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Global trade redefined: Energy, utilities and resources

Dealing with tariff uncertainty

April 2025

This report has been developed in collaboration with the Strategy& team PwC's global strategy house. Together, we transform organisations by developing actionable strategies that deliver results.

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Introduction

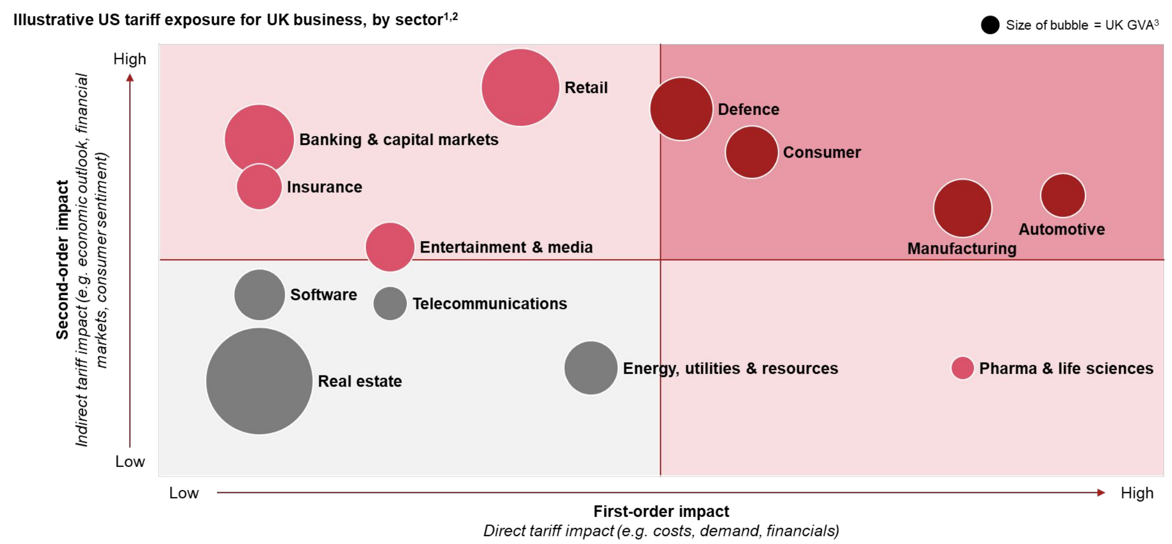
The whirlwind set of announcements over the last few weeks has seen stock markets ricochet in reaction and the oil price drop to a four-year low. The market reactions reflect the volatility and uncertainty that has now been introduced into global trade and markets; much of how this will play out is unknown at this stage as policies continue to evolve almost on a daily basis. The overriding message is “don’t panic” but, importantly, don’t translate that into no action.

Policy commitments to accelerate electrification combined with a rapid rise in the usage of technology, AI and automation are already placing huge pressure on upgrades required to networks and distribution alongside planned investment in clean energy to meet growing energy demand. This transition is reliant on complex supply chains which need to be delivered on time. Assessing the potential risk to these supply chains is a critical first step for any company in the sector.

Oil and gas companies will be directly impacted by lower oil prices, placing further pressure on financial commitments and the need to drive efficiency programmes harder and faster. For all companies, second-order effects include slower global growth and currency fluctuations impacting demand and strategy.

Some common industry actions:

1. Assess first-order impact versus second-order impact
2. Understand variation by sector within an industry and interdependencies across industries
3. Adopt a mix of ‘no regret moves’ in the short term and strategic choices in the longer term
4. Identify both risk mitigants and growth opportunities
5. Embed ongoing resilience to respond to geoeconomic shocks



Notes: 1. Estimated tariff impact assumes measures stay in place for a prolonged period, in line with Strategy&’s ‘Break and reorder’ scenario; 2. Featured sectors account for c.60% of UK GVA (Gross Value Added); 3. Estimated 2024 GVA based on ONS data

Where we are today

On 2 April 2025, the US administration announced a sweeping package of tariffs on imported goods. It marked the country's most significant departure from liberal trade policy since the Smoot-Hawley Act of 1930. The scale of the measures suggests a structural pivot in US trade strategy. Given their breadth, and the growing likelihood of retaliatory responses from key trading partners, businesses now face a materially more volatile and uncertain global trading environment.

