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U.S. Agrees to Suspend Chinese Tariff Increase

The U.S. Oct. 11 reached a temporary verbal truce with China on what has been more than 18 months of a protracted trade war, including on-again, off-again tariffs and gyrating worldwide stock markets. If nothing else, the truce allowed President Trump to suspend the tariff increase on $250 billion of Chinese goods that was due Oct. 15. Still unclear at press time was the status of those set for December.

> Observers were hesitant to call the progress a "deal," as the details have yet to be written down and remain fluid, but Trump spelled out the contours to reporters. "We have come to a very substantial phase one deal. Subject to getting it written, on intellectual property, financial services, a tremendous deal for the farmers of $40-$50 billion dollars' worth of agricultural products," Trump said. The president also said he has not brought up the Biden family, which he previously hinted as part of any deal (see **WTTL**, Oct. 7, page 3).

In addition, Treasury Secretary Steven Mnuchin said that the U.S has made substantial progress on financial services and currency manipulation. "We have made an agreement to have transparency into foreign exchange markets and free markets, we are very pleased with that," Mnuchin said.

Chinese Vice Premier Liu He added that "we have made substantial progress in many fields; we are happy about it and would continue to do so." Phase one is also expected to include some technology transfer, but would not include Huawei or any of the other Chinese companies sanctioned by the U.S., which U.S. Trade Representative (USTR) Robert Lighthizer said would be a separate policy.

Industry, Lawmakers Welcomed Partial Progress

There was an almost vociferous applause of the administration's limited progress in the trade war with China by industry groups and the president's allies. "Business Roundtable welcomes the progress made between the U.S. and China on important trade issues that will delay tariff increases and begin leveling the playing field for American workers and businesses," the group said in a statement. "We look forward to reviewing the details of this announcement and urge both governments to work toward making additional structural reforms in China and eliminating tariffs," the organization said.

Senate Finance Committee Chairman Chuck Grassley (R-Iowa) was happy to applaud the agreement with the caveat that he needs to read the fine print. "Any time progress is made, that's good news. Farmers in Iowa know far too well that the trade war has caused real financial pain in the heartland. But we need to know more about this deal and follow-through from China will be key. I welcome the news that progress on some areas has led to a delay in tariff hikes that would impact U.S. consumers," Grassley said.

> "A final deal must address the full scope of structural issues identified in USTR's Section 301 report and include strong enforcement mechanisms. After so much has been sacrificed, Americans will settle for nothing less than a full, enforceable and fair deal with China. I look forward to learning more details in the coming days," the senator added.

The American Apparel & Footwear Association (AAFA) also welcomed the truce with caveats. "While we welcome the President's decision to withhold an additional tariff increase on many of our products, the reality is that everything currently being hit with punitive tariffs is still being charged," said AAFA President Rick Helfenbein.

"This means Americans are still being burdened with an additional 25% on backpacks, handbags, luggage, hats, and gloves. It also means that 92% of our clothing, 53% of our shoes, and 68% of our home textiles imported from China continue to be charged an additional 15% tariff. These rates are on top of the hefty tariffs already being charged on these products," Helfenbein added.

BIS Adds Chinese Companies, Government Agencies to Entity List

As a Chinese trade delegation arrived in Washington to restart talks, the Bureau of Industry and Security (BIS) Oct. 7 added 28 Chinese entities to its Entity List, including 20 government and municipal security bureaus and eight companies, for their activities in the Xinjiang Uighur Autonomous Region (XUAR).

"Specifically, these entities have been implicated in human rights violations and abuses in the implementation of China's campaign of repression, mass arbitrary detention, and high-technology surveillance against Uighurs, Kazakhs, and other members of Muslim minority groups" in the region, BIS noted.

