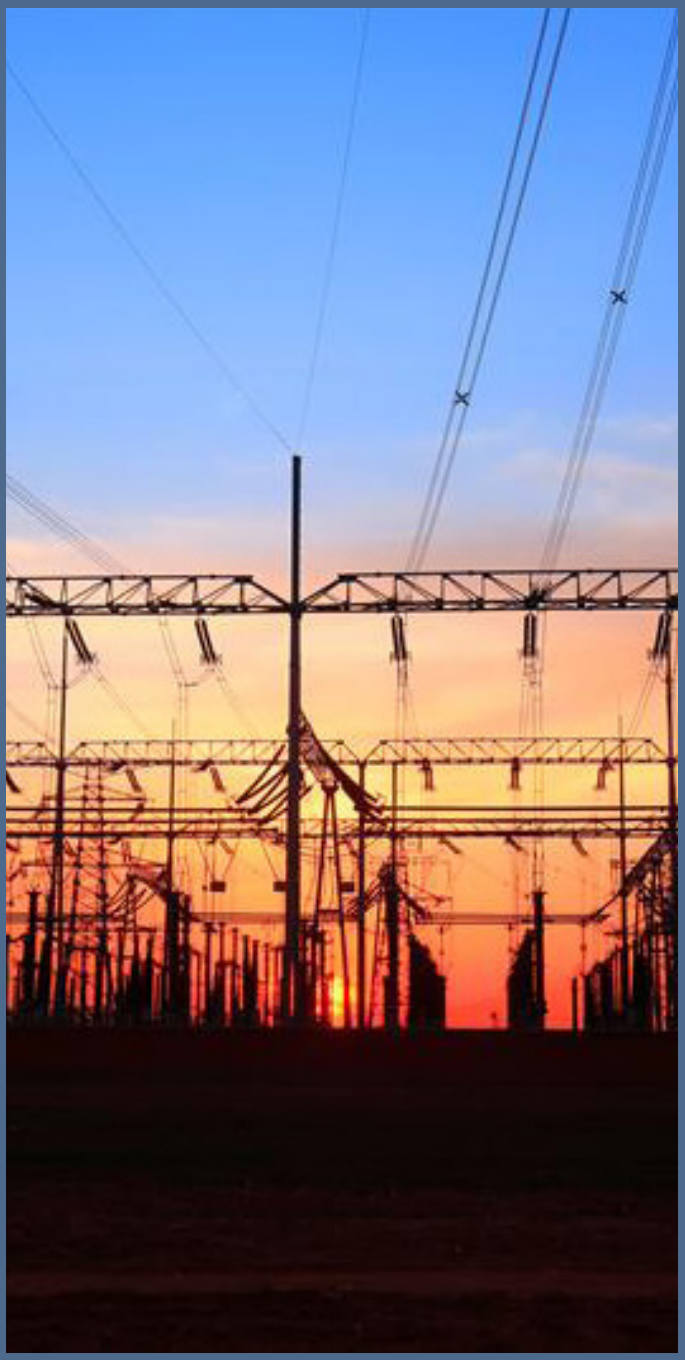

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PERSPECTIVES

Tariffs and Trade Series: Addressing Impacts on the Energy Sector

Our perspectives feature the viewpoints of our subject matter experts on current topics and emerging trends.

This paper is the fifth installment in a series examining the multifaceted impacts of tariff and trade policies. By delving into the nuances of these policies, we aim to provide valuable insights and perspectives that will inform strategic business decision-making and foster resilience in an increasingly volatile global market. This installment focuses on the energy sector, exploring how tariffs impact supply chains, project management, and long-term planning across traditional and renewable energy landscapes.

INTRODUCTION

While tariffs have long been a consideration in energy, they have now emerged as a central influence on energy production, commodity pricing, and macroeconomic conditions, resulting in global impacts on energy executives, developers, finance personnel, and legal advisors. As current tariff policies shift rapidly and unpredictably, they introduce layers of complexity to an already intricate global energy marketplace. Energy projects—whether in oil and gas, renewables, or power generation—are particularly susceptible to the cascading effects of trade restrictions. From materials, parts sourcing, and cost escalation to labor disruptions and quality assurance, tariffs affect every phase of an energy project's lifecycle.

