



Trade Update

November 20, 2019

By Michael Anderson

Highlights

- **USMCA:** House Speaker Nancy Pelosi said last week that a USMCA deal is “imminent,” raising hopes that USMCA will go up for a vote before the end of 2019.
- **China Tariffs:** China agreed to lift a ban on U.S. poultry imports, a positive development even as reports emerged that U.S. demands for more specifics on how China plans to make its promised \$50 billion purchases in agricultural imports has slowed the pathway to the signing of a Phase 1 deal.
- **WTO:** The Appellate Body remains poised for paralysis next month as members of the WTO continue to spar on subjects related to the organization’s reform.

USMCA

- Optimism for a USMCA vote this year rose markedly as House Speaker Nancy Pelosi said last Thursday that a USMCA deal is “imminent” and that she wants to have the trade agreement pass the House before the end of 2019. “I do believe that if we can get this to the place it needs to be—which is imminent—that this can be a template for future trade agreements. A good template,” she stated.



(House Speaker Nancy Pelosi)

- Senate Finance Committee Chairman Chuck Grassley continues to believe that it is possible for the agreement to be passed before the end of 2019, explaining “The House could pass USMCA in a couple hours if they wanted to....we [Senate] could pass it in one day too. So, I think that the number of days that...are going to be in session between now and Christmas are few, but that would not keep USMCA from coming up.”
- A possible hurdle in securing a USMCA deal is that House Democrats are waiting for USTR to put the deal’s details in writing. Last week several democrats indicated this was a necessary step to finalize a deal. Rep. Jimmy Gomez a member of the House working group involved in talks on USMCA labor provisions, said “components” of an agreement finalized between the working group and USTR were “being drafted as we speak.” Rep. Schakowsky, who is leading the discussions on USMCA’s biologics

provisions stated, "We would definitely have to see [a draft implementing bill]" before an agreement can be reached. She continued, "We just have seen nothing written yet and a deal is just air unless you've seen something in writing." Rep. Levin stressed the importance of putting the deal on paper saying, "Basically, until the administration gives us in writing what all the answers to our questions on the provisions are, we don't have anything yet. But they're working super hard on it." He characterized the working group as, "unprecedented and really a fantastic thing" because "it is representative of the caucus" and the group is "tackling all the major issues."



(Rep. Jimmy Gomez)

- House Majority Leader Rep. Hoyer sent another positive signal for a potential USMCA vote in 2019. Last week he said lawmakers should plan to stay in Washington for the week of Dec. 16 — which would give the House an extra week to consider the pact. Hoyer's statement on possible vote timing contrasts with recent comments by AFL-CIO president Richard Trumka who has repeatedly said there is no compelling reason to rush to vote on USMCA in 2019.
- Following a tri-lateral [meeting in Winnipeg, Manitoba](#), state and provincial agriculture officials from the U.S., Canada, and Mexico [agreed](#) to work "with their federal governments to encourage swift implementation and full enforcement of USMCA." Delegates voiced support for enforcing all aspects of the USMCA, including labor and environment provisions.

Section 232 Tariff Actions

Auto Tariffs

- Last week the Trump Administration was expected to announce another delay of a Section 232 action on auto imports. Trump last Wednesday said he planned to make a decision on the Section 232 auto investigation "fairly soon," noting he had been "fully briefed."
- Senate Finance Committee Chairman Rep. Chuck Grassley's planned legislation limiting the Presidential authority to impose Section 232 tariffs will not be considered until USMCA is put up for a vote, Senator Grassley said on Tuesday. This means that the longer it takes for USMCA to go up for a vote, the likelier it is that Rep. Grassley's compromise bill will not be considered until 2020. Senator Grassley hopes to present a bill to the Senate Finance Committee in agreement with Committee ranking member Ron Wyden, and he believes that "he's got [USMCA] to work with and needs more time on 232."

