

**Trade Update**

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**Highlights**

- **USMCA:** The Trump Administration continues preparations for USMCA entry into force on July 1st announcing organization of enforcement groups for environment and labor.
- **U.S. - China Trade:** President Trump continued to play down his expectations for the China phase one deal blaming the global pandemic as overtaking events. Meanwhile, U.S. and Chinese officials maintain they are committed to working towards effective implementation of the agreement.
- **U.S. - Kenya Talks:** USTR released the U.S. negotiating objectives for a potential free trade agreement with Kenya last Friday paving the way for trade talks to start as soon as late June.
- **WTO:** Another senior WTO leader, Amb. John Deep Ford, Chair of Agriculture negotiations is stepping down citing challenges with the stalled WTO agenda and postponed 12th Ministerial. Amb. Ford's announcement follows Director-General Azevedo's announcement earlier in preparation.

**USMCA**

- The Trump Administration continues to take necessary steps for USMCA's implementation on July 1st. Specifically, Customs and Border Patrol (CBP) has established a USMCA Center, made up of various experts dealing with operations, identified the United States' trade enforcement and facilitate implementation of the new deal. CBP's experts on USMCA can receive inquiries at [USMCA@cbpo.dhs.gov](mailto:USMCA@cbpo.dhs.gov).
- Earlier the White House issued an [executive order](#) establishing the new Section 232 Trade Review Committee (TRC) for USMCA. The task force is comprised of the Secretary of Homeland Security (Chair), and representatives from USTR, the Labor Department and other agencies; The Trump Administration also established a monitoring and enforcement committee regarding USMCA provisions on environment via an [executive order](#). Amb. Lighthizer and Labor Secretary and Trade Relations also introduced legislation for the TRC committee members include representatives of the Departments of State, Treasury, Agriculture, Commerce and Homeland Security, along with the U.S. Agency for International Development.

**Section 232 Tariff Actions**

- The Commerce Department (Commerce) recently launched two new section 232 investigations regarding transformer parts and mobile cranes that could lead to additional tariffs. The Trump Administration has now indicated seven investigations under the section 232 provision regarding threat to national security over imported products. The first investigations resulted in President Trump imposing tariffs of 25% and 10% on imports of steel and aluminum, respectively based on Commerce's Section 232 investigation that found such imports were a threat to national security.
- Last week Commerce announced it is seeking industry comments on the "appropriateness" of present 232 tariff-exclusion process for steel and aluminum tariffs and overall transparency of the system. Commerce Secretary Wilbur Ross said on Friday that the department was "continually looking for ways to improve the exclusion process for Section 232 tariffs and quotas." "We want these critical national security measures to be applied effectively while avoiding unnecessary impacts on downstream American industries," he said.
- The related [Federal Register notice set for publication](#) today, May 26, is "seeking public comment on the appropriateness of the information requested and considered in applying the exclusion criteria, and the efficiency and transparency of the process employed." The deadline for comments is July 10th.

**COVID-19 Developments**

- The WTO's Goods Trade Barometer, launched in July 2016, fell to a record low of 87.6 from 95.5 in February. The index reading sits far below 100, suggesting a sharp contraction in world trade extending into the second quarter. "The current reading captures the initial phases of the COVID-19 outbreak and shows no sign of the trade decline bottoming out yet," the WTO said in a statement. The WTO estimated last month that world merchandise trade could decline between 13% and 32% this year, depending on the duration of the pandemic and the effectiveness of policy responses. The new reading is in line with the WTO's prior estimates.

**China Trade**

**Phase One Agreement**

- President Trump's latest comments tempered down expectations on the China phase one trade deal as the President said he has lost his enthusiasm for the deal. "The trade deal, I don't know. Somehow, I lost a little flavor for it," Trump said. The comments last Friday follow on a scattering of comments the past two weeks on the deal, including threat to withdraw and threat to sanction China with further tariff increases. When queried regarding further tariffs, Trump said "I don't want to talk about it. I can say China is buying a lot of our product. But the trade deal, the ink was barely dry when this (COVID19) came in from China, so it's not like we're thrilled." Separately that day, Larry Kudlow, White House National Economic Council Director confirmed the phase one deal is alive and well. The agreement is "absolutely not" falling apart. Kudlow said he is confident that China's agriculture purchases are not on pace to meet purchase level spelled out in the deal.
- A week after President Trump questioned whether the U.S. should cancel the phase one trade deal, the White House and Chinese officials confirmed both sides will proceed to adhere to implementing the current phase one deal. White House spokeswoman Katelyn McHenry ruled out renegotiating the bilateral trade pact stating on Fox News. "The president has said he has no interest in reopening the China trade negotiations." Separately, Zhao Lijian, spokesperson for China's Ministry of Foreign Affairs indicated China intends to abide by the current phase one deal. Zhao said that "the first phase of the economic and trade agreement between China and the United States will benefit China, the United States and the world. Both parties should uphold the principles of equality and mutual respect and jointly implement the agreement."

