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Administration Considering End to Vietnam Arms Embargo

While most of the attention on President Obama's upcoming trip to Vietnam is focused on the Trans-Pacific Partnership (TPP), the White House also is considering lifting the arms embargo on that country, Deputy National Security Advisor Ben Rhodes said in a call with reporters May 19.

> "We have not finalized a decision related to this issue. It is something that we regularly review and we certainly expect that it will be a subject of discussion with the Vietnamese. So I'd expect that this will be discussed in the context of the President's meetings, and it's something that we obviously have been looking at as we prepare for the visit in the context of our broader relationship," he said.

"They regularly raise this issue with us, and we'll, of course, want to have the opportunity to explain our thoughts to them, and I think we'll have the opportunity to discuss it in that context," he added. "We've been engaged in consultations with Congress about this and other issues related to the U.S.-Vietnam relationship over the last days and weeks," Rhodes noted.

Sen. John McCain (R-Ariz.) addressed the president's trip in a statement May 18. "We will need to enable Vietnam's ability to contribute to the maritime space by finally removing the prohibition on the sale of lethal military equipment to the Government of Vietnam. This symbolic ban of weapon sales is a product of our past history and an inhibitor of our future relationship," he said. "We cannot ask our partners to contribute more while continuing to take steps to directly limit the level of their contribution. The time has come for a full lifting of this prohibition," McCain added.

ITC Report on TPP Will Satisfy Everyone – Or No One

The TPP will have positive effects on the U.S. economy, albeit small as a percentage of its overall size, according to the long awaited International Trade Commission (ITC) report

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on the deal's likely economic impact released May 18. Both supporters and opponents of the deal will find ammunition for their own arguments (see related story, page 3).

ITC used a "dynamic computable general equilibrium model" to determine the economic impact of the agreement compared to baseline projections about the economy without the deal. The model found that by 2032 - year 15 of the deal - U.S. annual real income would be .23% higher than baseline projections, which translates to approximately $57.3 billion.

> Real GDP would grow .15% more than without the deal, and employment would grow .07% more, the equivalent of 128,000 full-time jobs. U.S. exports would grow 1% more ($27.2 billion), and exports to new free trade agreement (FTA) partners would increase an additional $34.6 billion (18.7%), the ITC found.

However, critics could argue that the last five years have seen a good trade growth with the TPP partners anyway. If trade with those countries were to grow at the same rate in the next five years as it has in the last half decade, U.S. exports would grow by about $327 billion, but the trade deficit could balloon to more than $300 billion, even without the deal (see **WTTL**, May 18, 2015, page 5).

Agriculture and food would see the greatest gain with an additional output of $10 billion (.5%) by 2032. The services sector would gain $42.3 billion in output, meaning it would expand the most in dollar terms under the agreement.

In contrast, output of manufacturing, natural resources, and energy (MNRE) would be $10.8 billion (.1%) lower with TPP compared to estimates without the agreement "because trade barriers are already low in many of these industries; liberalization would have a stronger positive effect in other sectors of the economy, which would likely cause resources to be reallocated away from MNRE," the report noted.

Overall U.S. passenger vehicle exports would increase by $2.9 billion (2%) and parts exports would increase by $2.1 billion (1.5%) by 2032 as compared to the baseline, but would be offset by a drop in exports to non-TPP countries, the report noted. In the short term, the industry could see a decrease in exports when faced with increased competition from Canada and other TPP countries before those countries lower tariffs on U.S. exports. Japan is a country to keep an eye on, as in year six of the TPP Japanese manufacturers gain tariff-free access to Canada, a major destination for U.S. passenger vehicles.

According to the report, TPP would result in a $257 million (1.3%) increase in U.S. textile exports over the 2032 baseline, with the largest increase coming from exports of textiles to new FTA partners. Textile exports to non-TPP countries would be $295 million (3.1%) less than without the deal. Apparel exports are estimated to increase by $10 billion (.3%) under TPP because "Made in America" items like jeans are coveted in TPP countries. Those gains could be limited because the coveted items might not meet the "yarn-forward" TPP rules of origin, ITC said.

If the percentages seem small, it's because ITC was not able to quantify much of the agreement in its report, U.S. Trade Representative (USTR) Michael Froman argued in a phone call with the business community on May 19. "The ITC report goes through all of the chapters and talks about what's in each of the chapters. But it recognizes that are a lot of the chapters that go beyond their largely tariff-faced model. They haven't been able to put numbers to them. Whether that's in areas like customs and trade facilitation, or some of these standards issues, putting standards on agricultural products as well as on manufactured products," said Froman.