Section 301 Tariff Actions

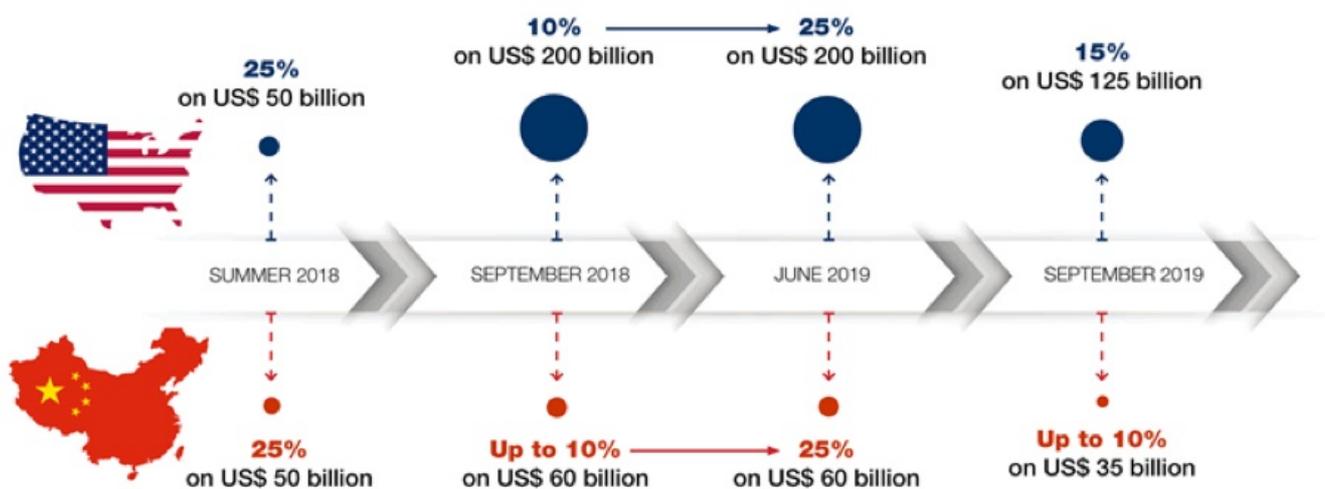
- Ambassador Lighthizer and Sec. Mnuchin talked on Friday with Chinese Vice-Premier Liu He, according to Under Secretary of Agriculture for Trade and Foreign Agricultural Affairs Ted McKinney. "I'm at least encouraged that the warming trend is continuing...I remain optimistic. I'm better than fifty percent that we'll get to a signed agreement" he said.

- According to sources, a U.S. demand that China spell out how it plans to buy \$50 billion in agricultural imports annually has become a sticking point in the first phase of a trade deal.



(Commerce Secretary Wilbur Ross)

- Dept. of Commerce Secretary Wilbur Ross reported that The U.S. and China are expected to strike a preliminary trade deal before Dec. 15 before the next round of anticipated tariffs. The next round of tariffs on Chinese imports (list4b) are scheduled to take effect on Dec. 15th.
- On a positive note for U.S.-Chinese negotiations, China has agreed to lift a ban on U.S. poultry imports that has been in place since the December 2014 avian influenza outbreak. U.S. poultry groups expect \$1 billion to \$2 billion in annual sales to China now that the ban has been lifted.
- The trade tensions between the U.S. and China began in the Summer of 2018, evolving into several rounds of tariffs by each trading partner, and those measures remain a central issue in present discussion for a phase 1 deal.



U.S. - Japan Trade Agreement

- The House Ways and Means Committee announced it will hold a [hearing](#) on the U.S.-Japan Trade Agreement on Wednesday, Nov. 20th. According to the Committee, "the hearing will focus on two agreements the United States and Japan signed in October 2019 and prospects for a second phase of negotiations for a bilateral agreement to cover trade in a comprehensive manner."
- Anticipation over the completion of the U.S.-Japan Phase 1 deal continues as the Japanese Diet special session, called in order to move the trade pact to ratification, continues its considerations. The extraordinary session will conclude on December 9th.

U.S. - EU Trade

- As reported previously, on October 18th, the announced 10% or 25% tariffs of \$7.5 billion of EU

goods, resulting from the WTO's ruling of illegal launch aid to Airbus, went into effect. Products subject to additional 25% duties include a wide range of agriculture and manufactured goods, notably cheeses, yogurt, butter, fruits, whiskey, and certain textile and apparel items, according to the [final list](#) released by the White House. The 10% duties are comprised solely of non-military aircraft and parts.

