



Trade Update

February 10, 2020

By Michael Anderson

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Highlights

- **China Tariffs:** The China phase one deal enters into force this Friday Feb. 14th as officials acknowledge the spreading coronavirus will likely impede China's ability to meet its \$2000 billion purchase commitments of U.S. agriculture, energy and industrial goods. China will cut in half its 10% and 5% tariffs on \$75 billion of U.S. products imposed late last year, signaling its commitment to the phase one deal and reducing bilateral trade tensions.
- **EU:** U.S. and EU officials continue to offer possible areas of negotiations, including agriculture non-tariff issues, to lay groundwork for possible trade pact this year.
- **U.K.:** The U.K. formally announced it intends to negotiate "comprehensive, far-reaching and mutually beneficial tariff reductions" in a bilateral trade deal with the U.S. The U.K. also intends to negotiate trade deals with the EU, Japan, Australia and New Zealand this year.
- **USMCA:** USMCA ratification process continues in Canada with expectations of ratification in March and implementation by all three countries as early as this summer.

USMCA

- Amb. Lighthizer recently met with Canadian Deputy Prime Minister Chrystia Freeland and other Canadian officers to discuss USMCA ratification. The meeting in Washington, DC was "to discuss the trade relationship between Canada and the U.S.," according to Canadian officials. Alberta's Premier Jason Kenney said in conjunction with the USMCA meeting with Amb. Lighthizer that, "The quicker it's ratified, the quicker our national government can get to work with the U.S. on other issues like softwood lumber." All of Canada's provincial premiers have previously urged the Canadian Parliament to move quickly on USMCA.



Chrystia Freeland, Deputy Prime Minister, Canada

- USMCA continues to progressively move through the Canadian Parliament. Last week Canadian House members completed a second reading of three readings, while the International Trade Committee on Wednesday released a schedule for hearings on the bill. The committee's schedule states the last hearing is scheduled for Feb. 20, though it is subject to change (see [guide to Canadian legislative process](#)). Ratification is currently expected in March at the earliest.
- After ratification by Canada, the three countries must work to "check off" all the obligations outlined in the deal that must be met before the deal can take effect. Once they have completed all required procedures, the countries will notify each other in an exchange of letters. Then, it will enter into force on the first day of the third month following the last party's written notification (i.e. Canada) or approximately 60 days later.

Section 232 Tariff Actions

- As reported earlier, President Trump recently invoked section 232 authority imposing increased tariffs on derivative steel products (additional 25 percent) and on derivative aluminum products (additional 10 percent), effective February 8th. Trump stated that following his 232 tariffs on imported steel and aluminum products in 2018, such imports have declined, but imports of derivative products have increased. "Foreign producers of these derivative articles have increased shipments of such articles to the United States to circumvent the duties on aluminum articles and steel articles," the President said. The [Presidential proclamation](#) cited import surges for of steel nails, tacks, drawing pins, corrugated nails, staples, since May 2018 and surges in derivative aluminum products including aluminum stranded wire, cables, and plaited bands.
- A few countries are exempted from the 25 percent and 10 percent tariffs – for derivate steel products Argentina, Australia, Brazil, Canada, Mexico and South Korea and for derivative aluminum products Argentina, Australia, Canada and Mexico.
- President Trump has used the "national security" provision of section 232 to impose steel and aluminum tariffs and has threatened the same on auto and auto parts imports, much to angst of several leading lawmakers. Senator Grassley recently stressed that he remains committed to developing a bipartisan, veto-proof bill to rein in the President's trade authority under section 232. Grassley has previously noted that a key step in the process is a candid conversation with ranking Democrat Senator Wyden to find common political ground on the legislation. "I hope that he'll be anxious to move forward because when I last approached him on it and we were going to have a markup in November, he said, 'I'm going to need a little bit more time because we're mixed up with USMCA.'" Grassley continued, "Since you don't get anything done in our committee that's not bipartisan, I'm going to have to have his cooperation and I would expect to have it."

