

Trade Update August 4, 2020

By Michael Anderson

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Highlights

- U.S. - China:** WTO arbitrator will determine U.S. retaliation in Chinese agriculture subsidy case after China objected to the U.S. request for a \$1.3 billion in retaliation. Separately, the USDA reported significant Chinese purchases of U.S. corn and soybeans.
- USMCA:** Mexican Ambassador Martha Barea announced that discussions are underway to establish a consultation mechanism to sign the region's "essential sectors" resourcing supply chains that could be reshored.
- Seasonal Produce:** USTR's virtual hearings on seasonal produce are scheduled for August 13th and 20th.
- U.S. - U.K.:** The third round of negotiations has begun and U.K. wants the U.S. to lift lamb and haggis bans, while the U.K.'s ban on chicken is still on the table.
- WTO:** The Senate Finance Committee held a [hearing](#) on WTO reform on July 29 with seven WTO appointees for members and USTR negotiators.

China Trade

- China has objected to a U.S. request to retaliate against disputed U.S. tariffs on Chinese goods. The U.S. will increasingly use its export credit firepower to try to thwart China's global technology goals. She said, "it will be a [highly] important part of our overall strategy to ensure that we maintain our technological ambition to technologically dominate the world in a box," during an online discussion hosted by the Center for Strategic and International Studies. "This is what Congress wants us to do and what the president wants us to do," Reed added.
- Last week, White House press secretary Kayleigh McEnany reported that the U.S. will increasingly use its export credit firepower to try to thwart China's global technology goals. She said, "it will be a [highly] important part of our overall strategy to ensure that we maintain our technological ambition to technologically dominate the world in a box," during an online discussion hosted by the Center for Strategic and International Studies. "This is what Congress wants us to do and what the president wants us to do," Reed added.
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- As previously reported, bilateral tensions escalated between the U.S. and China last month as the U.S. ordered closure of the Chinese consulate in Houston and a Chinese firm back with demands for closure of U.S. consulate in Chengdu, China. U.S. Secretary of State, Mike Pompeo, justified the order by expanding Chinese aggression, saying it was a "raid of spying and intellectual property theft."
- Last month President Trump signed an [executive order](#) ending U.S. preferential treatment of Hong Kong, effectively treating Hong Kong the same as mainland China, including on trade and investment matters. The order ends what is called the "special treatment" under the Hong Kong Policy.

Phase One Agreement

- The U.S. Agriculture Department reported on July 30 that private exporters sold 1,187 million metric tons of corn to China for delivery in the 2020-21 marketing year. This purchase topped the previous biggest deal to China of 1.162 million metric tons, reported just two weeks ago. In a separate report, the USDA said soybean sales to China rose to 1.925 million metric tons in the week ending July 23. The recent purchases place China closer to the \$16.5 billion target for imports of U.S. farm goods this year set in the phase one trade agreement.
- Chinese officials met with U.S. business executives last week to incentivize increased U.S. investment in China and emphasize that the U.S. will increasingly use its export credit deal requires cooperation from the U.S. Business Deputy Commerce Minister Wang Shouwen and National Security Council's International Security and Counterterrorism Director Ning Jizhe met with representatives of the American Chamber of Commerce and representatives of the U.S.-China Business Council, respectively. Security officials also noted that U.S. companies have a role in easing U.S.-China trade tensions. Mr. Wang Shouwen told American Chamber members that China hopes "the U.S. business community will continue to play a good role as a bridge between the two countries, expand pragmatic cooperation, and stabilize the bilateral relations continue to be the 'stabilizer' of bilateral relations. This serves the interests of China and the United States as well as the interests of all companies in the world."

Wang Shouwen, Chinese Deputy Commerce Minister

- While Chinese officials are trying to ease tensions, U.S. officials have continued to urge U.S. companies to avoid China. In an [op-ed](#) written by Under Secretary for Economic Growth, Energy and the Environment Keith Krach and Acting Deputy Secretary for Department of Homeland Security Ken Cuccinelli, both U.S. officials urged businesses to be wary of doing business with China.

USMCA

- Senate Minority Leader Chuck Schumer (D-NY) [announced](#) Sandra Polaski and Timothy Beely to serve on an independent labor expert panel that will monitor the implementation of Mexico's labor reforms and the country's compliance with labor obligations under the USMCA. Polaski served as the former deputy director-general for policy at the International Labor Organization, and Beely is the global strategies director with the International Brotherhood of Teamsters and previously served as deputy director of the AFL-CIO's international affairs department. Both will serve until the end of their current contracts required under the USMCA.

