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## WTO Warns Tensions Could Lead to Trade Slowdown

Policy makers should watch for “the simultaneous decline of several trade-related indicators” and an even “sharper slowdown” should trade tensions continue, according to the most recent reading of the World Trade Organization’s (WTO) World Trade Outlook Indicator (WTOI) released Feb. 19.

The latest monthly WTOI projection is the weakest since March 2010 and signals “below-trend trade expansion into the first quarter,” the WTO noted. “This sustained loss of momentum highlights the urgency of reducing trade tensions, which together with continued political risks and financial volatility could foreshadow a broader economic downturn,” it said. While the European Union is negotiating or finalizing trade agreements with multiple partners, the U.S. is involved in several WTO and bilateral disputes.

“Nevertheless, greater certainty and improvement in the policy environment could bring about a swift rebound in trade growth,” the WTO added. “Weakness in the overall index was driven by steep declines in the component indices, which appear to be under pressure from heightened trade tensions.”

The component indices include Q3 merchandise trade volume, export orders, international air freight, container port throughput, automobile production and sales, electronic components and agricultural raw materials. Of those, only trade volume is above trend, and container port throughput “remained relatively buoyant.”

## Lawmakers, Industry Urge Release of Section 232 Autos Report

As expected, Commerce Secretary Wilbur Ross Feb. 17 formally submitted the results of the department’s investigation into the effect of imports of automobiles and automobile parts on U.S. national security to the president. While one sentence was the entirety of

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what Commerce released publicly, lawmakers and auto industry groups immediately warned against imposing tariffs and urged the public release of the report.

“The president needs to make public his administration’s report on whether it believes imports of autos and auto parts are a threat to our national security, and whether it’s considering tariffs or import restrictions,” Sen. Ron Wyden (D-Ore.) said in a statement. “To me, the notion that importing autos and parts is a threat to our country’s national security is a tough sell,” he added. Wyden’s counterpart Sen. Chuck Grassley (R-Iowa) reacted to the report even before it had been submitted (see **WTTL**, Feb. 18, page 2).

American International Automobile Dealers Association President and CEO Cody Lusk agreed. “Now, dealerships must continue to operate under a cloud of uncertainty, not knowing if at any moment their products will be slapped with 25 percent tariffs, raising vehicle and repair costs by thousands of dollars and slashing sales. Dealers, their employees, and the communities they serve are being treated like pawns by their government,” Lusk said in a statement.

In remarks at the White House Feb. 20, the president hinted that even the idea of tariffs on auto imports would give him leverage in ongoing trade talks with the European Union (EU), a notion that EU officials have dismissed out of hand. The Commerce report is “just really a study that’s underway. We’ve studied it very carefully. We’ve seen the results. But the bottom-line result is whether or not we can make a deal with the EU that’s fair,” he said. “If we don’t make the deal, we’ll do the tariffs,” the president added.

Industry groups rejected this argument. “This is an inappropriate and unlawful use of this statute. It is the U.S. Chamber’s view that the executive’s Section 232 authorities should not be abused in this way, and doing so only encourages other nations to raise their own trade barriers against U.S. exports in the name of national security,” U.S. Chamber of Commerce Senior VP John Murphy wrote in a blog post Feb. 19.

Jeffrey Schott, Peterson Institute senior fellow, expanded on this analysis. “German automakers also might be willing to top up their U.S. investments, but EU officials already have rejected export restraints and promised to retaliate against U.S. exports, as noted above. And what company would increase its U.S. investment when US-produced goods face higher production costs and new export obstacles due to the likely retaliation against the 232 measures?” Schott wrote.

## **China, U.S. Leaders to Meet in March**

Chinese trade officials had so much fun in Washington, they decided to stay awhile. After a meeting in the Oval Office Feb. 22, the officials agreed to extend their visit through the weekend. The two countries are facing an imminent deadline to avoid increased tariffs, to which opposition from farmers and manufacturers are already growing.

After U.S. Trade Representative (USTR) Robert Lighthizer and Treasury Secretary Steven Mnuchin met with Chinese Vice Premier Liu He, President Trump told reporters there

was a “very good chance” the two countries would make a deal and there is “great cooperation” between the two partners, despite “fake news” to the contrary. He also said there was a deal on currency manipulation, but would give no further details.

The two countries are facing a March 1 deadline to avoid increased tariffs, a date which Trump previously hinted could be extended if talks are going well (see **WTTL**, Feb. 18, page 3). Trump also told reporters that he will probably meet with Chinese President Xi Jinping at Mar-a-lago in March, which could be another sign the March deadline will slip.

While there appeared to be great cooperation between the two countries, U.S. officials publicly disagreed on terminology amongst themselves. After Trump said he didn’t like the phrase memorandum of understanding (MOU), Lighthizer gave the crowd a short lecture on its concrete meaning on the term of art.