Auto Tariffs

- No significant updates since the Department of Commerce announced it would not release the Section 232 auto report that concluded autos and auto parts imports pose a threat to national security. Commerce released the following, "Consistent with the president's signing statement for the appropriations bill, the Secretary of Commerce is not releasing the 232 autos report because releasing it now would interfere with the president's ability to protect confidential executive branch communications and could interfere with ongoing negotiations," a department spokesperson said in a statement. The decision was in part based on a [Justice Department opinion](#) that said releasing the report would " risk impairing ongoing diplomatic efforts to address a national-security threat."

Section 301 Tariff Actions

Digital Services Tax - France

- As noted earlier, President Trump and French President Macron announced a truce in the battle over digital services taxes after discussion at the World Economic Forum (WEF) in Davos, Switzerland. Trump had threatened to impose up to \$2.4 billion worth of tariffs on French goods in retaliation for the digital services tax France imposed last June. Under the truce, the U.S. has agreed to delay the imposition of tariffs on French goods in exchange for Paris' commitment to suspend the collection of taxes on digital services. Treasury Secretary Mnuchin, who met with his French counterpart in Davos, Finance Minister Bruno Le Maire, indicated their discussions focused on how to proceed with the OECD negotiations on digital services taxation and warned other countries that the U.S. views digital service taxes as discriminatory.
- Earlier the Trump Administration found discriminatory tax treatment for U.S. internet firms under a section 301 investigation into digital services taxes USTR announced possible imposition of 100 percent duties on up to \$2.4 billion worth of French products — including cheese, Champagne, handbags, cosmetics and fine dinnerware under section 301 authority, unless France agrees to drop or modify the country's new digital services tax unfairly aimed at American internet giants. The proposed retaliation could also include fees or market restrictions on French services companies operating in the United States.

- On Friday the China phase one trade pact enters into force (Feb. 14th). Leaders in both countries are acknowledging the coronavirus will likely impede implementation of China's purchase commitments of U.S. agriculture, energy, and industrial goods. Agriculture Secretary Perdue said the U.S. must be "understanding" of the potential impact of the coronavirus on China's trade commitments. "If they're really trying and it really just blows the economy out of the water, then we would have to be understanding of that." "There are force majeure type of things ... that I think you have to be sensitive to," Perdue continued. Notably the phase one agreement text contains a disaster clause to allow for delays: "In the event that a natural disaster or other unforeseeable event outside the control of the Parties delays a Party from timely complying with its obligations under this Agreement, the Parties shall consult with each other."
- Separately National Economic Council Director Larry Kudlow said last week "It is true the phase one trade deal, the export boom from that trade deal, will take longer because of the Chinese virus," Kudlow did specify as to how long of a delay, maybe up to half a year, but emphasized the fluid nature of the situation. "This is all iffy," he said. "There's a lot of information we don't have."
- Signaling China remains committed to adhering to the phase one trade deal as it battles to contain the coronavirus, China announced last week a 50% reduction in tariffs for \$75 billion of U.S. products imposed late last year. China will cut a 10 percent tariff to 5 percent, and a 5 percent tariff to 2.5 percent on Feb. 14, according to China's Ministry of Finance. "China hopes both sides can follow what have been agreed in the deal and make efforts to implement relevant parts of the deal to boost market confidence, to promote bilateral relations, and to help world economic growth," the statement said. The original tariffs were announced last August and went into effect in September and in December, however, the second round due to come into effect on Dec. 15, was not implemented. The Chinese government indicated the tariff reduction responds to the Trump Administration's earlier decision to cut in half a 15% tariff on \$120 million of Chinese imports.
- The coronavirus' potential impact on global supply chains remains uncertain, yet the exposure based on trade in intermediate products (i.e. inputs into finished goods) appears highest for the U.S. and several Asian countries (e.g. Japan, South Korea, Thailand, and Vietnam).



