



Washing Machine Tariffs: The New Spin on Laundry Price Wars

By Audrey D. Kline

On January 23, 2018, President Trump signed a tariff declaration on imported washing machines. The rationale was the use of Section 201 of the [Trade Act of 1974](#), Global Safeguard Investigations, which provides protection for U.S. entities who are harmed by the presence of large-scale imports in their industry. Under this Act, the President has the authority to determine whether or not to provide a remedy and if so, the extent of the remedy. Possible remedies include quotas (quantity restrictions), increased tariffs (taxes), or marketing agreements imposed for a period of time. In the case of washing machines, the President has chosen to impose tariffs.

The claim by domestic manufacturers was that foreign competitors, LG and Samsung in particular, were engaged in what is known as dumping. Dumping occurs when a trading partner prices their product below fair market value and floods a market with a lower – priced product. The claims against LG and Samsung are not new. In fact, there have been other measures put in place over the past several years that have aimed to do the same thing as the latest policy of imposing tariffs. In [2013](#), for example, the International Trade Commission (ITC) imposed tariffs on LG, Samsung, Daewoo, and Electolux for

the very same reason as the current case—dumping. Samsung and LG avoided the impact by shifting production to China. In the latest situation, both LG and Samsung are opening manufacturing plants in the U.S.

How are companies such as Samsung and LG able to operate and sell their products at prices that are anti-competitive for U.S. manufacturers? The claim in 2012 made by Whirlpool leading to the 2013 sanctions was that Samsung and LG were subsidized by the Korean government. These findings were subsequently dropped for LG and disputed by the World Trade Organization (WTO) in regard to Samsung. The issue resurfaced in [2016](#), when the two manufacturers were yet again accused of anticompetitive pricing practices (predatory pricing, a practice of pricing products so low as to force some competitors out of the market). Following this claim, the ITC approved the U.S. Department of Commerce imposing [anti-dumping](#) duties on washing machines made in China by both companies.

With the latest restriction, any imported machines will face a tariff. Because the industry is relatively competitive, it is likely that Samsung and LG will not be able to pass all of the tariff on to its consumers, but rather some of the impact will be absorbed by the manufacturer, and some passed on in the form of [higher prices](#) on washing machines. Suggested figures in the press expect about a \$50 increase in the price of machines. That's not huge, but for some consumers, it will likely lead them to evaluate lower-priced, USA-produced washing machines. That is precisely the hope of the new tariffs—pushing consumers to substitute toward the domestic manufacturers.

Basic microeconomics suggests this will be the case for some consumers, but others will simply pay the tariff-induced higher price for the LG or Samsung washing machine they believe best suits their needs. In such situations, the tariffs have not really hurt LG and Samsung much at all, but have simply added a financial burden to American families in the market for a new washing machine. In fact, LG has announced price [increases](#) ranging from 4 to 8 percent, and will focus its U.S. sales on washing machines priced close to the \$1,000 level. This makes sense since consumers of washing machines priced at this level are likely less sensitive to the higher pricing resulting from the tariff. Samsung is still evaluating its pricing changes. Fortunately there is a phase out window for the tariffs, and there are a lot of substitutes the washing machine market. Moreover, the financial impact is not likely to be very significant for consumers. The broader impact, however, of escalating tensions with trading partners could be a far more costly and long-lasting issue.