What happened on 'Liberation Day'?

The Executive Order introduced a dual framework of restrictions: broad-based 'baseline' tariffs alongside more targeted 'reciprocal' measures. The EU was subject to 'reciprocal' tariffs of 20%, China 34%, with certain South-East Asian economies facing higher rates still. The UK was included under the 10% 'baseline' category. Certain exemptions were made for pharmaceuticals, critical minerals and semiconductors.

Prior to this, there were also a number of product-level distinctions, for example steel and aluminium and automobiles were previously singled out with a 25% tariff.

On 9 April, reciprocal tariffs were paused for 90 days for most trading partners. The 10% 'baseline' tariff introduced on 5 April now applies for all countries, except China, for which a 145% tariff applies to most goods.

A further revision was introduced excluding smartphones, computers and other electronics. US officials have indicated that further sector-specific measures are likely. The international response has been mixed:

- **Retaliatory tariffs** from countries such as China and Canada, which have imposed tariffs on a wide range of US goods.
- **Diplomatic engagement** from the UK and EU, signalling efforts to secure exemptions or negotiate new terms.
- **Unilateral liberalisation** from a small number of economies, which have opted to remove tariffs on US imports entirely, albeit from a starting point where most US goods were not subject to tariffs.

Looking ahead

Recent US statements suggest further restrictions may be introduced in select product categories. Economic theory holds that when trade flows are disrupted, capital flows are rarely far behind.

Asset markets are already reacting. We've seen volatility across equities, fixed income and foreign exchange – some of which may reflect repositioning by non-US central banks, many of whom hold large exposures to US government debt. This adds another layer of complexity for firms already contending with uncertainty around tariffs, supply chains and pricing.

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> Trade is the hinge between economic theory and political reality. When it swings, the whole house can shake."
>
> **Barret Kupelian,** Strategy& and PwC UK Chief Economist

What could happen next

Three scenarios to plan for the short term

In the near term, scenario planning will be essential. Over time, a reassessment of supply chain configuration, investment strategy and risk management frameworks may prove unavoidable in the face of an increasingly fragmented global trading system.

To help clients better understand how tariffs could evolve, we've devised three scenarios. Given the unpredictable and fast changes happening, we've chosen to limit these to tariff policy. However, we are mindful that the current changes to US tariff policy is likely to spill over into second- and third-order impacts.

Stabilise and rebuild

Reversal of the US's position on tariffs, coupled with time-bound trade negotiations with its main trading partners, including Canada, Mexico and China.

To limit market uncertainty, there is regular forward guidance on the state of the trade negotiations. The US's main trading partners strike limited trade arrangements by the end of the 90 days suspension period (i.e. 8 July 2025). These come into force by the end of the calendar year. In the interim, the 'baseline' tariffs continue to apply for most economies, including China.

Divide and deal

Reversal of US position on tariffs coupled with time-bound trade negotiations with some of the US's trading partners (EU, UK, Canada and Mexico included) but excluding China (and potentially some other South-East Asian economies).

- For those counterparts where a trade arrangement is agreed by 8 July 2025, these are put in place by the end of 2025/Q1 2026. In the interim, the 'baseline' tariffs remain in place.
- For those counterparts where a trade arrangement is not agreed upon within the 90 days, reciprocal tariffs are re-imposed, consistent with the 2 April 2025 announcement.
- For China, tariffs remain in place consistent with the US's latest announcements and Chinese policymakers react in kind.

In the medium to long run, the ex-US G7 economies set up cooperation mechanisms which lead to gradually closer trading, regulatory and investment cooperation.