- According to one observer, "Phase one is much less of a priority now than the safety of U.S. citizens in China and stopping the spread of new infections." Another report indicated initial U.S. and China dialogues on implementation of the phase deal has shifted focus to managing the spread of the coronavirus, placing talks on implementation of increased purchases of U.S. imports on hold at present. According to the agreement, China is expected import \$76.7 billion worth of goods and services above what it purchased in 2017.
- Wholly separate from the coronavirus development, some observers continue to express skepticism regarding the phase one deal's impact. Robert Zoellick, former USTR under George W. Bush expressed reservations regarding the success of the China phase one deal. "I don't think it will work, but it's got political spin," Zoellick said. He characterized the Trump tariffs as "not the right wrench" for dealing with a host of China issues while acknowledging the tariffs have the political advantage of resonating with Trump's base. Zoellick the main challenges with China as: market access barriers, use of state capitalism, efforts to dominate future technologies, the Belt-and-Road initiative, China's foreign security policy, cyber threats, and invasive monitoring of its citizenry.

U.S. - Japan Trade Agreement

- No significant updates on phase one U.S. Japan trade pact. Commencement of negotiations on a phase 2 or a comprehensive trade deal are expected no earlier than May according to several sources.

U.S. - EU Trade

- Agriculture Secretary Perdue pronounced U.S. goals for agriculture in potential EU trade talks during his European trip last week. Perdue explained the U.S. is seeking, major changes to the EU's standards for plant and animal health and food safety including combating Europe's geographical protections for foods like feta cheese and restrictions on chemically treated poultry, and other products. Perdue emphasized easing those rules could help alleviate the multibillion-dollar trade deficit with the 27-member bloc. Purdue noted, "We're not suggesting initially that tariffs have to be on the table, but certainly the [food standards] have to be addressed, and the non-tariff barriers, which are a fairly formidable barrier to U.S. exports to the EU."



Sonny Perdue, Secretary of USDA

- In the past few weeks EU leaders have made encouraging statements on the potential for a limited trade negotiation on non-tariff agriculture issues. Phil Hogan, for example, said the EU and U.S. could launch talks on a free trade agreement by striking a compromise on how agriculture is handled. Hogan argued there could be a way of dropping certain regulatory barriers to U.S. farm goods as part of a broader industrial goods deal. Hogan noted, "So we are trying to look at ways where through regulatory cooperation we might be able to look at non-tariff barriers as a way of bringing agriculture issues on the table," Hogan said at a BusinessEurope event in Brussels.
- On the pending U.S. tariffs related the WTO Airbus case, a group of protestors chanting "tariffs cost American jobs," gathered in Washington, DC over the weekend to oppose tariffs on European wine and foods under consideration by the Trump administration from a favorable ruling in the WTO Airbus dispute. By this Friday, USTR is expected to announce whether it will increase retaliatory tariffs on [\\$7.5 billion of European goods](#) in a long-running dispute over European government launch aid for Airbus. Under [Section 407 of the Trade and Development Act of 2000](#) USTR has 120 days to review and revise any retaliatory action authorized by the WTO after the initial duties are put into place. Additionally, the duties are subject to review and revisions every 180 days afterwards.
- The EU anticipates countering with its own tariffs in early 2020 when a WTO arbitrator is expected to approve retaliatory tariffs in the countersuit on Boeing for illegal subsidies.

U.S.-U.K Trade Agreement

- Prime Minister Johnson is confident a U.K.-EU trade can be achieved by year-end. Last week Johnson

reiterated that "zero tariff, zero quota" deal before the end of the year is possible. In contrast, EC President von der Leyen, said it is "basically impossible" to negotiate a comprehensive deal on the pair's future relationship and have it ratified by the end of the year.