**Section 301 Tariffs**

- President Trump's threats of additional tariffs as a response to what the White House says is China's mishandling of the coronavirus have apparently subsided as the Administration reportedly seeks other approaches. Previously Trump said, "we're going to see if China does not live up to the agreement, the President said he would terminate it and "do what I can do better than anybody," a likely reference to additional tariffs on imported products from China.

**U.S.-Japan Trade Agreement**

- Potential U.S.-Japan phase two trade talks remain behind to COVID-19. Several observers have noted that each government is rightly focusing on coronavirus management, and the odds of talks getting off to a fast start appear increasingly unlikely as time passes and the U.S. presidential election approaches. Prior to the outbreak of COVID-19, commencement of negotiations on a phase two or a comprehensive trade deal were expected no earlier than May according to several sources.

**U.S. - EU Trade Agreement**

- No significant developments since the U.S. notified the WTO that it has fully complied in the dispute brought by the European Union against illegal subsidies for Boeing aircraft production, according to a [press release](#) by USTR. Amb. Lighthizer in the statement noted, "With Washington State's repeal of this relatively minor tax reduction, the United States has fully implemented the WTO's recommendation, ending this dispute." "This step ensures that there is no valid basis for the EU to retaliate against any U.S. goods."
- In response to USTR's statement, the European Commission maintained it can still retaliate with tariffs against subsidies for Boeing, arguing the U.S. has not completely removed its subsidies for the aircraft maker. An EU spokesperson said we are "still examining the impact of the legislative action concerning the Washington State B&O tax," yet "the rulings in this dispute cover a number of additional measures where the U.S. remains non-compliant, including NASA and Department of Defense Research and Development measures and certain State and local measures."
- Last October a WTO panel announced a damage award of \$7.5 billion in the U.S. case on illegal launch aid for Airbus' civil aircraft program, clearing the way for the Trump Administration to impose duties on EU imports in the 15-year long trade dispute. In the most recent action on the Airbus dispute, the U.S. raised the tariff on EU aircrafts to 15% according to a previous deadline announced by President Trump. EU officials continue to emphasize the importance of reaching a larger understanding to end the 15-year aircraft dispute.

**U.S. - U.K. Trade Agreement**

- Round one of virtual U.S-U.K. trade negotiations concluded last week as officials from both sides lauded progress in several areas. The talks are proceeding at an "accelerated pace," Liz Truss, U.K.'s international trade secretary said and that both sides "identified a mutually high ambition for services, investment and digital trade, among other areas." According to Truss, negotiating teams will continue discussions over the coming weeks as they pursue a "comprehensive" trade pact. Round two (virtual) is expected to start on June 15 and last two weeks.
- Separately, the U.K. released its post-Brexit tariff schedule effective in January 2021, which allows 60 percent of imports to enter the U.K. tariff-free while retaining tariffs on sensitive industries like agriculture and autos, according to the Department of International Trade (DIT). The new tariff schedule (i.e. U.K. Global Tariff) will maintain EU tariffs on certain agricultural products (e.g. beef, lamb and poultry), as well as a 10 percent tariff on autos, according to DIT's press release. The UK will remove tariffs on nearly \$37 billion worth of production inputs for businesses and a number of consumer goods, including dishwashers, sanitary products, paint and cooking products. The DIT also indicated "nuisance tariffs", or those under 2 percent would be eliminated.
- Referring to the new [tariff schedule](#), Liz Truss said, "For the first time in 50 years we are able to set our own tariff regime that is tailored to the UK economy." "Our new Global Tariff will benefit UK consumers and households by cutting red tape and reducing the cost of thousands of everyday products. With this straightforward approach, we are backing UK industry and helping businesses overcome the unprecedented economic challenges posed by Coronavirus."
- As reported earlier, a U.K. official reaffirmed the nation's position that a U.S. trade deal must adhere to stringent food and safety standards. A spokesman for Prime Minister Boris Johnson said last week "We have been clear that any future deal with the U.S. must work for the whole of the UK including our farmers, consumers and companies," the spokesman told reporters. "Without exception imports into the UK will meet our stringent food safety standards."