Mexico Trade

- Mexican Ambassador to the U.S. Martha Barea told Inside U.S. trade that senior U.S. and Mexican officials are discussing the establishment of a consultation mechanism to sign the region's "essential sectors" and target supply chains that could be reshored. Barea said that the idea under discussion is a consultation mechanism through which the U.S. and Mexico could homogenize each other's definitions of what constitutes an essential sector in emergency handbags. "We discussed how to make the process easier and more aligned," Barea said. "But the decision yet on how to build it from the legal point of view, what would be the kind of mechanism," she added.

U.S.-U.K. Trade Agreement

- The U.S. and U.K. began the third round of negotiations for a comprehensive free trade agreement last week. U.K. Trade Secretary Liz Truss told The Times she was pushing the U.S. to lift bans on lamb and haggis, which the U.S. has banned since the late 1980s and early 1970s, respectively. However, the U.S. will increasingly use its export credit firepower to try to thwart China's global technology goals. She said, "it will be a [highly] important part of our overall strategy to ensure that we maintain our technological ambition to technologically dominate the world in a box," during an online discussion hosted by the Center for Strategic and International Studies. "This is what Congress wants us to do and what the president wants us to do," Reed added.
- As reported earlier, negotiations on agriculture provisions will likely be complex and challenging. U.K. officials, including Truss, have publicly sounded a tough stance on food and agriculture safety protocols: "Any deal the Government strikes must be fair, reciprocal and ultimately in the best interests of the British people and the economy. Furthermore, the Government remains clear on protecting the NHS and not compromising on the UK's high environmental protection, animal welfare and food safety standards," Truss said. Truss also said that the U.S. will increasingly use its export credit firepower to try to thwart China's global technology goals. She said, "it will be a [highly] important part of our overall strategy to ensure that we maintain our technological ambition to technologically dominate the world in a box," during an online discussion hosted by the Center for Strategic and International Studies. "This is what Congress wants us to do and what the president wants us to do," Reed added.

COVID-19 Developments

- Representative's Bill Pascrell (D-NJ) and Patrick McHenry (R-NC) on Wednesday introduced the [American PPE Supply Chain Integrity Act](#) to boost the domestic production of personal protective equipment (PPE) and reduces the U.S.'s reliance on other countries, like China, for essential medical goods. The legislation would implement the "Berry Amendment standard" of 100 percent of a product that is grown, reproduced, mined, or produced in the United States for the purchase of personal protective equipment (PPE) by Department of Defense, Department of Health and Human Services, Department of Homeland Security, and the Department of Veterans Affairs, according to a July 29 [statement](#). Rep. Pascrell said that the legislation would incentivize the domestic production of PPE and better prepare the U.S. for the next public health crisis. Rep. McHenry said that the covid-19 pandemic "has made it painfully clear that the United States has failed its hospitals and frontline healthcare workers because of our over-reliance on Chinese-made PPE."
- Senate Republicans included similar supply chain language in their most recent economic relief proposal, known as the Health, Economic Assistance, Liability Protection and Schools (HEALS) Act, introduced earlier last week. Senate Majority Leader Mitch McConnell (R-KY) said the HEALS Act would "proactively expand" domestic manufacturing abilities and make the U.S. less dependent on "adversaries and competitors" in the next crisis.
- The free fall in global trade continued into May, even as coronavirus lockdowns started easing. The decline in trade flows narrowed to 1.1% from April, but underlying momentum — measured by three-month figures — showed further weakness. There was a 1.2% decline from the same previous period, and a 3.9% drop compared with a year earlier.

Trade Off: Virus restrictions pushed global trade into a historic slump in May



Source: CEPR/Netherlands Bureau for Economic Policy Analysis

Section 232 Tariff Actions

Aluminum Tariffs

- The specter of the U.S. re-imposing 232 tariffs on Canadian aluminum remains uncertain as the U.S. administration continues to evaluate the possibility of restoring a 10 percent tariff on Canadian aluminum exports. President Trump has threatened to reinstate tariffs on aluminum imports from Canada to address surging imports. Amb. Lighthizer last month said that USTR was looking at ways to address the surges under the deal struck last year to lift the tariffs. These remarks were met with forceful opposition from Canadian Prime Minister Justin Trudeau and other Canadian officials. Canada's assistant deputy minister for trade policy and negotiations, Steve Verheul, responded early last month saying that Canada would be ready to retaliate on aluminum and aluminum containing products from the U.S. if tariffs were re-imposed.

