Thriving amid tariff uncertainty in the semiconductor industry

How semiconductor companies can mitigate immediate and long-term risks

The semiconductor industry's supply chain is complex and global. In today's uncertain geopolitical environment, tariffs are top-of-mind with semiconductor leaders, according to research conducted for the KPMG Global Semiconductor Industry Outlook. Tariffs were cited as the biggest issue facing the industry over the next three years. Tariffs were also named the second most concerning geopolitical issue that could affect the semiconductor ecosystem over the next two years, after armed conflicts.

As semiconductor companies navigate the evolving tariff landscape, addressing tariffs on US imports and exports requires an expansive strategy that goes beyond assessing immediate exposure. To safeguard financial performance, it is essential to adopt a strategic, cross-functional approach that involves key departments such as tax, trade, supply chain, and sourcing, enabling semiconductor companies to manage near-term impacts and broader strategic challenges.

Near term – Determine impact and approach

Companies need to assess immediate and future exposure to unilateral and retaliatory tariffs:

- **Assess tariff impact and scenarios:**
  Analyze trade data to evaluate current and potential tariff impacts. Conduct scenario planning to develop contingency plans.
- **Regulatory monitoring:**
  Track trade policy changes and engage with trade associations and advisers.
- **Evaluate country of origin and harmonized tariff classifications:**
  Accurate assessment of duties requires correct classification and origin determination. Analyze tariff impact at the SKU level and classify/reclassify accordingly.
- **Duty mitigation:**
  Explore strategies such as First Sale for Export, valuation, foreign trade zones (FTZ), and other duty recovery programs to identify potential savings.
- **Reconciliation:**
  Use the customs and border protections (CBP) customs reconciliation program to adjust customs values post-entry, allowing time for due diligence to uncover savings.
- **Stakeholder communication:**
  Keep stakeholders informed and aligned on tariff impact and strategic planning.

Medium term – Mitigate costs

Companies can mitigate tariff costs from manufacturing and sourcing abroad:

- **Duty mitigation strategies:**
  Implement savings solutions that generate high return on investment.
- **Cost mitigation:**
  Identify savings in supply and procurement operations. For example, *force majeure* clauses may stipulate tariff changes as grounds for contract renegotiation. Cost mitigation may also be found indirectly in other parts of the business, such as reducing energy, logistics, and labor costs to offset margin pressure. Assess end-to-end costs, including freight, tariffs, and other factors. Consider using both primary and secondary sourcing options to manage tariff risks.
- **Commercial strategy and product design:**
  Analyze current pricing to determine if higher costs can be passed on to customers. Evaluate product mix to increase margins and volume. Find alternative materials or components that are subject to lower or no tariffs.
- **Tax strategies:**
  Mitigate tax-related costs with transfer pricing and value chain management planning.
- **Re-evaluate product designs:**
  Find alternative materials or components that are tariff-free or subject to lower tariffs.

Long term – Diversify supply chains

The tariff landscape may require diversifying where companies manufacture and source materials:

- **Current-state assessment and future-state modeling:** Evaluate the current country of origin mix and cost profiles based on emerging regulatory and geopolitical risks. Develop a future country of origin framework that balances cost, risk, and capacity. Create simulation models to determine the optimal mix for each product category.
- **Tax planning:** Explore tax structures that enable tariff and federal income tax savings.
- **Implementation roadmap:** Create a clear action plan to move toward optimal country of origin strategy.
- **Ongoing duty optimization and compliance:** Align duty savings programs with origin strategies. Implement trade data monitoring and regular compliance reviews for continuous optimization.

Learn more: Stay up-to-date on tariff changes and how to adapt with insights from KPMG LLP (KPMG):

Trade and tariff insights >>

Making the difference with clients

Case study: International trade services for a leading semiconductor equipment manufacturer.

Client challenge

The client wanted to improve its duty drawback program to increase tariff recovery and have more visibility into its data.

KPMG actions

- Executed a leading class duty drawback program that streamlined and automated several processes
- Expanded the US FTZ program
- Updated daily customs and trade processes

Outcomes

- $46 million in duty drawback refund claims
- Increased FTZ footprint in the US
- Enhanced trade compliance
- Improved communication

How KPMG can help

With over 900 trade and customs professionals in 60 countries, KPMG brings extensive knowledge of the global trade landscape and can provide wide-ranging support to help adapt to tariffs:

- **KPMG Tariff Modeler:** Identify the impact of tariffs for today and build for tomorrow
- **Interdisciplinary team:** Trade, tax, strategy, procurement, and pricing specialists help companies determine current/future exposure and model and implement mitigation actions
- **Data and analytics:** Trade data and technology to provide better visibility into tariff impacts and mitigation scenarios
- **Industry experience:** Deep experience within the semiconductor sector to help address the unique challenges of tariffs.

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