The blocked entities included: Dahua Technology; Hikvision; IFLYTEK; Megvii Technology; Sense Time; Xiamen Meiya Pico Information Co. Ltd.; Yitu Technologies; and

Yixin Science and Technology Co. Ltd. For those entities, BIS imposed a license requirement for all items subject to the Export Administration Regulations (EAR) and a case-by-case license review policy for Export Control Classification Numbers (ECCNs) 1A004.c, 1A004.d, 1A995, 1A999.a, 1D003, 2A983, 2D983 and 2E983.

"A policy of case-by-case review also applies to items designated as EAR99 that are described in the Note to ECCN 1A995, specifically, items for protection against chemical or biological agents that are consumer goods, packaged for retail sale or personal use, or medical products. BIS has adopted a license review policy of presumption of denial for all other items subject to the EAR," the Federal Register notice said.

> "We strongly urge the U.S. to immediately stop making irresponsible remarks on the issue of Xinjiang, stop interfering with the wrong actions of China's internal affairs, and remove relevant Chinese entities from the 'list of entities' as soon as possible. China will also take all necessary measures to resolutely safeguard China's own interests," a Chinese Ministry of Commerce spokesperson said in a statement.

Dahua Technology, which calls itself a "world-leading video-centric smart IoT solution and service provider," denounced the decision, which lacks "any factual basis," the company said in a statement. "Regarding such decision of U.S. government, we have actively taken various measures, and we will continue providing outstanding products and services to our customers," it added.

U.S., Japan Sign Limited Trade Deals .... Again

Maybe it was just a photo op, or a good trade story for an administration that sorely needed one. Whatever the case, U.S. and Japanese officials Oct. 7 at the White House signed two deals on reducing agriculture tariffs and setting digital trade rules. Witnessing the event were representatives from major agriculture and tech industry groups.

Just two weeks prior, under the spotlight of the United Nations (UN) General Assembly, the U.S. and Japan signed the same limited agreements in principle (see **WTTL**, Sept. 30, page 2). While industry groups welcomed the agreements, the deals do not address potential auto tariffs or other sticky subjects, which have stymied a previous deal between the two trading partners.

"This is a very big trade deal. This is about 55 billion dollars' worth of trade. With this, we'll have more than 95% of the GDP" that would have been in the Trans-Pacific Partnership (TPP), USTR Lighthizer said at the most recent signing.

"Japan is the biggest market for United States in beef, pork, wheat. And it's a substantial market in a variety of other things, including potatoes, which weren't mentioned, and a lot of the nuts and other products. It also affects wine and the like. So we think we'll have substantial additional sales as a result of this," Lighthizer added.

As promised at the UN, the two partners will continue to negotiate, the president said. "In the months ahead, our teams will continue negotiations on remaining areas of interest to achieve a final and very comprehensive agreement. We're working on that right now. There's some big, big things that we're working on," he said.

On digital trade, the agreement includes rules that: prohibit application of customs duties to digital products; ensure non-discriminatory treatment of digital products; ensure that data can be transferred across borders; facilitate digital transactions by permitting the use of electronic authentication and signatures; prohibit data localization measures; protect against forced disclosure of proprietary computer source code and algorithms; and ensure companies' effective use of encryption technologies and protect innovation for commercial products that use cryptography, USTR noted in a fact sheet.

> On agriculture, once the agreement is implemented, Japan will eliminate tariffs for U.S. food and agricultural products valued at approximately $1.3 billion, including almonds, blueberries, cranberries, walnuts, sweet corn, lactose, milk albumin, grain sorghum, food supplements, broccoli, and prunes, the USTR's office said.

"Another $3.0 billion of U.S. exports will benefit from staged tariff elimination matching access conditions in the CP-TPP agreement. This group includes processed pork, beef offal, frozen poultry, wine, frozen potatoes, oranges, fresh cherries, cheese and whey, ethanol, egg products, and tomato paste," the fact sheet added.