Break and reorder

Trade negotiations with most of the US's trade counterparts, including the EU, UK, Canada, Mexico and other advanced economies break down. The US doubles down on its necessity to swiftly eradicate the goods trade deficit with the rest of the world. The US reimposes 'reciprocal' tariffs by 8 July 2025. With this in mind, the EU, Japan, China and other economies retaliate in equal measure. As these economies import less than they export to the US, retaliatory actions spill over into the services sector (e.g. digital services) and potentially to public procurement.

In the short to medium run, the ex-US G20 economies set up trade, regulatory and investment cooperation mechanisms at very rapid pace. In this scenario, we could also see some non-European economies seeking a Customs Union arrangement with the European Union. We could also see some South-East Asian economies forging closer trading relations with China. These changes are also rapidly reflected in investment flows.

Taking stock of tariffs

Understanding the impact on the energy, utilities and resources sector

Commodity Prices

In today's unpredictable market, businesses and organisations find themselves bracing for unexpected outcomes affecting energy and commodity pricing. Recent downward revisions in demand have already pushed oil prices to four-year lows, compounded by heightened production and investment from the Middle East and North Africa (MENA), signalling potential structural oversupply and margin pressures. If trade conflict continues, global trade is expected to reduce, having a knock on impact and further reducing overall demand.

However, the direct effects of trade tariffs remain challenging to anticipate, with second and third-order financial consequences looming large, although a lower oil price will offset the inflationary impact of tariffs in the short term.

We do not expect rapid decision making and immediate reactions in energy; volatility is part and parcel of global energy markets and companies regularly model differing oil and gas price scenarios as standard. But the complexity and rapidity of US policy-making is introducing risks that are harder to evaluate and a different approach may be needed that looks in detail across the business and pinpoints risk.

The US administration’s trade and tariffs policies introduce a focus on increased domestic capability and investment but the economics need to line up alongside the intent, a good example being shale production.

Taking stock of tariffs

Understanding the impact on the energy, utilities and resources sector

Supply Chain

As we navigate this new landscape, mapping out how the supply chain will behave is tricky: different opinions exist and the impact will vary by market and company. A lot of focus has been on the delivery of the energy transition – access to solar panels, offshore wind parts, EVs and batteries as examples.

We could potentially have oversupply in certain territories as product is shifted from one market to another, or alternatively a rapid increase in cost and accessibility given tariffs. This volatility complicates investment decisions, and increases risk and caution. This is already evident in the deals market, particularly in early stage development projects; higher input costs could impact projects across the energy system, potentially causing misalignment with regulatory pricing mechanisms such as the contract for difference in the UK.

The UK, as an example, has made a commitment to achieve clean power by 2030. To do this requires delivery at pace with a huge uplift in capital expenditure covering investments in the transmission and distribution system as well as low carbon technologies. This relies on complex supply chains and a significant amount of imported of supply chain goods from China. Pricing and timescales will be impacted if the US seeks alliances with countries like the UK in lieu of lower reciprocal tariffs but with restrictions placed on access or use of Chinese goods.

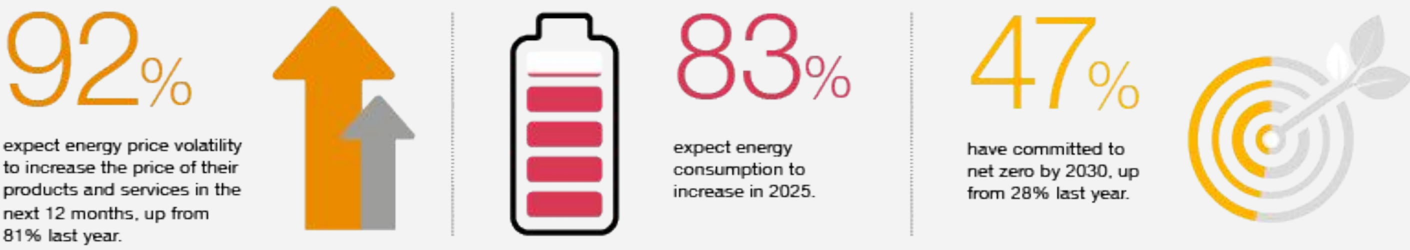
Market reaction and regulation

Regulated utilities are operating within multi-year funding frameworks that were set before the current market upheaval. Economic downturns could lead to more constrained finances as costs and financing increase but budgets remain fixed. Regulators are likely to be reluctant to re-open previously agreed positions and also fear challenges if this increases the cost to the consumer when affordability already is under pressure.