- Absent a U.K. and EU trade deal by December 31, 2020, the legal default is a no-deal Brexit that would mean trade between Britain and the EU after 2020 would operate under WTO terms, including the imposition of tariffs and other controls. If the U.K. and EU were to extend the transition period, that would mean the U.S. waiting longer for a bilateral deal to go into effect.
- UK officials announced general negotiating objectives for post-Brexit trade deals. In addition to the EU and U.S., British officials intend to negotiate trade deals with Japan, Australia and New Zealand this year. British trade official Liz Truss said in reference to the U.S., we want to "secure comprehensive, far-reaching and mutually beneficial tariff reductions ... which will increase access to the US market for UK businesses, and lower prices and increase choice for UK consumers," signaling intentions to seek a comprehensive deal, unlike the U.S. – Japan phase one agreement.
- U.S.-specific objectives will have to be released by the UK prior to entering negotiations. Still, the broader objectives gave an idea of what the UK's specific negotiating objectives may entail.
- House Ways and Means Committee Chairman Neal identified key priority areas in a U.S. – UK trade agreement - labor, environment, enforcement, and preserving the Good Friday Agreement.
- Prime Minister Boris Johnson appeared to open the door allowing genetically modified food imports from the U.S. as he urged for an end to "hysterical" fears of certain U.S. food products in the context of a possible U.S. – UK trade deal. Johnson emphasized the UK would not accept "diminution" of food standards, but that Britain would be "[governed by science, not mumbo-jumbo](#)". He criticized "American bashers" who view U.S. food as "inferior." "I look at the Americans, they look pretty well nourished to me. And I don't hear any of these critics of American food coming back from the United States and complaining ... So let's take some of the paranoia out of this argument," he said. Johnson has acknowledged there was an argument against chlorinated chicken on animal welfare grounds.



Boris Johnson, Prime Minister, U.K.

- The U.K. appointed its first female Ambassador, Karen Pierce, to the U.S. last week. Pierce will likely play a significant role in the U.S. – U.K. trade deliberations. Pierce previously served as U.K. ambassador to the UN in New York and permanent representative at the U.N. Security Council.

Suspension Agreements

Sugar Suspension Agreement

- Last month the Department of Commerce announced signing of the [amended Sugar Suspension Agreement](#). In the notice Commerce reported, "...sugar producers/exporters accounting for substantially all imports of sugar from Mexico have signed an amendment to the Agreement Suspending the Antidumping Duty Investigation on Sugar from Mexico (AD Agreement). The amendment to the AD Agreement modifies the definitions for sugar from Mexico, revises the reference prices for the applicable sugar from Mexico, and provides for enhanced monitoring and enforcement mechanisms."
- Shortly after the Commerce announcement, CSC Sugar filed two complaints with the Court of

International Trade (CIT), each contesting the newly revised agreement that would suspend the antidumping and antisubsidy duties on raw sugar imports from Mexico. CSC noted in the filing, "The failure of Commerce to provide a reasoned explanation for the inclusion of both the bulk shipment provisions and the changes in the polarity standards in adopting the amendment renders the amendment unsupported by substantial evidence and contrary to law."

CSC Sugar's successful petition to the CIT last year against Commerce for not keeping proper records during the 2017 negotiations led to the most recent changes in the agreements. CSC continues to object to Commerce's decision and remains dissatisfied with the department's proceedings.

U.S. - India Trade Developments

- Expectation remains strong for a likely mini-trade deal with India. USTR negotiators recently traveled to India to lay groundwork for higher level discussions ahead of President Trump's potential visit to India next month. The U.S. and India have been working toward a limited trade agreement that could include restoration of India's GSP benefits in exchange for greater market access for U.S. medical devices, agricultural goods, and addressing non-tariff barriers. The U.S. has called for India's GSP benefits, valued at approximately \$6.4 billion, to be matched by reciprocal market access in India. Sources indicate that while a resolution is likely this year, it could take months of additional work.

U.S. - Brazil Trade Developments

- No significant updates since initial reports last month of a potential for U.S. - Brazil trade talks. As noted earlier, according to a [joint statement](#) released at the end of the annual U.S.-Brazil CEO Forum, additional "higher-level" meetings under a bilateral forum led by USTR and the Brazilian foreign affairs and trade ministries could occur. According to reports, initial discussions between the two sides also discussed several aerospace, infrastructure and transportation initiatives.

U.S.-Kenya Trade Developments

- Following President Trump and Kenyan President Uhuru Kenyatta's meeting at the White House, USTR announced intention to negotiate a bilateral trade deal with Kenya. [In a statement](#), Amb. Lighthizer indicated the Trump Administration will notify Congress of its intent to begin talks under the auspices of Trade Promotion Authority, signaling pursuit of a comprehensive trade pact, unlike the Japan phase one deal.