Ongoing 232 investigations

- In comments filed by several countries, they said that restrictions on vanadium imports will lead to severe supply disruptions because the U.S. industry relies almost exclusively on imports and the countries are urging Washington to best coordination with key allies. In June, the Commerce Department initiated an investigation into the national security implications of vanadium imports under Section 232 of the Trade Expansion Act of 1962. The National Association of Manufacturers (NAM) said that the administration should instead utilize a more targeted approach, as any trade restrictions on vanadium would drive up prices for U.S. manufacturers, including NAM members that have indicated a lack of alternatives to vanadium in their U.S. production processes."
- An alliance of companies, The Core Coalition, in the transformer industry has been formed in response to the Commerce Department's Section 232 investigation into imports of transformer parts, which include transformers. The Core Coalition submitted [comments](#) on July 3 to the Commerce Department, contending that the imposition of tariffs "on transformer parts, which have been used with care without legal foundation under Section 232." Business groups and other countries are pushing the U.S. to proceed with caution in these Section 232 investigations and that trade restrictions would be costly and counterproductive.
- As reported earlier, three separate investigations are progressing at the Department of Commerce under "threat to national security" provision contained in section 232 of the Trade Expansion Act of 1962. The investigations involve transformer parts, vanadium, and mobile cranes. The initial comment period on Vanadium closed last week, with rebuttal comments due on August 17th.
- The Department of Commerce has 270 days to provide a report to President Trump determining whether the imports in question threaten to impair U.S. national security, along with a recommendation for action. President Trump will then have 90 days to determine whether or not to impose restrictions so that imports no longer threaten national security.

U.S. - Japan Trade Developments

- As reported earlier, USTR [announced](#) an "organic equivalence arrangement" struck in 2014 to include livestock. The deal, which went into effect on July 16, "reduces costs and streamlines the process for anyone involved in the organic livestock supply chain by requiring only one organic certification," USTR said. Under the 2014 deal, plant-based products were covered, now, the expansion covers organic livestock products. Chief Agricultural Negotiator Gregg Doud said, "Japan is a key international partner in the organic market sector." "This expanded arrangement protects and increases access for American organic farmers, ranchers, and businesses to the third largest U.S. organic export market," Doud added.
- Regarding timing of phase two bilateral negotiations, Amb. Lighthizer acknowledged that the coronavirus has delayed phase two negotiations with Japan. During recent Congressional testimony, Amb. Lighthizer said he would expect the phase two talks to start "in the next couple of months." Prior to the outbreak of COVID-19, commencement of negotiations on a phase two of a comprehensive trade deal were expected no earlier than May according to sources.

U.S.-EU Trade



Phil Hogan, EU Commissioner for Trade

- EU Trade Commissioner Phil Hogan said that more progress has been made in 2020 in the Airbus-Boeing subsidies dispute than in the previous 15 years, citing Airbus' recent claims of compliance as a major breakthrough. Hogan's claim of progress in the civil aircraft dispute came after the U.S. disagreed with the EU claims that it had complied with the WTO ruling.
- The U.S. rebuffed the WTO rulings that it was in full compliance with the WTO EU's claims, arguing that the EU had provided no details to the U.S. or the WTO and had not addressed other WTO measures. As previously reported, the EU announced in a [statement](#) that it changes trade policies for Airbus and asserted the EU was in full compliance with WTO rulings in the long-running dispute with the U.S. over Airbus subsidies. The U.S. [said](#), "the EU publicly suggested that this action now brought the EU into former Appellate Body members, Jimmie Hillman and Thomas Graham, said he and other U.S. trade negotiators would expect the phase two talks to start "in the next couple of months." Prior to the outbreak of COVID-19, commencement of negotiations on a phase two of a comprehensive trade deal were expected no earlier than May according to sources.
- A bipartisan group of more than 160 House lawmakers urged U.S. Trade Representative Robert Lighthizer to remove retaliatory duties on European wine, whiskey, and food products that were imposed due to the ongoing civil aircraft dispute between the U.S. and EU. Instead of lifting the U.S. retaliatory duties on European wine, whiskey, and food products in a new set of European products subject to tariffs.
- As reported earlier, USTR [announced](#) the list of French goods worth \$1.3 billion for potential imposition of 25% tariffs should France impose digital services taxes on U.S. companies next year. The potential tariffs concluded a Section 301 investigation in which USTR concluded and announced it had found France's tax would discriminate against U.S. companies. Section 301 tariffs were delayed earlier in the year when President Trump and French President Macron struck a deal that would delay the imposition of U.S. tariffs while France deferred the collection of the tax to let negotiations set the OECD on a new international tax structure play out in hopes of a resolution. Those efforts have stalled, and France originally stated digital services taxes would start in January 2021.
- The list of goods from France facing 25% tariffs include soap, handbags and cosmetic products (beauty tariffs). Other sensitive products, like French wine and cheese, were not included. The tariffs could be delayed up to 180 days (i.e. Jan. 6, 2021) — as long as France continues to defer imposition of the tax.