PwC's UK Energy Survey 2025 examined the critical role of energy in driving growth as part of the UK's wider Industrial Strategy. The survey looks at how volatile energy costs affect UK businesses' profit margins, as well as their ability to compete and achieve net zero objectives. It also spotlights the growing impact of technology such as AI on energy consumption, the role of private capital in funding the energy transition; a delay to development could have a material impact on the UK's growth objectives and aspirations to improve productivity.

We also know through our work that 89% of businesses stated that energy price volatility decreased profits over the last 12 months; 92% already stated that volatility would push the price of their products up. This volatility will put further pressure on an already challenged position.

Key findings



Source: PwC UK Energy Survey 2025

The survey showed that the UK energy system was increasingly vulnerable to external shocks. Those shocks have come thick and fast: gas prices spiking in 2022, supply chain costs increasing in 2023, and a raft of political stance changes in 2024. Now we have tariff uncertainty to add to the mix. There is clearly no straight line to the energy transition.

Much of the energy sector is classed as critical infrastructure, where an overreliance on China could be seen as a strategic risk. This complicated issue is rich in irony – the reason that renewables are cost-competitive is largely down to the investments made by China in scaling its solar, wind and battery manufacturing capabilities. Without that investment, we would arguably be much further behind in the energy transition, even in Europe. There is a complicated trade-off between the pace of decarbonisation and the control we have over the resulting system. Not an easy balance to strike, but a discussion that feels needed in the current economic climate.

Taking stock of tariffs

Understanding the impact on the energy, utilities, resources sector

Tax assessment

While the medium to long-term structural impact on the energy, utilities, resources sector may ultimately be significant, such shifts are likely to unfold gradually. Any operational responses or strategic interventions will need to be carefully phased over time. In the near term, however, the immediate priority from an operational and tax perspective for energy, utilities, resources operators is to thoroughly assess and quantify the tariff implications from a tax perspective. The following actions can be taken now and may have a meaningful impact on your business's overall exposure where your business involves movement of physical goods or commodities.

01 Conduct/validate impact assessments, including understanding the physical product / material flows.

02 Review eligibility for tariff exemptions and exclusions, for example goods in transit before 12.01am EDT on 5 April 2025.

