



Dear Valued Customer,

3 September 2018

On July 6, as mandated by the U.S. Trade Representative under Section 301, a 25% tariff was imposed on a subset of electronic components manufactured in China and imported into the United States. Those initial set of products were on List 1, which amounted to \$34B of goods. None of Phoenixics' suppliers were affected by List 1. Subsequently, List 2, published on 8/23 accounted for an additional \$16B of Chinese product. Phoenixics' suppliers have a small list of products that are affected by this list, namely a subset of product from Micron, Finisar and ABB. A third list, which will be finalized in early to mid September accounts for an additional \$200B of Chinese product.

The complexity of the situation is significant. Phoenixics utilizes FedEx as our main carrier of choice and in doing so utilizes FedEx as the Importer of Record (IOR). When an affected component or computer board comes into the United States via customs, FedEx, as the IOR, pays the tariff, which it then charges Phoenixics, along with a prepayment fee. Coupled with this, many of Phoenixics' suppliers provide pricing on the commercial invoice that is much higher than what Phoenixics pays for the device. Due to this, Phoenixics would be paying a tariff beyond what we were legally obliged to pay with no ability to recover that fee.

With that in mind and to mitigate excess costs to our customers, Phoenixics will support our customers by offering two solutions to this affected Chinese Country Of Origin (COO) challenge.

1. Customers who require affected product to be shipped into the US will become the IOR (Importer of Record) and will be liable for the Government's Tariff payment:
  - a. Phoenixics will have the affected products shipped to our warehouse in Canada. From there, it will be delivered directly to our customers' US warehouses or their respective CMs' locations.
  - b. Phoenixics will pay for shipping from Asia to Canada. Our customers will be responsible for paying the remaining shipment cost from Canada to the US, at which point product will go through US Customs and be assigned a Tariff charge. The Tariff paid by our customers will be on the actual price of the product, and not an inflated cost that our suppliers sometimes state on the commercial invoices.
2. For customers who have foreign ODMs, CMs or warehouses, we can ship the product from our Singapore warehouse to those offshore locations. In this scenario, there will be NO Tariffs incurred, and the shipping cost incurred by our customers should be less.

We have notified our suppliers that we will not accept affected Chinese COO (Country Of Origin) parts into our US Warehouse so that we can implement the above solutions. Along with this, our suppliers are rapidly working to move affected COO Chinese product out of China and into manufacturing locations in other countries.

Our primary objective is to minimize supply chain disruption and to support your requirements at the highest levels. If you have any questions whatsoever, please feel free to work with your local sales manager.

Best regards,

Peter Rooks

President, Phoenix Electronics

### [Important Government Information Regarding Section 301 Tariffs](#)

[Federal Register announcement of tariffs](#) PDF Download

[List 1: 818 of the 1,333 tariff lines in effect as of 7/6/2018](#) PDF Download

[List 2: 284 proposed tariff lines identified by the Section 301 Committee, pending review and public hearings.](#) PDF Download

[List 3: 6,031 Proposed Supplemental Action](#) PDF Download

[Procedures To Consider Requests for Exclusion of Products](#) PDF Download

[Information on Refund of Certain Duties, Fees, and Taxes Collected on the Importation of Goods \(Tariff Drawback\)](#)

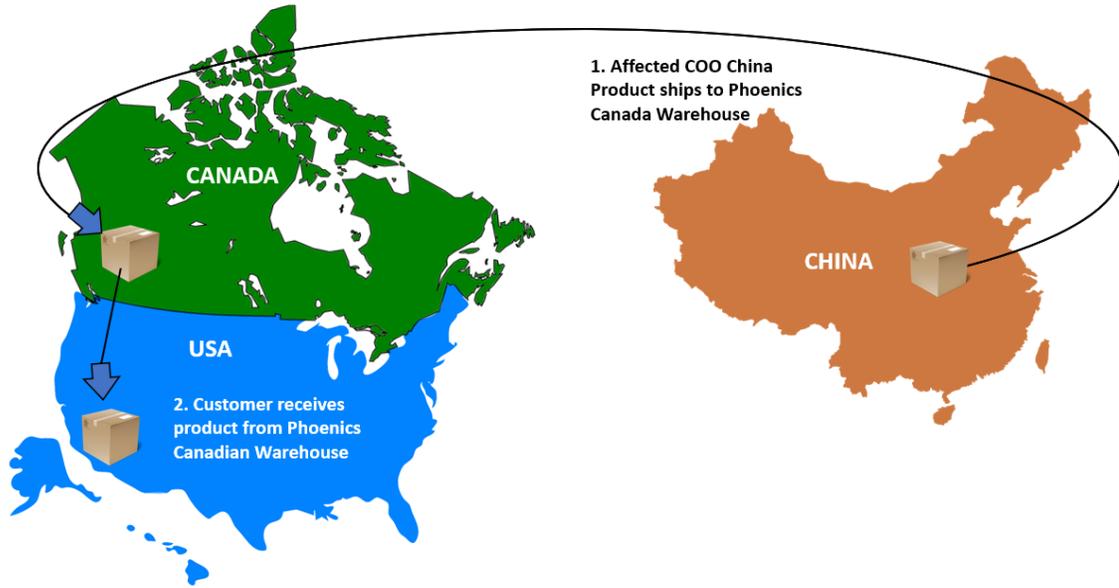
[Customs and Border Protection \(CBP\) Guidance](#)

[HTS \(Harmonized Tariff Schedule\) Codes](#)

[Under Section 301 Action, USTR Releases Proposed Tariff List on Chinese Products](#)

[Section 301 Investigation Fact Sheet](#)

Solution 1:



Solution 2:

