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Abe, Trump Tackle Trade Issues

At the White House Feb. 10, Japanese Prime Minister Shinzo Abe and President Trump pledged to continue the strong relationship between the two nations and delved into trade in the wake of the U.S. withdrawal from the Trans-Pacific Partnership (TPP). Before the meeting, bipartisan lawmakers spoke out against the existing lopsided auto trade.

> "On the economy, we will seek a trading relationship that is free, fair and reciprocal, benefiting both of our countries. The vibrant exchange between us is a true blessing," Trump said during a joint press conference with Abe.

In his prepared remarks, Abe said, "Japanese businesses have built factories all over the" U.S. and invested $150 billion dollars, resulting in many American jobs. When questioned directly about the U.S. withdrawal from the Trans-Pacific Partnership (TPP), Abe said that he and Trump would discuss economic issues over a working lunch. Abe added his deputy prime minister and Vice President Pence will work out a "new framework for dialogue."

President Trump talked tough on the campaign trail about the trade deficit with Japan. During the joint press conference, Trump said that he was telling automakers to come back to the U.S. and that big announcements will be made in a short period of time.

Congress, Industry Urge Fair Trade with Japan

Prior to the meeting between Abe and Trump at the White House Feb. 10, members of Congress from auto-producing states urged the president not to forget his words and warned him not to engage in bilateral trade talks without firm commitments to level the playing field for U.S. auto producers. At the same time, agriculture industry groups urged the two countries to pursue a free trade agreement. "The total U.S.-Japan trade deficit stands at $68 billion. Nowhere is the closed nature of Japan's market more evident than

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in the auto sector which has consistently made up to close to 70% of the overall deficit," wrote Reps. Sander Levin (D-Mich.), Marcy Kaptur (D-Ohio) and Bill Pascrell, Jr. (D-N.J.) in their Feb. 9 letter.

"Even though Japan is the third largest auto market in the world, its auto market import penetration rarely breaks 6% - the lowest among all OECD [Organization for Economic Cooperation and Development] members. The unfair non-tariff barriers have varied over the years, but their purpose remains the same – to block imports," the letter continued.

> "Japan has directly intervened 376 times in the currency market since the 1980s. Currency manipulation by Japan has resulted in large trade deficits which have displaced hundreds of thousands of U.S. jobs," Reps. Debbie Dingell (D-Mich.) and Mark Pocan (D-Wisc.) pointed out in a separate letter Feb. 9.

Sens. Debbie Stabenow (D-Mich.), Sherrod Brown (D-Ohio), Rob Portman (R-Ohio), Gary Peters (D-Mich.), Roy Blunt (R-Mo.) and Claire McCaskill (D-Mo.) noted that while Japan exported 1.6 million passenger or commercial vehicles to the U.S. in 2015, it imported only 20,000 such units from the U.S., according to Commerce.

Bottom line: "The U.S.-Japan auto-trade relationship hurts American companies and workers and should be addressed with urgency. In any bilateral talks with Japan, the U.S. should secure reform of Japan's practices that hurt U.S. automakers, including currency manipulation, and achieve significant access to Japan's auto market," wrote the senators.

On the other side of the argument, the National Cattlemen's Beef Association (NCBA) and the National Pork Producers Council (NPPC) urged Trump to begin negotiations on a free trade agreement with Japan. "A successful, comprehensive agreement with Japan would result in one of the greatest trade agreements for the U.S. pork and beef industries and for many other sectors," NCBA President Craig Uden said in a statement. In 2016, Japan purchased $1.4 billion of U.S. beef products and $1.5 billion of U.S. pork products, according to NCBA and NPPC.

Other agriculture groups, including the American Soybean Association (ASA), urged the administration to pursue trade agreements in Asia more generally. "We hope your Administration will create such opportunities for our sector by deepening U.S. economic engagement in this critical region while responding to the Asia-only regional trade agreements being negotiated by our foreign competitors," wrote 88 groups in a letter Feb. 7. "While many in our sector strongly supported the Trans-Pacific Partnership, we hope future agreements build upon the valuable aspects of that agreement to increase our market access in the Asia-Pacific," they said.

U.S. Exports, Imports in 2016 Down

While 2016 was an up-and-down year for trade figures, the final tally shows a drop in both U.S. exports and imports from a year ago. Total merchandise exports in 2016 fell 3.3% to $1.46 trillion, while imports fell 2.8% from last year to $2.2 trillion, Commerce reported

Feb. 7. The fall in oil prices and lower consumption in the U.S., led to a 19.5% decline in imports of petroleum products to the lowest level since 2003. U.S. exports of petroleum products fell 7.9%. Services exports dipped 0.2% to $749.6 billion from 2015, as services imports increased 2.7% to $502 billion.

Preliminary 2016 vs. 2015 U.S. Merchandise Trade Figures (in billions)

	2016 Exports	2015 Exports	% Change	2016 Imports	2015 Imports	% Change
Total	$1459.8	$1510.3	-3.3%	$2209.9	$2272.8	-2.8%
BY COUNTRY/REGION						
Canada	266.8	280.3	-4.8	278.1	295.2	-5.8
Mexico	230.9	236.4	-2.3	294.2	294.7	-0.2
European Union (28)	270.3	272.7	-0.9	416.7	426.0	-2.2
Germany	49.4	49.9	-1.2	114.2	124.1	-8.0
France	30.9	30.1	2.9	46.8	47.6	-1.8
United Kingdom	55.4	56.4	-1.7	54.3	57.8	-6.0
Japan	63.3	62.5	1.3	132.2	131.1	0.8
China	115.8	116.2	-0.4	462.8	481.9	-4.0
NICs: HK, Singapore, Taiwan, Korea	130.1	135.3	-3.8	134.4	137.5	-2.2
South/Central America	136.6	153.3	-10.9	107.8	115.9	-7.0
BY SECTOR						
Agriculture	$134.9	$133.0	1.4%	$114.6	$113.7	0.8%
Aircraft, parts, engines	120.8	118.9	1.6	49.9	55.1	-9.4
Autos, parts, engines	150	151.6	-1.1	350.3	348.3	0.6
Clothing	3.1	3.3	-6.1	88.2	93.6	-5.8
Chemicals-Organic	31.2	34.6	-9.8	47.2	49.2	-4.1
Chemicals-Inorganic	10.1	10.4	-2.9	11.0	12.0	-8.3
Petroleum, total categories	89.7	97.4	-7.9	146.5	182.0	-19.5
Iron & steel	12.6	14.9	-15.4	27.4	36.9	-25.7
Metalworking machines	4.7	5.4	-13.0	9.3	9.8	-5.1
Pharmaceuticals	47.2	49.9	-5.4	95.5	89.3	6.9
Semiconductors	44.3	42.5	4.2	51.6	46.0	12.2
Telecommunications	41.1	41.9	-1.9	71.8	66.1	8.6

Ending the year strong, merchandise exports in December grew 5.2% from a year ago to $126.9 billion. Services exports gained 2.2% to record-high $63.75 billion from December 2015. Goods imports increased 4.8% from December 2015 to $192.6 billion, as services imports gained 3.7% to $42.3 billion.

The economic slowdown in China caused exports there to dip 0.4% in 2016, compared to 2015 when they dropped 6.1%. Imports from China also fell 4.0% from the year before, compared to growing the previous year by 3.2% and producing a $347 billion trade deficit, almost half of the total deficit of $734.3 billion.

In a flip from the previous year, exports to major markets in Germany and the United Kingdom fell, but France's economic problems didn't prevent a growth in exports to that partner. U.S. imports from Japan inched up 0.8%, and exports to Japan also grew 1.3% to $63.3 billion. The continued consequences of the shift of production of pharmaceuticals offshore and the growth of imports on generic drugs are seen in the 6.9% increase in drug imports. The U.S. steel industry's prior complaints about rising steel imports appear to have worked, at least the last two years, as steel imports fell 25.7%.

"There was a concerted effort in 2016 among domestic steel producers to reduce the amount of steel imported into the United States, and it was clearly successful. Trade enforcement actions have applied sometimes exorbitant duties to certain steel imports, driving up the effective average price of steel. This means that American businesses and consumers ultimately pay for these duties," American Institute for International Steel said in a statement in response to preliminary 2016 numbers.

Faulty Data Cannot Accurately Measure C-TPAT Benefits, GAO Says

Staff from Customs and Border Protection's (CBP) Customs-Trade Partnership Against Terrorism (C-TPAT) have more work to do in measuring the program's benefits and protecting participants' security, according to a Government Accountability Office (GAO) report published Feb. 8 (GAO-17-84).

> "CBP cannot determine the extent to which C-TPAT members are receiving benefits because of data problems," GAO said. Since 2012, CBP has compiled data on certain events or actions it has taken regarding arriving shipments—such as examination and hold rates and processing times—for both C-TPAT and non-C-TPAT members through its Dashboard data reporting tool.