Donald Trump and Kenyan President Uhuru Kenyatta

- Lighthizer said "Kenya is a recognized leader across the continent, an important strategic partner of the United States, and there is enormous potential for us to deepen our economic and commercial ties. He continued, "Under President Trump's leadership, we look forward to negotiating and concluding a comprehensive, high-standard agreement with Kenya that can serve as a model for additional agreements across Africa."
- President Kenyatta dismissed concerns that Kenya's decision to negotiate a bilateral trade agreement with the United States will detract from the African Continental Free Trade Agreement. "It's not a process of Kenya breaking away, but of Kenya taking a first step," he said. "Kenya wants to be a pace setter - set a path for others." He noted that Kenya was one of the first countries to sign onto and ratify the continental FTA. "We recognize the importance of maintaining regional integration," he said,

pointing out the 40 percent of Kenya's trade with other countries in the region. "

- Ways and Means Chairman Neal commented on Congress' support for the potential trade deal. Neal said after meeting with President Kenyatta, "I look forward to working with President Kenyatta and his government to make sure that any US-Kenya trade arrangements that build on AGOA are mutually beneficial, reflect our shared economic aspirations and democratic values, respect Congress's freedom to regulate in dynamic areas of domestic policy and demonstrate a commitment to the enforcement of strong worker rights, environmental protections and good governance."
- Ranking Member Brady said he is optimistic the two countries can "create a new, strong, reciprocal, and mature trade relationship between the U.S. and Kenya." He continued, "I believe that it is vital for the United States to establish more of a leadership presence on the African continent to create new markets for American goods and services – especially as China continues its drive to bring Africa into its orbit."
- According to a [USTR fact sheet](#), Kenya is the United States' 98th-largest trading partner in goods, with \$1 billion in two-way trade in 2018. Major U.S. imports include apparel, tree nuts, essential oils, and coffee, while Kenya's major imports include aircraft, machinery and agricultural goods.

Potential First

U.S. and Kenya may start talks for first America-sub-Saharan trade deal

■ U.S. ■ Kenya ■ Other AGOA eligible countries ■ Morocco



Source: Bloomberg

Bloomberg

General Trade Cooperation/WTO Reform

- WTO Director General Azevêdo said that structural changes are necessary to appropriately tackle WTO reform, particularly regarding the now defunct appellate body (AB). "I think most likely we're going to have structural changes on how the Appellate Body operates and how the dispute settlement mechanism operates in general," he said at a Washington International Trade Association (WITA) event. The WTO chief expressed hope that WTO member countries would leverage the current AB crisis to "improve the current dispute settlement system." He emphasized that the 25-year old institution must "adapt" to the new world trading environment and its rules should reflect changes in technology, trading patterns, and breadth of WTO membership. Azevêdo acknowledged and emphasized that changing multilateral institutions is a difficult process and requires political leadership from members countries, noting that the G20 countries have endorsed WTO reform efforts.