> The report "doesn't fully address the intellectual property rights issues, like copyright or enforcing rights against counterfeiting. There are a number of areas, even the labor and environmental chapters which are very important here, raising standards in other countries; they don't quantify the benefits as well," he added.

In general, ITC found that TPP would "establish trade-related disciplines that strengthen and harmonize regulations, increase certainty, and decrease trade costs for firms that trade and invest in the TPP region." The report also noted that stakeholders consider electronic commerce provisions protecting cross-border data flows and prohibiting data localization requirements as crucial to optimizing global operations of U.S. companies across all sectors.

Industry Uses Report to Push for Congressional Action

Reactions to the ITC report on the TPP released May 18 came quickly, with proponents and detractors of the deal issuing a flurry of press releases and phone calls. "The ITC report provides another strong argument for why TPP should be passed this year. It is part of a growing body of evidence that shows that TPP will benefit our economy at home and allow the U.S. to help set the rules of the road for trade in the Asia Pacific," said USTR Michael Froman.

Commerce Secretary Penny Pritzker added, "The TPP will expand access to the more than 500 million consumers that reside in some of the world's fastest-growing markets and provide a level playing field for U.S. businesses and workers to contend with their global competitors." She highlighted the fact U.S. goods exports to TPP countries increased by 59% and services exports have increased by 35% since 2009.

The two experts from the Peterson Institute who issued their own report in April on the TPP impacts also weighed in (see **WTTL**, April 4, page 6). "The ITC headline estimate of TPP benefits—income gains of $57 billion annually for the United States in 2032—is significant but arguably too low. This new study is more ambitious than previous ITC efforts covering other trade agreements, but it is still very cautious in quantifying gains," Peterson's Peter Petri and Michael Plummer said.

The experts also noted the limitations of the report, which USTR Michael Froman also acknowledged (see related story, page 1). "It focuses primarily on provisions, such as tariffs cuts and committed liberalization in some service sectors, that can be modeled in a noncontroversial way," they said. "In addition, the ITC does not model improvements in

U.S. productivity, even though the TPP would shift resources to America's most productive companies as they expand through international sales," Petri and Plummer noted.

Large swaths of agriculture exporters also voiced their support for TPP in light of the report's findings of agricultural growth. "As we have said consistently, each sector within the American agricultural economy is very closely connected to the next, and nowhere is that more clear than in the case of soybeans and livestock. The TPP is a win for soybean farmers because it means more meat exports. When our partners in the pork, poultry, beef and dairy industries do well, we do well," American Soybean Association President Richard Wilkins said in a statement.

> "None of that can happen, however, if the agreement continues to lay dormant waiting for Congress to do its job. We understand that the political environment is difficult in an election year, but that's the job lawmakers signed on to do. TPP deserves a debate and a vote so these benefits can be realized," Wilkins added.

U.S. Wheat Associates, which supports TPP, took exception to the ITC's finding that wheat exports to Japan would decline 17% under TPP. "Given our industry's 60 years of experience in the unique Japanese market, we respectfully believe that the ITC got this one wrong." Perceived mistakes aside, USW Chairman Brian O'Toole said, "Wheat farmers need TPP, but so do our customers around the world."

The U.S. Conference of Mayors (USCM) reiterated its support of TPP during a press call May 18. USCM CEO and Executive Director Tom Cochran urged Congress to act, saying, "It is clear that TPP will determine who will write the trade rules for 40% of the global economy, so its geopolitical significance cannot be overstated."

Senate Finance Committee Chairman Orrin Hatch (R-Utah) called the TPP a "once-in-a-lifetime opportunity," but cautioned that "the agreement's success hinges on a strong and honest partnership between Congress and the administration." Hatch said he was "hopeful that the Obama administration will work actively with members to resolve outstanding substantive and implementation concerns."

Meanwhile, Rep. Rosa DeLauro (D-Conn.) simultaneously slammed the ITC for failing in the past to "accurately project growth of the trade deficit" and said the current report shows that TPP would "deal another blow" to American manufacturing. "From weak rules on origin, to a lack of enforceable currency manipulation rules, the Trans-Pacific Partnership will continue the slow destruction of the American middle class," DeLauro said in a statement. "I urge my colleagues to oppose the Trans-Pacific Partnership and to reject a vote for the deal in the lame-duck session," she added.

AFL-CIO President Richard Trumka called the .15% of GDP growth over 15 years "laughably small" compared to what labor is being asked to give up. "This ITC report is so damaging that any reasonable observer would have to wonder why the administration or Congress would spend even one more day trying to turn this disastrous proposal into a reality. Even though it's based on unrealistic assumptions, the report could not even produce a positive result for U.S. manufacturing and U.S. workers," Trumka said.

Commerce Hits Chinese Steel with Huge Tariffs

In its latest salvo in the war on the global steel glut, Commerce said May 17 Chinese cold-rolled steel imports could soon be subject to duties of approximately 522%. The increased duties could take effect this summer, should the International Trade Commission issue an affirmative injury determination by its June 30 deadline.

No Chinese company responded to Commerce's requests for information during the respondent-selection phase of the investigation, so using adverse facts available, all producers/exporters in China received a final dumping margin of 265.79%. The government of China, Angang Group Hong Kong Co., Benxi Iron and Steel (Group) Special Steel Co., and Qian'an Golden Point Trading Co. also failed to respond to Commerce's requests and thus all cold-rolled steel from China is subject to a CVD rate of 256.44%.

> In the Japan antidumping investigation, JFE Steel Corporation and Nippon Steel & Sumitomo Metal Corporation failed to respond to Commerce, resulting in a final dumping margin of 71.3%. All Japanese producers/exporters are subject to a final dumping margin of 71.35%.

The investigations covered certain "cold-rolled (cold-reduced), flat-rolled steel products, whether or not annealed, painted, varnished, or coated with plastics or other non-metallic substances. The products covered do not include those that are clad, plated, or coated with metal," Commerce noted.

China's Ministry of Commerce said the investigations used "unfair methods" in assessing tariffs and urged the U.S. to correct the situation. In 2015, imports of certain cold-rolled steel flat products from China were valued at approximately $272.3 million and from Japan at approximately $138.6 million.

AK Steel Corporation (Ohio), ArcelorMittal USA LLC (Ill.) Nucor Coporation (N.C.) Steel Dynamics Inc. (Ind.) and United States Steel Corporation (Pa.) filed the petition for these investigations in July 2015 (see **WTTL**, Aug. 3, 2015, page 9). Commerce's final determinations on imports of cold-rolled steel from Brazil, India, Korea, Russia and the United Kingdom have been extended and are scheduled to be announced "on or about" July 13, Commerce noted.

Obama Administration Eases Sanctions on Burma

Just six months after the country held successful elections in November 2015, the Obama administration May 17 loosened some sanctions against Burma, also known as Myanmar. To make it easier for U.S. persons to reside and work in the Asian country, Treasury's Office of Foreign Assets Control (OFAC) added a general license to allow U.S. persons to "conduct most transactions otherwise prohibited," such as paying rent and buying goods and services for personal use. OFAC also extended indefinitely a six-month general license authorizing transactions that are "ordinarily incident to an exportation to or from Burma of goods, technology, or non-financial services" (see **WTTL**, Dec. 14, page 9).

To support trade-related transactions, OFAC added a general license permitting certain transactions of goods within Burma, such as transporting goods from a warehouse for distribution. OFAC also updated an existing general license authorizing most transactions with designated Burmese financial institutions. Two banks were delisted and two -- Innwa Bank and Myawaddy Bank -- were added to the general license.

In addition, OFAC removed seven state-owned enterprises and three state-owned banks from the SDN List. "Taken in concert with the regulatory amendments to allow most transactions with designated financial institutions, this leaves few OFAC restrictions remaining related to banks in Burma. To incentivize further democratic reforms and maintain pressure on targeted individuals and entities and the military, certain sanctions remain in place," OFAC said. As such, OFAC added six companies that are owned 50% or more by Steven Law or Asia World Co. Ltd., entities on the SDN List.

> "We're not doing away with all of our sanctions. The remaining targeted sanctions and our diplomatic efforts more broadly are designed to support Burma's efforts to continue democratic reforms while supporting inclusive economic growth," Deputy National Security Advisor Ben Rhodes said at an event in Washington May 18.