"On the basis of GAO's preliminary analyses and subsequent data accuracy concerns cited by C-TPAT program officials, GAO determined that data contained in the Dashboard could not be relied on for accurately measuring C-TPAT member benefits," it said. "Despite these issues, C-TPAT officials are exploring new member benefits, and industry officials we met with generally spoke positively of the C-TPAT program," GAO said.

The security problems can be linked to the launch of Portal 2.0 to exporters under the program. "In particular, since the system was updated in August 2015, C-TPAT staff have identified instances in which the Portal 2.0 system incorrectly altered C-TPAT members' certification or security profile dates, requiring manual verification of member data and impairing the ability of C-TPAT security specialists to identify and complete required security validations in a timely and efficient manner," GAO noted.

GAO made two recommendations to CBP, to which the agency agreed: "develop (1) standardized guidance for field offices regarding the tracking of information on security validations, and (2) a plan with milestones and completion dates to fix the Dashboard so the C-TPAT program can produce accurate data on C-TPAT member benefits."

Trade Deficit with FTA Partners Looks Worse than Reality

Now that the new administration has formally withdrawn from the multilateral Trans-Pacific Partnership (TPP) in favor of more bilateral free trade agreements (FTAs), statistics released Feb. 7 show that the U.S. racked up a $71.3 billion trade deficit with the 20 countries with which it already has FTAs.

2016 Trade with FTA Countries (in millions)			
	U.S. Exports	U.S. Imports	Balance
Australia	$22,225	$9,534	$12,690
Bahrain	902.1	768.3	133.8
Canada	266,827	278,067	-11,240
Chile	12,941	8,799	4,141
Colombia	13,099	13,796	-696
Costa Rica	5,897.4	4,332.7	1,564.8
Dominican Republic	7,785.8	4,684.1	3,101.8
El Salvador	2,962.5	2,496.9	465.6
Guatemala	5,899.9	3,948.5	1,951.4
Honduras	4,845.7	4,618.4	227.3
Israel	13,197.1	22,206.4	-9,009.4
Jordan	1,494.8	1,557.2	-62.4
Korea, South	42,266	69,932	-27,666
Mexico	230,959	294,151	-63,192
Morocco	1,866.0	1,021.8	844.2
Nicaragua	1,474.7	3,303.6	-1,829.0
Oman	1,783.9	1,108.7	675.2
Panama	6,144.1	407.7	5,736.3
Peru	8,029.2	6,249.0	1,780.2
Singapore	26,868	17,801	9,067.9
TOTAL	677,468.3	748,783.4	-71,315.3

While that figure seems large, the explanation comes down to two sectors: oil and autos. The deficits with Canada (-$11.2 billion) and Mexico (-$63.2 billion) are the primary reason for the FTA deficit. Without those two countries, the other 18 FTAs would produce a $31 billion merchandise trade surplus (see chart this page).

To stem that trade deficit, President Trump has announced plans to renegotiate NAFTA (see related story below). Goods exports to the FTA partners dropped to $677 billion from 2015, while imports also fell to almost $749 billion.

NAFTA Renegotiations Not So Easy, Former Officials Say

A renegotiated North American Free Trade Agreement (NAFTA) won't be so easy to come by, former U.S. and Mexico trade officials said at a panel discussion in Washington Feb. 9. Mexico and Canada are not simply going to bow to Trump's pressures, as evidenced in part by the lack of visits from the heads of state of the U.S.' closest neighbors.

"I think with respect to all of President Trump's trade proposals and the proposals to renegotiate NAFTA, the first question you have to ask yourself is: If it were that easy, why hasn't it been done already?" asked Matt Gold, former deputy assistant USTR for North America. "I can tell you that Mexico, Canada and the United States have all wanted to change certain things in NAFTA, and although there have never been formal negotiations, we all know the others' desires and we've been at an impasse for 23 years," he said. No American administration has been willing to give concessions; therefore Mexico and Canada haven't seen fit to move their positions either, Gold added.

Despite Trump's fiery rhetoric against NAFTA – and multilateral deals in general – Gold does not believe Trump's threat of leaving NAFTA is credible, nor does Gold believe

Mexican and Canadian trade officials believe Trump's threats to leave or renegotiate are credible. As Gold pointed out, the U.S. has an unmatched comprehensive diplomatic relationship with Canada, and Mexico is the U.S.' second largest export market. Withdrawing from NAFTA would throw industry into a recession and tank supply chains in the process, Gold contended.

