory authority, Capstone uses precedent from Trump's first term to establish a base rate for the likelihood that he will announce a universal tariff by the end of 2025. We assess the number of times he introduced broad-based tariffs when granted the authority from an affirmative investigation to calculate a base rate of 57% (see Exhibit 4). We increase the probability to 75% to account for Trump's stated interest in introducing a universal tariff to raise revenue and onshore manufacturing, support from his expected advisers, and his likely authority to implement the tariff without approval from Congress.

We have not evaluated the probability that the universal tariff will be implemented because of the complexity of the anticipated negotiation process.

Exhibit 4: Assessing the Number of Times Trump Has Introduced Broad-Based Tariffs in Response to Affirmative Investigations

Investigation	Broad-Based Tariff Imposed?
Section 201 investigation into solar	Yes
Section 201 investigation into washing machines	Yes
Section 232 investigation into aluminum	Yes
Section 232 investigation into steel	Yes
Section 232 investigation into autos	No
Section 232 investigation into uranium	No
Section 232 investigation into titanium sponge	No

Source: Capstone analysis

Risks to Our Thesis

- The incoming Trump administration could decide that offsetting the cost of TCJA extension is not a top priority.
- Concerns about the inflationary impact of new tariffs and concerns raised by the business community could result in Trump putting off a decision to impose tariffs.

In Case You Missed It: A roundup of Capstone's recent notes on trade policy:

Outlook for US Energy Policy Under Second Trump Term, Likely Republican Sweep; Positive for Oil & Gas, Negative for Renewables, November 6, 2024

Trump Win Poses CHIPS Funding Risk for Samsung, SK, GlobalWafers, Others as 99% of CHIPS Funding Unobligated; TSMC Likely Insulated, November 1, 2024

[Solar Quick Take: Preliminary Countervailing Duties on Asian Solar Imports Raises Odds of Final Duties, Higher Anti-Dumping Duties Likely in November], October 1, 2024

[Tariffs on Used Cooking Oil a More Likely Policy Lever than Regulation, a Potential Win for Green Plains, Archer-Daniels-Midland, Bunge], September 4, 2024

[Trump Will Use Power to Impose Tariffs on Host of Products in Potential Second Term, With Section 301 China Tariffs Likely First Move], August 7, 2024