**U.S.-Kenya Trade Developments**

- USTR released the [U.S. negotiating objectives](#) for a potential free trade agreement with Kenya last Friday. The announcement starts the 30-day timeline before official negotiations may begin under Trade Promotion Authority, in this case June 21st. USTR's negotiating objectives encompass the array of trade components in a comprehensive agreement (goods, services, environment, labor, etc.). Regarding specific objectives for U.S. agriculture products, USTR goals include:
  - Secure comprehensive market access for U.S. agricultural goods in Kenya by reducing or eliminating tariffs.
  - Provide reasonable adjustment periods for U.S. import-sensitive agricultural products, engaging in close consultation with Congress on such products before initiating tariff reduction negotiations.
  - Eliminate practices that unfairly decrease U.S. market access opportunities or distort agricultural markets to the detriment of the United States, including:
    - Non-tariff barriers that discriminate against U.S. agricultural goods; and
    - Restrictive rules in the administration of tariff rate quotas.
  - Promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulations and standards, including through regulatory cooperation where appropriate.
  - Establish specific commitments for trade in products developed through agricultural biotechnologies, including on transparency, cooperation, and managing low level presence issues, and a mechanism for exchange of information and enhanced cooperation on agricultural biotechnologies.
- In March USTR formally [notified Congress](#) of its intent to undertake trade talks with Kenya. The USTR letter(s) said that the U.S. will begin negotiations "as soon as practicable," but not before 90 days from now, or June 15. "The letter also affirmed that USTR will publish its formal negotiating objectives at least 30 days before talks begin, a requirement under Trade Promotion Authority (TPA) and USTR committed to working "closely and transparently" with Congress throughout the process.
- 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.

**U.S. - Brazil Trade Developments**

- U.S. - Brazil trade talks for a limited trade deal are advancing according to recent reports. Negotiators and technical experts in both countries are communicating frequently the past few weeks on areas of regulatory practices, trade facilitation, anti-corruption, and possibly digital trade. The U.S. Chamber of Commerce's Brazil-U.S. Business Council has called for and supported an early trade pact covering common ground and achievable in 2020. A broader or comprehensive agreement would be targeted for completion in 2021. Executive director of the U.S.-Brazil Business Council, Cassia Carvalho said there is a "great sense of momentum" in the trade talks and progress is being made on prioritizing the chapters and timeline toward having a deal completed by end of 2020. Several U.S. and Brazilian business groups have called for inclusion of sanitary and phytosanitary standards (SPS) and intellectual property (IP) provisions in a limited deal. It is unclear whether SPS and IP are under consideration in negotiations.
- The accelerated talks are rooted in prior communications between Amb. Lighthizer and Brazilian Minister of Foreign Affairs Ernesto Araújo and other senior officials. The two ministers discussed potential steps to deepen the economic partnership between the two countries under their current Agreement on Trade and Economic Cooperation (ATEC). The call between Amb. Lighthizer and Minister Araújo follows on a prior meeting between Presidents Trump and Bolsonaro in Florida where the leaders agreed to aggressively pursue trade talks.

**U.S. - India Trade Developments**

- A senior State Department official raised concerns of increasing complexities regarding a U.S.- India trade deal. Alice Wells, acting assistant secretary of State for South and Central Asia, characterized recent actions by India as "backsliding" and complicating efforts for a trade deal. Wells said the Trump Administration remains committed to improving the bilateral relationship and lowering India's barriers on U.S. exports. Wells said the two countries "are continuing to work toward a deal. I can't predict whether a deal will be reached this year, but the impetus for achieving a trade deal is very much present."
- As reported earlier, President Trump and Prime Minister Modi announced in February they had "agreed to initiate negotiations for a bigger deal," as earlier ambitions for a quick limited deal evaporated. Trump stated the two sides "have made tremendous progress on a comprehensive trade agreement." Trump said that a deal could be achieved toward the end of the year but offered that if there is no trade agreement "we will do something else that will be very satisfactory."
- A primary motivation for India in the trade deal is restoration of India's GSP benefits, valued at approximately \$6.4 billion. The U.S. earlier revoked India's GSP benefits and is calling for reciprocal market access in India for agriculture products, industrial goods, and services in order to restore GSP.