Uri Dadush, senior fellow at the OCP Policy Center in Morocco, said that contrary to popular belief, any renegotiation would not be one-sided. Mexico depends on the U.S., but the relationship works both ways. If hypothetical negotiations broke down, the U.S. could decide to raise tariffs to World Trade Organization (WTO) most favored nation (MFN) level, meaning raising tariffs to 3%. Mexico, however, could raise tariffs to 8% on average and 20% on agriculture while staying within WTO rules. "I think it's clear that Mexico hurts the United States at least as much as the United States hurts Mexico in a scenario of MFN trade," said Dadush.

> Antonio Ortiz-Mena, former economic affairs minister at the Mexican Embassy, said that what is at stake "is the future of the relationship between Mexico and the U.S." and that is "the most important relationship on a day-to-day basis for Americans." A modernized deal is possible, Ortiz-Mena said, but the starting point for Mexico is the status quo. "I don't see why Mexico should accept anything less than tariff-free, quota-free access," he said.

There is plenty of room to discuss rules of origin, foreign direct investment in both countries, regional transportation development and similar topics. "What I don't see viable is full renegotiation of NAFTA starting from scratch, having Mexico accept less than it already has. If that's the scenario, and if negotiations will take a long [time], a better alternative could say, 'Okay, we'll go down the MFN route,'" said Ortiz-Mena.

Gold noted that the events of the first few weeks of Trump's presidency shore up his predictions about the fate of NAFTA. Note, he said, that no trilateral summit has been announced, and NAFTA can only be negotiated in a trilateral setting. Neither the annual North American Leaders' Summit nor the annual NAFTA Free Trade Commission has been scheduled. Trump has yet to meet in person with Mexico's president – their meeting was abruptly canceled – or with Canada's Prime Minister Justin Trudeau. (European leaders have met with Trudeau and reportedly have been discussing how to handle Trump, Gold said.)

In contrast, Secretary of State Rex Tillerson has met with his North American counterparts. Tillerson met with Foreign Secretary of Mexico Luis Videgaray Feb. 8. Acting State Spokesperson Mark Toner said the two had a "constructive conversation" about law enforcement, migration and security. In Toner's brief statement, no mention was made of trade negotiations.

Though State did not issue a formal statement, the Canadian government released details of Foreign Affairs Minister Chrystia Freeland's visit to the U.S. Feb. 7-8. In their meeting, Freeland and Tillerson "underlined the importance of the economic relationship between their countries" and "spoke about the balanced and mutually beneficial trading relationship… as well as about softwood lumber," the Canadian statement noted. Freeland also met with House Speaker Paul Ryan (R-Wisc.), Sens. Bob Corker (R-Tenn.) and Ben Cardin (D-Md.).

Commerce Imposes Dumping, Subsidy Margins on Chinese Steel

Commerce announced its affirmative final determinations Feb. 2 in the antidumping and countervailing duty investigations of imports of stainless steel sheet and strip from China. The International Trade Commission will make its final determination March 20.

Commerce imposed a dumping margin of 63.86% for non-selected separate rate respondents Taiyuan Ridetaixing Precision Stainless Steel Incorporated and Zhangjiagang Pohang Stainless Steel and a China-wide rate of 76.64%. The department calculated a final subsidy rate of 75.6% for mandatory respondent Shanxi Taigang Stainless Steel and its cross-owned companies. Mandatory respondents Ningbo Baoxin Stainless Steel and Daming International Import Export and their respective cross-owned companies did not participate in the investigation; therefore Commerce calculated a final subsidy rate of 190.71% using adverse facts available. All other producers/exporters in China were issued a final subsidy rate of 75.6%.

AK Steel Corporation, Allegheny Ludlum d/b/a ATI Flat Rolled Products, North American Stainless and Outokumpu Stainless USA were the petitioners in these investigations.

* * * Briefs * * *

CIVIL PENALTIES: In Federal Register Feb. 10, OFAC adjusted for inflation maximum civil monetary penalties (CMPs) under relevant regulations. These include: Iran, Sudan, Zimbabwe, Syrian, Cote D'Ivoire, Darfur, Congo, Belarus, Lebanon and Hizballah sanctions programs. OFAC implemented "catch-up" adjustments to maximum CMPs it assesses under IEEPA in July (see **WTTL**, July 4, page 10).