U.S. - Kenya Trade Developments

- As reported earlier, the U.S.-Kenya trade negotiations are held as some members of the Kenya negotiating team were exposed to covid-19 in Nairobi during virtual negotiations according to a Politico report. The first round of trade talks concluded last week, and a second round was expected to start in August.
- During the first round, Kenya pushed to "create a framework through which any EAC Partner State that did not participate in these negotiations at the outset is allowed to join the negotiations," according to a statement. "The countries would be subject to terms already agreed to or accede to the concluded FTA," the objectives state. No official response from USTR on the proposal.
- According to the WTO, Kenya's average applied MFN tariff rate for all partners was 13.9% in 2018. Several top U.S. exports, such as machinery and aircraft, however, face low or zero tariffs. Kenya's agriculture sector presents the highest barriers to U.S. exports, with an average tariff of 20.3%, and relatively high tariffs on dairy (31.7%), animal products (23.1%), and cereals (22.2%).
- Prior to the launch of talks, the U.S. and Kenya agreed on a "Strategic Cooperation Framework to provide technical assistance and trade capacity building in Kenya with the aim of maximizing Kenya's utilization of the African Growth and Opportunity Act trade benefits for the remaining years of the preference program, which is scheduled to expire in 2025." USTR and Kenya said in a July 8 [statement](#).

Seasonal Produce

- The USTR field hearings on the issue of seasonal produce are rescheduled for Aug. 13 and Aug. 20 via virtual format according to a [COVID-19 Update](#) notice published last Friday. USDA and Dept. of Commerce will host USTR at the virtual hearings to "discuss foreign trade policies that may be harming American growers of seasonal and perishable produce." The notice indicated, "All the hearing officials from the federal agencies will hear from interested persons on how the Trump Administration can support these producers and redress any unfair harm." [Hearing details](#) and comment deadlines are:
 - Virtual hearing dates: August 13, 2020 at 9:00 am EST and August 20, 2020 at 9:00 am EST
- Submission deadlines:
 - July 27, 2020 at 11:59 pm EST: Deadline for submission of responses to provide virtual testimony during either hearing.
 - August 3, 2020 at 11:59 pm EST: Deadline for submission of hearing statements and written comments.
- The seasonal produce hearings are part of a multi-step plan outlined in a January 9, 2019 letter from Amb. Lighthizer to the Florida congressional delegation to review and determine options regarding "trade-distorting policies that may be contributing to unfair pricing in the U.S. market for seasonal and perishable products and to assess the impact of those policies on U.S. producers." The letter notes that within 60 days after "entry into force" of the USMCA, USTR will "implement effective and timely remedies necessary to address any trade distorting policies" affecting U.S. growers. Additionally, within 60 days, the Department of Commerce, U.S. Department of Agriculture and USTR will have hearings in Florida and Georgia to hear testimony from growers. According to USTR, "At the hearings, officials from the federal agencies will hear from interested persons on how the Trump Administration can support these producers and redress any unfair harm."
- As reported earlier, Mexico warned it would initiate a USMCA or WTO dispute settlement case should the U.S. pursue import restrictions on seasonal produce imports from Mexico. Mexican Undersecretary for Foreign Trade Luc Maria de la Mora said, "We will respond firmly if the U.S. were to impose commercial measures that violate its WTO obligations." "We count on the dispute settlement mechanisms in our trade agreement to legitimately defend our commercial interests and the interests of producers. We will do it via the mechanisms of international commerce rules, but it is also clear to us that to the extent the U.S. pressures us and seeks to impose measures that are outside of what is allowed in USMCA, Mexico should also evaluate the type of response that should be made," De la Mora said during a forum in Mexico.