The energy sector's inherent dependence on specialized equipment, globally dispersed suppliers, and long lead times makes it especially vulnerable to trade policy shifts. With many major energy assets designed, fabricated, and transported across multiple continents, even modest changes in tariff structures can trigger significant cost increases, delays, or contractual disputes.

> "The impact to companies of increased litigation regarding supply chain issues will be expansive. This cost must be considered when estimating the total costs of the tariffs to companies as a whole, and particularly energy companies with large capital asset needs."
> — **Karyl Van Tassel**
> Senior Managing Director, Global Investigations

Contract disputes add an additional layer of costs over and above the increased capital assets costs. In this environment, proactive planning, strategic sourcing, and sophisticated modeling are essential.

THE SUPPLY CHAIN RIPPLE EFFECT

Energy supply chains are long, global, and often fragile. Tariffs on any component or subcomponent can ripple through the project, compounding costs and complicating logistics.

Consider the implications for developers of utility-scale solar farms or offshore wind projects. For example, tariffs affecting aluminum framing, semiconductors, or specialized gearboxes may not only increase procurement costs but also prompt a complete redesign of the bill of materials. Similarly, oil and gas operations relying on imported assembled modules, or just pipe, compressors, or pressure control systems may find themselves revisiting procurement strategies to maintain viability.

Further, sourcing substitutions due to tariffs may create risks around quality control, compliance with technical standards, compliance risks, or the certification of alternative suppliers—especially when sourcing shifts to non-traditional regions with limited track records. These substitutions can also drive increased oversight requirements during construction and commissioning.

> "Major oil, gas, and industrial projects use modular construction concepts to leverage global resources and cost benefits. Effective risk management and contingency planning can mitigate impacts of global events like tariff changes and resource availability. Investors and developers should proactively assess these risks during planning to ensure quality, schedule, and budget objectives of the projects are achieved."
> — **Reza Nikain**
> Senior Managing Director, Construction Advisory

PROJECT MANAGEMENT UNDER PRESSURE

Energy projects are capital intensive and schedule sensitive. Tariff uncertainty introduces variables that can derail both timelines and budgets. Project managers must now account for potential:

- Customs delays due to reclassification of materials
- Scheduling issues as alternative suppliers are identified and validated
- Escalation in contract values due to material and labor cost increases
- Force majeure claims and change orders triggered by tariff-related disruptions
- Legal disputes regarding the supply chain with tariffs

Moreover, tariffs don't impact only new projects. For projects already underway—or even those approaching closeout—project forecasts may see schedule interruptions, increased delays, and cost increases for imported items that have not been delivered pre-tariff adjustment.

TARIFF ENGINEERING AS A STRATEGIC TOOL

In response to this evolving environment, some firms are employing tariff engineering—a practice that involves altering the physical or legal classification of imported goods to reduce duties. While long utilized in manufacturing, its application in the energy sector is gaining traction.

Some of these strategies include:

- Reconfiguring assemblies to qualify as different product categories with lower tariffs
- Shipping components in partially disassembled forms to avoid fully assembled classification thresholds
- Altering material compositions to shift classification codes under the Harmonized Tariff Schedule (HTS)

Though powerful, tariff engineering requires careful legal and technical coordination to remain compliant with customs regulations and avoid penalties. Its success depends on early engagement with trade specialists, engineers, and legal counsel—ideally during the design phase of projects.