**General Trade/WTO Reform**

- Another senior WTO leader is stepping down citing challenges with stalled WTO agenda and postponed 12th Ministerial. Ambassador John Deep Ford (Guyana), Chair of the WTO's Committee on Agriculture, [announced](#) he will vacate the position on June 30th. Echoing sentiment by Director-General Azevedo, Ambassador Ford indicated a desire to clear the decks for new leadership in light of the postponement of the 12th WTO ministerial conference owing to the COVID-19 pandemic. For the past two years Amb. Ford served as chair of the Committee on Agriculture and the first ambassador from Latin America and the Caribbean to hold the position.



Amb. John Deep Ford, WTO Agriculture Committee

- With Director-General, Roberto Azevedo's recently announcing he will vacate the post on September 1st, countries are already placing markers on their expectations for the next leader. Historically a highly political, complicated and divisive process, the present search will likely extend past the three-month window before Azevedo leaves office, according to most observers and experts. Last week the WTO [announced](#) the month-long nomination window will begin on June 8 and end on July 8.
- Names of likely candidates are already surfacing, including multiple persons from Africa. In 2013, the last selection process when Azevedo prevailed the applicant pool consisted of nine candidates from both developed and developing countries.
- Kelly Ann Shaw, another former Trump administration trade official, said Azevedo's departure was an opportunity for the WTO to reinventorate itself. "New ideas and bold reforms will be necessary to successfully navigate the path ahead. And as good as Azevedo was, maybe this will prove to be a good thing," Shaw said. The Director-General can play an important role in setting the tone in Geneva and helping members establish the agenda. "The WTO needs strong leadership. But at the same time, it's a member-driven organization so if the member states aren't there, it's going to be hard for anybody to move the institution forward," Shaw said.
- Two weeks ago, WTO Director General (DG) Roberto Azevedo announced plans to step down on September 1 before his term expires 2021. Azevedo is in his second term, has occupied the position since 2013. Prior to becoming DG Azevedo was Brazil's global ambassador. Azevedo's departure comes as the global health crisis has significantly impinged on this year's trade priorities, forcing the cancellation of the 12th Ministerial meeting, precluding the usual meetings, and triggering steep declines in global trade and rising trade restrictions on health and medical products, along with food and agriculture goods.
- As reported earlier, Sen. Hawley continued his push for a Congressional vote on withdrawing from the WTO. Last week in a [floor speech](#), Hawley said the vote "is a right, a responsibility, really, that the Senate has never exercised since 1995, not once." "And we are past that. We should take up our responsibility and debate this issue, critical to the future of our country. And we should vote to leave."
- In response to Hawley's statement, Fred Hochberg, former leader of the Export-Import Bank, argued the WTO is a valuable institution, especially since the United States played a large role in creating and shaping it. "The WTO needs reform — just as most organizations do as conditions or markets evolve — but dismantling the WTO as Sen. Hawley is proposing would turn the global economy into the Wild West. The principles that govern world trade have enormously benefited the United States since World War II, and we had a strong hand in designing those principles," Hochberg said.
- Prior to the floor speech Senator Josh Hawley put forth a [joint resolution](#) for U.S. withdrawal from the Geneva-based international trade institution. Prior to this action, Sen. Hawley wrote a controversial [op-ed](#) in the New York Times calling for the disbandment of the WTO. Hawley contends, "International organizations like the WTO have enabled the rise of China and benefited elites around the globe while following out American industry, from small towns to once-thriving urban centers." On the House side, Representatives Peter DeFazio and Frank Pallone also introduced legislation for the U.S. to withdraw from the WTO. In a [joint statement](#), Rep. DeFazio stated, "The United States has not benefited from membership in the WTO" and that "the WTO has been a disaster for the United States." Rep. Pallone said, "After 25 years of participation in the World Trade Organization, our workers have seen little to no benefits for their families and have instead watched as the WTO gives countries like China protections to use tariffs and other unfair trade practices to its advantage."
- The last time Congress voted on WTO withdrawal was in 2005, when the House overwhelmingly defeated a withdrawal resolution 338-86. The Senate has never voted on withdrawal according to Politico. Both as a presidential candidate and President, Trump has indicated to withdraw from the U.S. from the WTO, yet to date, USTR's repeated calls for WTO reform and dissolution of the Appellate Body have stopped short of signaling the withdrawal option.

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