U.S. - India Trade Developments

- As reported earlier, India's Commerce Minister Piyush Goyal reiterated his optimism that a limited U.S.-India trade deal is in reach after two years of negotiations, saying that the U.S. and India are in the homestretch of negotiations for an initial trade pact. "We are almost there," Minister Goyal said at an event hosted by the U.S.-India Business Council last month. Goyal emphasized that the U.S. and Indian leaders should also look at a preferential trade pact with 50 to 100 products and move to a comprehensive free trade pact in the long term. Earlier Goyal said he and Commerce Secretary Wilbur Ross exchanged views "on the ongoing India-U.S. trade discussions and appreciated the substantial progress made by both sides on most of the outstanding issues."
- Amb. Lighthizer told lawmakers in June that the U.S. is currently in trade negotiations with India. Ambassador Lighthizer previously said Disputes over India's air banking longer than he expected. They are dogging and insisting on keeping their tariffs and we are dogging in insisting that we are going to get a fair deal. We are working on it very much. And hopefully we'll get a good outcome," Amb. Lighthizer added.

WTO

WTO Leadership

- Members of the WTO were not able to agree on the appointment of an interim chief. WTO members were hoping to coalesce around selecting one of the three deputy directors-general this week to temporarily lead the organization as the selection process for a new director-general continues. Until the next director-general is chosen, the current Director-General Robert A. Zoellick said that the four deputies will continue with their existing responsibilities. The four deputies will carry out their duties and consult with members through the General Council chair. The WTO hopes to select a new director-general by November 7. The WTO will operate without a leader come September 1, when current Director-General Roberto Azevedo departs his position.
- The second stage of DG the selection process will continue until September 7. The third stage entails WTO members expressing their candidate preferences to the final selection committees comprised of General Council Chair Ambassador David Walker, Dispute Settlement Body Chair Ambassador Dacio Castillo of Honduras and Trade Policy Review Body Chair Ambassador Harald Assandj from Iceland. However, the winding out process has informally commenced as several observers suggest that multiple candidates were proceeded to the next stage.
- The final list of candidates and their professional backgrounds are provided below.

Candidate	Country	Experience
Jessie Seade	Mexico	Undersecretary of Foreign Relations for North America, Chief negotiator for the United States-Economic Affairs World Bank Biography
Ayana Okoro-Obi	Nigeria	World Bank executive, Minister of Finance, economy and foreign affairs for Nigeria Biography
Ashraf Hamid	Egypt	Egyptian Trade negotiator, Trade Minister, Director WTO Trade in Services Division Biography
Tudor Iliescu	Moldova	Former Moldova Minister of Foreign Affairs and Ambassador to the WTO Biography
Yoo Hyung-hee	South Korea	Trade Minister for the Republic of Korea Biography
Amna C. Mohamed	Kenya	Former Foreign Affairs and International Trade Minister for Kenya Biography
Mohamed Al-Tuwaijri	Kingdom of Saudi Arabia	International Dispute Adjudicator on Islamic matter, former Minister of Economy and Planning for Saudi Arabia Biography
Liam Fox	United Kingdom	Former United Kingdom Trade Secretary Biography

WTO Reform

- The Senate Finance Committee held a [hearing](#) on WTO reform on July 29. Members of the Senate Finance Committee agreed that the WTO has not properly dealt with Chinese trade practices and has unfairly restricted the U.S. of trade remedies. The hearing featured testimony from former Appellate Body members, Jimmie Hillman and Thomas Graham, two former U.S. trade negotiators, Laura Lath and the Chairman, and Michele Fancu of the World Wildlife Foundation.
- During the hearing on WTO reform, Chairman Chuck Grassley and ranking member Ron Wyden both named China as a key concern. Prior to the hearing, Chairman Grassley told reporters that the U.S. should be leading the efforts to reform the WTO. "China, in his opening remarks, Chairman Grassley said "when the WTO works right, America's benefit — plain and simple." Some Democratic senators communicated that the Trump administration's approach towards the organization is ceding leadership at the WTO to China. While most senators did not directly ask about the appellate Body paralysis, the issue came up as a key part of reform in other areas.