Roberto Azevedo, WTO Director General

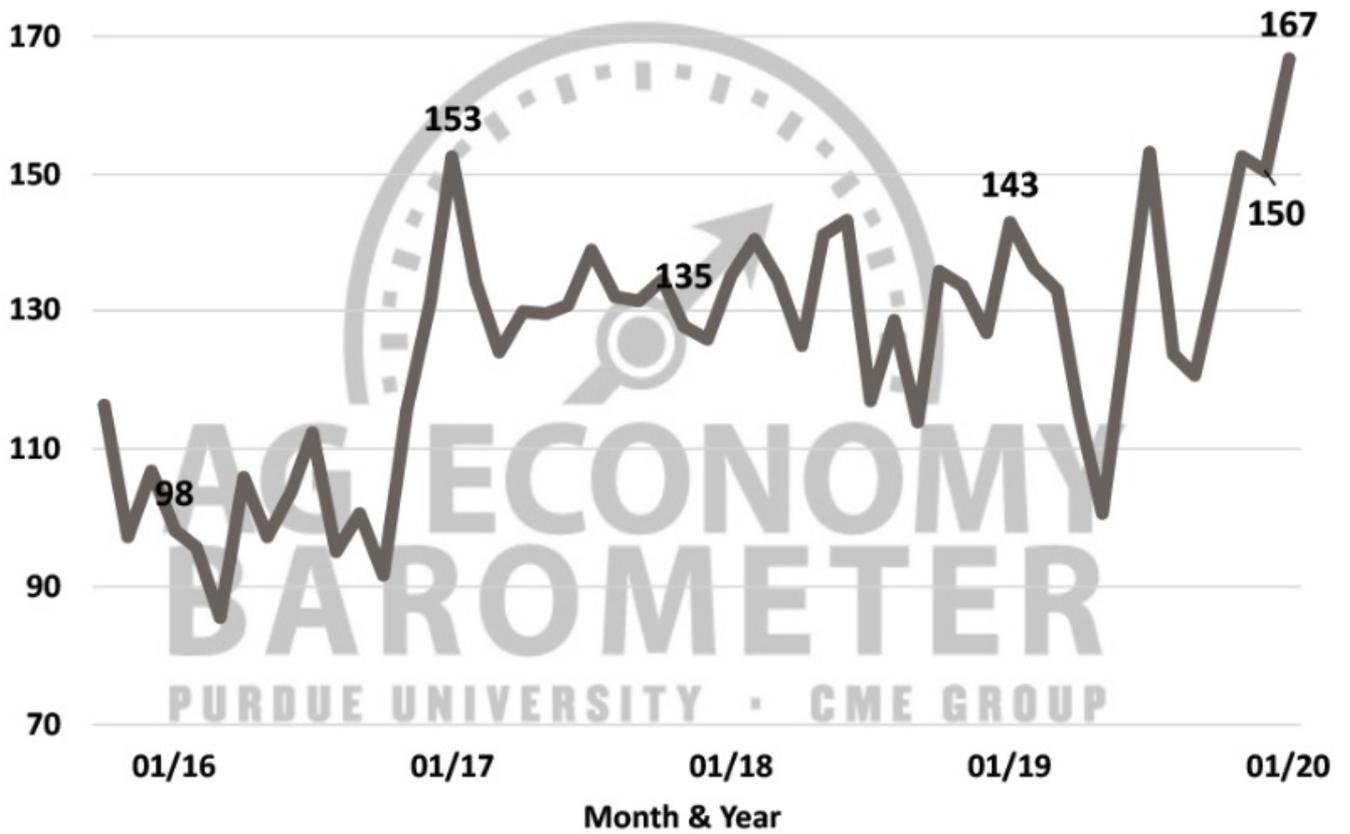
- The chair of the WTO's agriculture negotiations this month plans to distribute a framework for agriculture negotiations leading up to the June WTO ministerial conference. John Deep Ford, chair of the Committee on Agriculture special session, noted that the Cairns Group -- major agriculture exporting countries had initiated a proposal that would cut all agricultural domestic support in half by 2030 and is one of several expected components under consideration. According to one WTO official, domestic support remains one of the main priorities for most WTO members. Deep Ford said, "hopefully by May, we will have something stabilized" for the June WTO ministerial.
- The U.S. welcomed the Cairns Group's proposal yet remains realistic that insufficient time exists before the WTO ministerial in Nur-Sultan, Kazakhstan to close major gaps in member countries' positions on the issue. Rather, the U.S. is pushing for a deal on transparency -- and asked members to engage on "equally important" pillars beyond domestic support.

General Trade Cooperation/WTO Reform

- The *Ag Economy Barometer* rose to a reading of 167 in January, a 17-point jump from December when the index stood at 150. Virtually all the rise in this month's barometer was attributable to a sharp rise in optimism about future conditions in agriculture.
- The jump in future expectations coincided with President Trump's signing of the Phase One Trade Agreement between the U.S. and China on January 15th. The agreement calls for \$200 billion in increased purchases of U.S. manufacturing, energy, and agricultural goods over the next two years.

Ag Economy Barometer

Index Value



Source: Purdue University Center for Commercial Agriculture, Producer Survey, January 2020

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