Then he gave up: “From now on we’re not using the word memorandum of understanding anymore. We’re going to use the term trade agreement,” Lighthizer said. “We’re never going to use MOU again,” he added. Of course, congressional lawmakers might have something to say about that, since they would have to approve any trade agreement, but not MOUs. Lighthizer is scheduled to appear at a House Ways and Means Committee hearing on China Feb. 27.

Agriculture Secretary Sonny Perdue announced Feb. 22 via Twitter that Chinese officials committed to buy an additional 10 million metric tons of U.S. soybeans in the Oval Office meeting. “Strategy is working. Show of good faith by the Chinese. Also indications of more good news to come,” Perdue noted. This comes amid reports that the department has paid out \$7.7 billion to date to farmers impacted by the ongoing trade war with China.

## **EU Defends Targeted Trade Talks**

Notwithstanding the potential debate over auto tariffs, the European Union (EU) Feb. 19 put numbers behind its push for targeted trade negotiations, which would eliminate the remaining tariffs on industrial goods and harmonize regulatory standards.

Simply eliminating the remaining tariffs on all industrial goods could increase EU exports of industrial goods to the U.S. by 8% and U.S. exports to the EU by 9% by 2033, which corresponds to €27 billion (\$30.6 billion) and €26 billion (\$29.5 billion) respectively, the EU said in a fact sheet.

“Significantly, it would give transatlantic companies of all sizes a comparative advantage, lower costs in integrated supply chains, thereby also supporting their capacity to compete globally,” it added. The EU published its narrower set of negotiating objectives in January, most notably excluding agricultural products, which the U.S. included (see **WTTL**, Jan. 21, page 2).

“The targeted scope of the trade negotiations reflects a shared ambition with the U.S. to develop a positive trade agenda that brings quick and tangible results to both sides. They

are one leg of an ongoing process to improve the transatlantic trade relationship that is already delivering results, including closer cooperation on diversifying European energy sources through increased imports of liquefied natural gas (LNG) or soybean imports from the U.S., as well as reforming the international rules on trade,” the EU said in releasing its latest data.

The EU also cited the “large gains to be had in intra-company supply chains for businesses both large and small. For instance, EU and U.S. automotive and chemical companies have large production facilities in the U.S. and in the EU,” it said. “The present import tariffs act like an intra-firm taxation, making the final products unnecessarily more expensive, notably compared to non-EU and non-U.S. manufacturers,” the fact sheet noted.

\* \* \* **Briefs** \* \* \*

**ACETONE:** Coalition for Acetone Fair Trade, on behalf of AdvanSix, Altivia Petrochemicals and Olin Corporation, filed antidumping duty petition Feb. 19 with ITA and ITC against acetone from Belgium, Korea, Saudi Arabia, Singapore, South Africa and Spain.

**BELARUS:** At 11th meeting of working party on Belarus’ accession Feb. 15, country committed to conclude negotiations before 12th Ministerial Conference in June 2020 in Astana, Kazakhstan. “We believe that the time has come to move from a 25-year-long review of the Belarusian foreign trade regime to finalizing the draft commitments’ language,” Andrei Yeudachenka, Belarus’ first deputy foreign affairs minister, said. Meeting was fourth since resumption of working party work in January 2017 (see **WTTL**, May 21, page 9). WTO established working party on Belarus’ accession in 1993.

**FIBER OPTICS:** CAFC Feb. 19 affirmed CIT decision in *ADC Telecommunications, Inc. v. U.S.* that Customs properly classified imported value-added modules (VAM) consisting of fiber optic telecommunications network equipment. Court agreed products should be classified under tariff schedule subheading 9013.80.90 -- “Other [optical] devices, appliances and instruments” -- that bears 4.5% *ad valorem* duty rate, instead of subheading 8517.62.00 that bears duty-free rate. “The subject merchandise acts by means of light, given that the splitter modules, monitor modules, and WDM modules all seek to ‘ease installation’ of the modules into ADC’s ‘telecommunications network operator customers’ fiber optic networks,’ such that the networks operate through ‘*pulses of light in the infrared wavelength range*’ to transmit voice and other data,” Circuit Judge Evan Wallach wrote for three-judge panel. Subheading 8517.62.00 covers “Machines for the reception, conversion and transmission or regeneration of voice, images or other data, including switching and routing apparatus.”

**SANCTIONS:** ZAG IP, LLC, formerly known as ZAG International, LLC, of Newtown Conn., agreed Feb. 21 to pay OFAC \$506,250 civil penalty to settle five charges of violating Iran sanctions. Between July 2014 and January 2015, ZAG purchased Iranian-origin cement clinker from UAE company “with knowledge that the cement clinker was sourced from Iran,” and then resold and transported it to company in Tanzania, OFAC said. ZAG voluntarily self-disclosed apparent violations.