> "Global energy tariffs present a double-edged sword—on one hand, they can potentially disrupt pricing structures, increase costs for consumers, and strain international supply chains. On the other hand, they may drive innovation, accelerate the shift to renewables, and create new opportunities for domestic production and energy independence. Navigating this balance will define the next phase of the energy transition. Understanding upstream and downstream supply chain and leveraging tariff engineering strategies may provide both risk mitigation and strategic optionality."
>
> **— Andrea Korney**
> VP Supply Chain and Sustainability

Case in Focus: Tariff Engineering for a Compressor Valve

Objective:

Reduce import duties on a fully assembled compressor valve through strategic reclassification and assembly sequencing.

Step-by-Step Strategy:

1. Raw Materials Procurement (Country A–India/Brazil): Steel billets and unmachined forgings face zero or low duties.
2. Initial Fabrication (Country B – China): Valve bodies and internals are machined but not assembled. Components shipped under favorable HTS codes (e.g., 2.5% duty).
3. Intermediate Processing (Country C – Mexico / Canada): Final machining and partial assembly performed. Packaging done as kits to avoid classification as "complete valve."
4. Import into US: Kits enter under lower-duty classifications for components.
5. Final Assembly (US): Full assembly and testing occur domestically. Complies with "Made in USA" rules, qualifies for Buy American provisions, and avoids 10% duties.

Outcome:

By importing components under favorable HTS codes and completing the product in the US, the company can reduce landed costs by 5% to 10%—all while maintaining regulatory compliance.

UNKNOWNS ACROSS THE PROJECT LIFECYCLE

One of the most challenging aspects of the current trade environment is its uncertainty. Tariff regimes can change rapidly, with little notice, and often without grandfathering provisions. This means that every stakeholder—owners, contractors, engineers, manufacturers—must remain alert and agile, adapting to new risks across every phase of a project:

- **Early-stage feasibility and procurement:** Tariff assumptions must now be stress-tested under multiple geopolitical scenarios.
- **Engineering and design:** Designs should consider alternative materials, constructability strategy, and sources to mitigate future tariff risks.
- **Construction and commissioning:** Contracting strategy and language must address escalation, substitutions, and delay risk tied to tariff-related disruptions.
- **Operations and maintenance:** Spare part sourcing and lifecycle replacement strategies must consider long-term tariff exposure and availability.

Each stage requires dedicated focus on the origin, composition, and classification of equipment and materials—considerations that are often secondary in earlier phases of project execution.

MODELING COMPLEXITY AND THE CASE FOR EXPERTISE

Navigating tariffs in the energy sector requires more than spreadsheets and good instincts. It requires complex, dynamic modeling that captures:

- Direct cost increases from duties
- Indirect costs from delays, legal disputes, or substitutions
- Risk-weighted scenarios for future trade shifts
- Integration of supply chain logistics, labor, and tax strategies
- Contingency levels aligned with project risk profile

Equally important is the need to stay abreast of exemptions, waivers, and new classifications, which can shift competitive advantages and project viability overnight. For instance, components that were once restricted may be eligible for exclusion due to national security considerations or critical infrastructure exemptions.

To effectively manage these challenges, energy companies must partner with experienced consultants who bring cross-disciplinary expertise in global trade, engineering, and project risk management. These professionals can help organizations make informed sourcing decisions and develop resilient contracting strategies to maintain compliance in a landscape where the rules are constantly in flux.

CONCLUSION

Tariff policies are no longer a footnote in the energy industry—they are a fundamental consideration for project success. They touch every part of the value chain, from conceptual design through to asset operation and decommissioning. In this context, the ability to anticipate, adapt, and respond to trade-related risks has become a key differentiator for energy companies seeking to maintain profitability and delivery certainty.

It is also important to note that energy is an input cost that affects all industries. For example, the consumer buying energy (residential or corporate) will not only pay a higher price for energy generated outside their country if there are increased tariffs, the price for domestically produced energy likely also will increase because of the reasons cited above. Either way, energy is more expensive in today's economic climate.

At J.S. Held, we help clients navigate the intersection of global trade, supply chain risk, and energy project management.

For further insights and strategic consultation, contact J.S. Held's trade and risk advisory team at riskadvisory@jsheld.com.

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