U.S.-U.K Trade Agreement

- Proposed changes to the EU and U.K. tariff schedules after Brexit came under heavy fire from the U.S. and other WTO members last week in Geneva. The U.S. was joined by Australia, New Zealand, Canada, China, Mexico, South Korea and others, arguing that they would lead to diminished market access.
- The U.S. stated during the Geneva meeting that the UK and EU plan will not equitably divide access to the two members' markets but will rather decrease it. Citing two examples, the U.S. noted that TRQs would be effectively eliminated, pointing to grape juice exports to the bloc and pizza cheese exports to the UK. "Furthermore, the proposed approach fails to address how bilateral EU-UK will be treated once the UK is no longer part of the European Union. Currently that trade is not subject to the TRQs. But what happens once Brexit concludes?" The U.S. further stated, "This is unjustifiable, and clearly an unacceptable outcome for other WTO members," and invited both trade partners to engage with the U.S. in "productive negotiations" on the issue.
- EU officials are casting doubt over the prospects for a U.K.-EU trade deal by the end of 2020. Further, the prospects for a U.S.-UK trade deal came into heavy question on October 31st, when President Trump said that a U.S.-U.K. deal would not be possible under Prime Minister Johnson's current Brexit plan. "To be honest with you, this deal, under certain aspects of the deal, you can't do it. You can't trade. We can't make a trade deal with the U.K." he stated. Prime Minister Johnson's administration pushed back against Trump's statement the following day, saying that the Brexit plan "enables us to secure deals with a range of growing economies (and) we'll be setting out to do that."
- President Trump and Prime Minister Johnson previously expressed a common goal to have a U.S.-UK free trade agreement concluded quickly after the exit of Britain from the European Union. According to Bloomberg Economics, about 0.9% of global GDP is exposed to Brexit trade risk. For some context, EU-UK trade is about 3.1% of world trade.

Suspension Agreements

Tomato Suspension Agreement

- The ITC [vote](#) on the antidumping investigation of fresh tomatoes from Mexico is scheduled for this Friday, Nov. 22nd. Should the ITC find in the affirmative (i.e. injury to domestic tomato industry) the Suspension Agreement will remain in place and the antidumping duties will be suspended. Under a negative ITC determination, the Suspension Agreement "will have no force or effect, allowing tomatoes from Mexico to enter the United States free of antidumping duties," according to Commerce.

Sugar Suspension Agreement

- Last Friday, the Court of International Trade (CIT) announced an extension, requested by the Department of Justice, delaying the enforcement date to December 6th, 2019 for "vacating" the existing Sugar Suspension Agreement with Mexico. The Justice Department had requested a 90-day stay of a CIT's ruling ordering the U.S. to vacate the 2017 amendments to sugar suspension agreements with Mexico. The request was supported by domestic producers, the Mexican industry, and Mexican government to is necessary to ensure that everyone has ample time to file comments

with the Department of Commerce on the suspension agreements and to give the Department of Commerce time to follow proper procedure during the process, according an American Sugar Alliance spokesperson.

- As reported previously, the Department of Commerce intended to comply with the CIT's decision by Nov. 18th, which effectively reverted to the terms of the 2017 agreement on November 18th. Dept. of Commerce has not provided further information beyond that it's "reviewing" the CIT's decision.
- Separately, a coalition of U.S. sugar producers has urged the Department of Commerce to maintain the terms of the current agreement despite the CIT rulings. The group stated, "We urge Commerce to put them into effect as quickly as possible, with no opportunity for the injurious 2014 Agreements to apply." The coalition includes the American Sugar Cane League, the American Sugarbeet Growers Association and American Sugar Refining, Inc., among others.
- As noted previously, the CIT agreed with CSC Sugar LLC, a Connecticut-based sugar refiner and trader, that argued that the Dept. of Commerce failed to adequately document and make public records of meetings with outside parties, as required by law, in the negotiations of the Sugar Suspension Agreement. The decision voids the Commerce Department's amendments to the Agreement secured with Mexico in 2017 and reverts the suspension agreement back to its 2014 version, which suspended anti-dumping and countervailing duties against sugar imports from Mexico.

U.S. - India Trade Developments

- India is required to terminate \$7 billion worth of illegal export subsidies under a ruling at the WTO, marking a victory for the U.S. The Dispute Settlement panel did not accept India's argument that the subsidies were legal according to provisions in the Agreement on Subsidies and Countervailing Measures allowing special and differential treatment for developing countries, determining that India has graduated from the "developing" category and is not eligible for a grace period to transition from the subsidies. The timeline requires India to end the subsidies within 90 to 180 days from the date that the report on India is adopted.
- As reported earlier, the U.S. and India are contemplating a limited trade pact that may restore some Generalized System of Preferences (GSP) for India. Reports indicate that Amb. Lighthizer is exploring aligning GSP benefits to reciprocal Indian market-access concessions. For example, the amount of GSP benefits reestablished would equal the amount of new market access India provided the U.S. on a dollar-by-dollar basis. According to the sources, "They are trying to quantify the concessions and then figure out which products in essence they would allow back under GSP and try and match up that sort of benefit to the concession benefit. "So, they are trying to figure out a subset of products and line it up, so the benefits are co-equal."