03 Understand the country-of-origin rules and place where goods substantially manufactured.

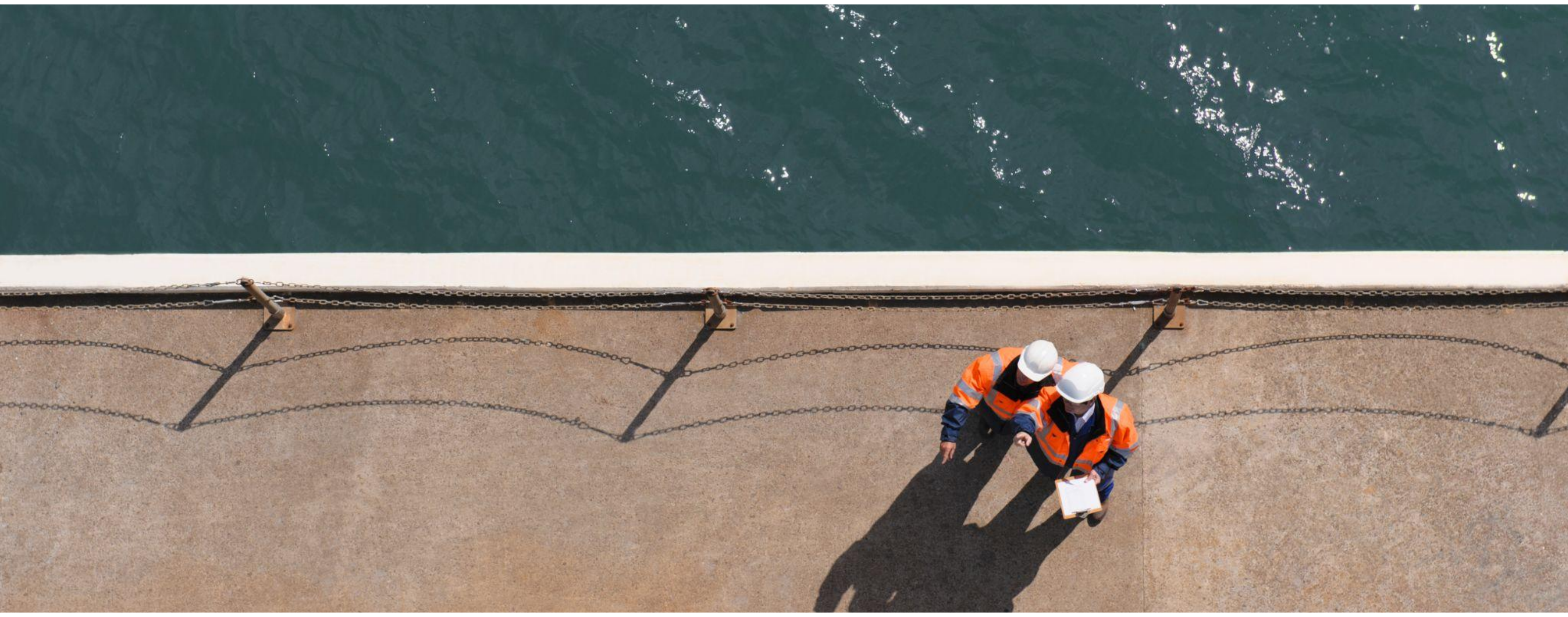
04 Understand the value build up of the price to ensure the custom value is correct and review cost components.

05 Consider from a transfer pricing perspective to ensure that intercompany product pricing is correct and that any revised pricing (of product or wider services) adheres to the arm's length principle (and aligns with customs considerations).

06 Consider the US specific valuation principles.

07 Review contracts to confirm whether they include a tariff cost adjuster / escalator.

08 Consider the impact on any changes to the above on the income tax position in the US and other jurisdictions.



Navigating the potential fallout

Actions you should take

Although the market environment remains uncertain, there are several short and long-term moves that we think can help.

Short-term 'no regret' moves	Moves to capture maximum value over the longer term
● Consider the tax points noted on the previous page, and evaluate the impact on income tax, transfer pricing and tariffs (taking a holistic tax view)	● Consider the macroeconomic environment and impact on the business through scenario modelling.
● Don't panic. No-one has all the answers and acknowledging that ongoing uncertainty will now be part of the geopolitical environment is helpful. Ignoring this is also a deliberate statement of intent.	● Identify short-term risks or implications for example: - Direct cost or demand shocks due to reliance on Chinese inputs or exposure to affected end markets (e.g., US, China) - Margin compression risks from dumped goods entering EU markets, creating pricing pressure - Liquidity and working capital pressures triggered by volatility in FX, transport costs, or supply chain complexity - Create headroom through efficiency and savings opportunities or accelerate in-flight programmes
● But it is clear the old rules don't apply and rethinking your risks in the new operating environment is important.	● Longer term planning and strategy - Quantify risks and start to create responses and mitigation strategies
● Your risk depends on your supply chain exposure, sector strategic relevance, and geographic footprint.	● Consider the overall tax model (customs, transfer pricing, direct and indirect taxes) implications and impact of any supply chain reorganisation so as to fully evaluate the options through an integrated business and tax perspective.
● Expect the unexpected. Use scenario modelling to help identify which parts of your business may be at risk and how severe that impact could be or indeed create potential opportunities.	

> Now is the time to take a scenario-led view. Doing nothing is an action in itself.
>
> **Vicky Parker,** PwC UK Leader of Industry for Energy, utilities and resources

Key contacts

Contact us to discuss how best to respond to the changing rulebook for global trade.

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