WHITE HOUSE: Former BIS Under Secretary Kenneth Juster Feb. 2 was named deputy assistant to the president for international economic affairs. In position, he "will coordinate the Administration's international economic policy and integrate it with national security and foreign policy," White House noted. Since leaving BIS in 2005, Juster has been partner and managing director at global investment firm Warburg Pincus and before that was executive VP of salesforce.com.

AMMONIUM SULFATE: In 5-0 final vote Feb. 8, ITC found U.S. industry is materially injured by dumped and subsidized imports of ammonium sulfate from China. Commissioner Dean A. Pinkert did not participate in this review.

GEOGRID: In 6-0 final vote Feb. 7, ITC found U.S. industry is materially injured by dumped and subsidized imports of certain biaxial integral geogrid products from China. Commission also made negative findings with respect to critical circumstances with regard to imports of this product from China.

TIRES: In 5-0 final vote Feb. 3, ITC found U.S. industry is materially injured by dumped imports of certain new pneumatic off-the-road tires from India and subsidized imports from India and Sri Lanka. ITC also made negative findings on critical circumstances with regard to subsidized imports from India and Sri Lanka. Commissioner Dean A. Pinkert did not participate in this review.

FCPA: Kamta Ramnarine and Daniel Perez, both of Brownsville, Texas, were sentenced Feb. 2 to three years' probation in McAllen, Texas, U.S. District Court for paying $2 million in bribes to Mexican law enforcement officials to secure aircraft maintenance and repair contracts. Both previously pleaded guilty to conspiracy to violate Foreign Corrupt Practices Act (FCPA) (see **WTTL**, Jan. 2, page 11). Douglas Ray of Magnolia, Texas, and Victor Hugo Valdez Pinon, Mexican citizen, also pleaded guilty and await sentencing.

COMPLIANCE: BIS Office of Exporter Services Feb. 9 posted "combined and revised" content of Export Compliance Guidelines and Audit Module into one 56-page booklet. Booklet includes examples, checklists, templates and resources.

EXPORT ENFORCEMENT: Fadi Yassine, Lebanese citizen, was arrested Feb. 6 and charged with conspiracy to violate Arms Export Control Act in connection with Iowa family scheme to illegally export hundreds of firearms to Lebanon. Bassem Afif Herz was fourth member of his family to be sent to prison in December for his role in scheme (see **WTTL**, Dec. 19, page 8). Herz was sentenced in Cedar Rapids, Iowa, U.S. District Court to 97 months in prison. Herz's brother, wife and nephew also were sentenced toprison.

WAYS & MEANS: Rep. Judy Chu (D-Calif.) approved Feb. 2 by Democratic Caucus to House Ways and Means Committee. She replaces former Rep. Xavier Becerra (D-Calif.), who now serves as California attorney general.

WASSENAAR: New administration, new letter. Rep. Jim Langevin (D-R.I.) and leaders of House Homeland Security and Oversight committees urged National Security Advisor Michael Flynn in letter Feb. 10 to continue effort to renegotiate agreed-upon controls on cybersecurity products at 2017 Wassenaar Arrangement. Negotiators failed to get agreement at 2016 plenary despite industry outcry (see **WTTL**, Dec. 19, page 3). Deadline for 2017 proposals is end of February, letter noted. Lawmakers also requested that "no further cybersecurity related controls be added to the control list while the intrusion software language is being resolved." Sen. Ron Wyden (D-Ore.) echoed sentiment in separate letter.

RUSSIA: Bipartisan group of senators Feb. 8 introduced *Russia Sanctions Review Act of 2017* (S, 341), which provides for "congressional oversight of actions to waive, suspend, reduce, provide relief from, or otherwise limit the application of sanctions" on Russia. Sponsors are usual suspects: Sens. Lindsey Graham (R-S.C.), Ben Cardin (D-Md.), Marco Rubio (R-Fla.), Sherrod Brown (D-Ohio), John McCain (R-Ariz.) and Claire McCaskill (D-Mo.).

TPP: Steven Ciobo, Australia's minister for trade, tourism and investment, said Feb. 8 he is trying to salvage TPP with as many partners as possible. "[T]here were a lot of hard fought gains that were achieved through intense negotiations over many years, in relation to the TPP. I don't want, and I know a number of other countries don't want to let those gains slip through our fingers. That's why I put a focus on whether or not we could have for example, a TPP 12 minus one. In other words, the TPP less the United States, given the U.S. doesn't want to be part of it," he said in interview published on ministry's website (see **WTTL**, Jan. 30, page 4).