

Apple's iPhone cost faces sharp increase as US-China trade dispute worsens

Trump-imposed tariff of 25% on \$200bn of goods could add about \$160 to the cost of a \$999 Chinese-made iPhone XS

[Edward Helmore](#) in *New York* - The Guardian

Mon 13 May 2019 12.46 EDT



Apple could shield consumers but concern over the trade dispute pushed shares down more than 5% on Monday, to \$186. Photograph: Clodagh Kilcoyne/Reuters

The escalating [trade dispute between the US and China](#) could prove damaging to Apple and its customers by pushing up the cost of iPhones and driving down the share price.

According to a report by Morgan Stanley, the new Trump-imposed tariff of 25% on \$200bn of Chinese-made goods could add about \$160 (£124) to the cost of a Chinese-made [iPhone XS](#), which starts at \$999.



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Apple could shield consumers from the price hike, but concern over the trade dispute pushed shares down more than 5% on Monday, to \$186. [Apple](#) shares are down 11% since the start of the month.

In further bad news for Apple, the US supreme court on Monday allowed a major antitrust class action to move

forward. By a 5-4 vote, with the conservative justice Brett Kavanaugh joining the four liberals on the panel, the court ruled that plaintiffs should be given the chance to try to prove Apple used monopoly power to raise the prices of iPhone apps.

Shipments of iPhones to North America, Apple's largest market, fell 19% to 14.6m units in the first three months of the year. Tariffs could also affect iPhone sales in [China](#), where Apple commands 7.4% of the market and where it has seen sales drop 25% in the past six months.

On Monday, China [announced plans](#) to apply 25% duties on 2,493 US products, starting on 1 June. Donald Trump accused China of backing out of an agreement with US trade officials and [tweeted](#) a warning that "China should not retaliate – will only get worse!"

The tensions [hit US stocks broadly](#), costing the Dow Jones 600 points in early trading. Apple and Boeing were two of the shares hardest hit. In a research note, Goldman Sachs said the US-China [clash](#) could raise consumer prices even more and dent US economic growth.

Apple's chief executive, Tim Cook, has tried publicly to play down tensions, describing the US-China trade relationship as "big and complex" and one that required "a level of focus and a level of updating and modernization".

Apple has nonetheless reportedly stepped up efforts to [shift production from China](#). Unlike Samsung, which has plants in Vietnam, China, India, Brazil, Indonesia and Korea, Apple

uses a Chinese supply chain for all its products, from iPhones to iPads and Mac computers.

Trump called on Monday for companies to operate in the US or at least away from China. But for Apple, moving production away from [Hon Hai Precision Industry](#), a division of the manufacturing giant FoxConn, would be time-consuming and difficult, analysts said.

According to Gene Munster of Loup Ventures, Apple has considered moving some production to India or Brazil. But although it could create a backup plan for suppliers, assembly processes would be far more difficult to replicate.

“Apple will be exploring all options and this will be the definition of a slow turn because they really don’t have a credible alternative avenue to build phones,” Munster told the Guardian.

“When Apple thinks about its business, it thinks in 10-year increments, so it makes sense for them to have other phone manufacturing and assembly that’s not just focused on China.”

Dan Ives at Wedbush Securities said that under the new 25% tariff Cook would relocate 3% to 5% of Chinese production, most likely to India.

The cost of the tariffs to consumers is not easy to calculate, because the new 25% tariff is levied on components, not the finished product. (Apple’s AirPods and Apple Watches are spared additional tariffs.)

“It’s [wrong] to think the cost of the iPhone will simply rise 25%,” said Tim Bajarin at Creative Strategies, a tech industry analysis firm. “Certain pieces indicate a cost but schedule doesn’t directly go after the phones. We don’t know what the cost of those components are, and we won’t unless Apple clarifies that.”

In recent months, Cook has noted that some components, such as the smartphone’s glass cover, are manufactured in the US then shipped to China for assembly. But the key question for Apple remains the same as for other western firms using Chinese manufacturers which will be hit by raised tariffs.

“The loser in the end is the US and Chinese consumer,” said Munster.

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