U.S. - Brazil Trade Developments

- Several Washington officials applauded Brazil's November 14th move to implement a tariff-rate quota (TRQ) for wheat, a promise it made upon its accession to the WTO in 1994 but had not yet carried through with. Brazil finally announced it would create the TRQ, during the meeting between President Trump and Brazilian President Bolsonaro in March. The TRQ allows 750,000 metric tons (MT) to enter Brazil duty-free annually. "At a time of low prices and trade uncertainty, this is welcome news to U.S. wheat growers, especially in Kansas, the largest wheat producing state" Senate Agriculture Committee Chairman Pat Roberts said last Thursday.
- A trade deal with Brazil remains under consideration, according to some sources. An official from the Brazilian Embassy said several weeks ago that the Brazilian government hopes to negotiate "a USMCA-like...agreement" with the U.S. According to another Embassy official, "Things are going fast, but some

things are happening, and you don't see them happening because they are happening at the technical level. We will see things happen very, very soon." Some analysts in Washington have predicted that if a trade agreement is concluded between Brazil and the U.S. before the 2020 elections, they expect that it will be a "mini-deal" similar to the current Japan or China Phase 1 deals, as opposed to a comprehensive agreement like USMCA.

General Trade Cooperation/WTO Reform

- In less than three weeks the WTO Appellate Body (AB) will cease to function as it will lose quorum with two WTO Appellate Body members' terms expiring on December 10. Over the past several years the U.S. has block appointments of new panel members over longstanding concerns with several functions of the AB, including judicial overreach. When fully staffed, the Appellate Body consists of seven members, who are appointed by consensus of all WTO members for four-year terms. The terms of Chairman [Ujal Singh Bhatia](#) (India) and [Thomas R. Graham](#) (United States).
- The WTO reported it expects world trade to remain below trend due to trade tension. According to the WTO's latest Goods Trade Barometer, trade momentum in goods is slowing going into the fourth quarter of 2019. "Goods trade has stalled in recent months," the WTO said. "Some components of the barometer have stabilized since the last reading in August, while others remain on a downward trajectory reflecting heightened trade tensions and rising tariffs in key sectors." The announcement further detailed that "The indicator's reading of 96.6 marks a slight improvement compared to the 95.7 registered in August, but it remains well below the index's baseline value of 100, signaling below average growth."



- In a move seen as ratcheting up the pressure on WTO reform, a U.S. official in WTO meeting raised the idea that the U.S. may block the adoption of the WTO's biennial budget, according to sources in attendance. Because WTO decisions must be made by a consensus of all of the trade body's 164 members, such an action could shut the WTO's doors as soon as Jan. 1, threatening the functioning of the organization. In a brief statement, the sources familiar with the meeting said, the U.S. highlighted two concerns:
 - The WTO is paying exorbitant fees to members of the appellate body
 - WTO funds may be diverted to a proxy dispute settlement system championed by the European Union, Canada and Norway
- Though some meeting participants said they weren't entirely surprised by the U.S. move, they still

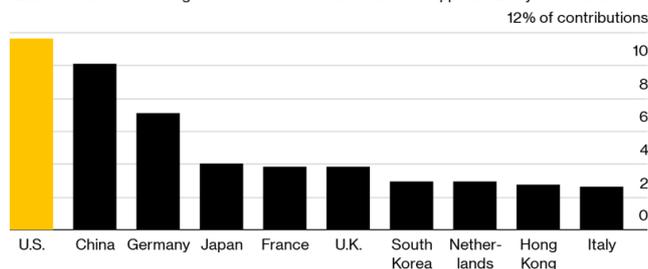
described it as unprecedented and worrying. The U.S. is the largest single country contributor to the WTO's budget, and in the past has questioned the spending habits of other international organizations such as the World Bank.

WTO Budget Contributions

Footing the Bill

The U.S. contributes more money to the WTO than any other country

■ 2019 consolidated budget of the WTO Secretariat and the Appellate Body Secretariat



Source: World Trade Organization

Bloomberg

The U.S. contributed 22.7 million Swiss francs (\$22.8 million) in 2019. The total WTO budget for 2019 was 197.2 million francs, the same as a year earlier.



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