The National Association of Wheat Growers (NAWG) and U.S. Wheat Associates (USW) applauded the deal in a joint statement. "As we hoped, the text confirms that the agreement will put U.S. wheat back on equal footing with wheat from Canada and Australia when it is implemented," said USW President Vince Peterson. According to the USTR's office, Japan will provide the same reduction to its wheat and barley "markup" as provided to CP-TPP suppliers. Japan's imports of U.S. wheat and barley were valued at more than $800 million in 2018.

House Dems Talk USMCA in Mexico

Every day brings a new opinion piece or speech by administration officials singing the praises of the updated NAFTA, the U.S.-Mexico-Canada (USMCA) trade agreement. At the same time, House Ways and Means Committee Chair Richard Neal (D-Mass.) led a delegation of committee Democrats to Mexico Oct. 4-8.

The delegation, which included Reps. Jimmy Panetta (D-Calif.), Jimmy Gomez (D- Calif.), Bill Pascrell (D-N.J.) and Dan Kildee (D-Mich.), met with Mexican President Andres Manuel López Obrador (AMLO) "to learn more about his vision and commitment to the historic labor justice reform legislation passed earlier this year and the terms of the North American economic partnership," a committee statement said.

Lawmakers were positive about the meeting, but they took a wait-and-see attitude about promised changes to Mexico's labor laws. "I appreciate today's positive engagement and am eager to see Mexico demonstrate its commitment to implementing the changes necessary to realize its own vision for reform and meet the demanding labor and enforcement standards that will be required by the renegotiated NAFTA," Neal said.

"I will continue to closely monitor the Mexico's budget process to ensure they are seriously investing in implementation of their new labor laws. We must know that Mexico is serious about beginning a new chapter before we rush to judgement on a new agreement. We'll have a suitable agreement only when the hard terms match that aspiration," Rep. Bill Pascrell (D-N.J.) said in a separate statement.

> AMLO tweeted a photo with the lawmakers Oct. 8. "I asked for [their] support for the approval of the Treaty because I consider that it benefits the peoples of the two nations." Democrats have been holding out on approving the deal while waiting for changes to enforceability, while most Republican lawmakers seem eager for its passage (see **WTTL**, Oct. 7, page 4).

To prove a point, Senate Finance Committee Chair Chuck Grassley (R-Iowa) put out another such glowing statement Oct. 11. "The USMCA is a significant victory for our nation's family farmers. The agreement solidifies and expands trade with our two most important agricultural trading partners: Canada and Mexico, at a time when family farmers nationwide have been struggling due to trade uncertainties, natural disasters and decreasing commodity prices," he wrote. "After months of positive discussions in Congress, now is the time for action. We must move forward with the USMCA," Grassley added.

* * * Briefs * * *

<u>EXPORT ENFORCEMENT</u>: Jaguar Imports LLC of Orlando, Fla., agreed Oct. 9 to pay $98,000 civil penalty to settle 12 BIS charges of engaging in prohibited conduct. From February 2015 through September 2017, Jaguar exported stun guns, handcuffs, police batons and pepper spray to Colombia, Mexico and Panama without required BIS licenses. Items were classified under ECCNs 0A985, 0A982, 0A978 and 1A984 respectively and controlled for crime control reasons, valued at $35,355. Of penalty, $65,000 will be suspended for five years and then waived if Jaguar commits no further violations.

<u>ITAR EXPORTS</u>: In annual Section 655 report to Congress, covering fiscal year 2018, which ended Sept. 30, 2018, DDTC said it approved export of approximately $63.4 billion in defense articles and services.

<u>MTB</u>: ITC began accepting comments Oct. 11 on petitions seeking temporary duty suspensions and reductions. ITC will evaluate petitions and submit reports to Congress for use in creating Miscellaneous Tariff Bill (MTB). Portal closes Dec. 10. President signed MTB Act in September 2018 after six-year gap (see **WTTL**, Sept. 17, 2018, page 5). Portal can be accessed here: https://www.usitc.gov/mtbps.