"We are making clear that U.S. individuals and companies will not be prevented by sanctions from finding banking partners. We have authorized the use of key transportation and trade-related infrastructure, to counter unintended consequences of our sanctions that might negatively impact both U.S. businesses engaged in the Burmese market, and farmers, new entrepreneurs, and other business owners seeking to export goods out of Myanmar," he added.

While the administration loosened some sanctions, some in Congress applauded the renewal of the remaining restrictions. "Burma is making meaningful political and economic progress, but its future remains uncertain. I believe the renewal of sanctions will sustain these ongoing reforms in Burma, and support the economic growth, human rights prioritization, and genuine national reconciliation that are essential to keep the country moving forward," Sen. Ben Cardin (D-Md.) said in a statement.

EU TTIP Draft Report is Moderately Optimistic

The European Commission draft report on the Transatlantic Trade and Investment Partnership (TTIP) agreement published May 13 describes the expected economic impacts from the agreement as "moderate but annual economic gains." According to the draft report, joint European Union (EU) and U.S. gross domestic products stood at approximately 46% of global gross domestic product in 2014. Under TTIP, GDP could rise between .3% and .5% for the EU each year and between .2% and .4% each year for the U.S., which the report's authors deemed "a considerable gain."

Under an "ambitious scenario," total exports could increase by 11.3% for the U.S. and 8.2% for the EU, as could total imports, with an increase of 4.6% for the U.S. and 7.4% for the EU. The report found that non-tariff measures (NTMs) in goods, tariff liberalization, and direct spillovers account for the potential increases in EU and U.S. imports. The EU's terms of trade are expected to increase by .5% while the U.S. will take a hit of .3%. Bilateral trade is expected to increase "significantly" with a 35.7% increase in U.S. exports to the EU and 27% increase of EU exports to the U.S.

Under ambitious outcomes for TTIP, the U.S. sectors expected to see the greatest gains in output are non-ferrous metals (3.2%), other meats (2.2%), other machinery (1.5%) and rice (1.1%), all benefiting from reduction in NTMs in goods. Beverages and tobacco, electrical machinery, and motor vehicles are expected to see negative growth rates of 2.6%, 2.4%, and 2.9%, respectively.

"Diverging standards and regulations" in the chemicals and pharmaceutical sectors have been the root of TTIP criticism in the EU, the report notes. The large differences in regulation were deemed by the report to be the "most burdensome trade-related issue," which considering that the chemical sector is one of the EU's largest manufacturing sectors in terms of value added, could pose a significant hurdle for negotiators.

The EU reiterated its principles in pharmaceuticals: enable EU and U.S. regulators to work more closely through existing bodies; avoid unnecessary costs from differing regulations; and respect for the EU's strict chemical standards. The EU wants to negotiate pharmaceuticals within TTIP because "there is a potential to improve how EU and U.S. regulators work together" in inspections, approvals and innovation.

* * * Briefs * * *

<u>EXPORT ENFORCMENT</u>: Indictment against New Zealand resident William Ali was unsealed May 17 in Seattle U.S. District Court on charges of conspiracy to violate Arms Export Control Act. Ali is charged with attempting to export accelerometers and sensors to China without State licenses. Items were classified under USML Category XII. Ali remains in custody after pleading not guilty in court May 19. Trial is set for July 18.

<u>MORE EXPORT ENFORCMENT</u>: Asim Fareed pleaded guilty May 17 in Scranton, Pa. U.S. District Court to conspiracy to provide false statements in connection to illegal export of goods, including pressure aging vessel and bending beam rheometer, to Iran. Fareed, VP of Compass Logistics International, "attempted to ship and export goods and services from the United States while providing false and fraudulent invoices, thereby causing shippers to fail to file and file false and misleading SED and AES information," criminal information noted.

<u>TWITTER EFFECT</u>: Commerce in May 20 Federal Register proposed limit of 25,000 words for arguments in antidumping and countervailing duty proceedings. Limit would include total for each party's case and rebuttal briefs. "A party may decide on the number of words it chooses to allocate" but combined total must not exceed 25,000 words, department said. Word limit would include "all attachments, headings, footnotes, endnotes, and quotations used in the document; it will not include the table of contents, table of statutes, regulations and cases cited, and summary of arguments that preface the arguments," Commerce added. Comments are due June 20.

<u>TRADE PEOPLE</u>: Senate May 18 confirmed former Iowa state legislator Swati A. Dandekar to serve as U.S. executive director to Asian Development Bank.

PERU: USTR Michael Froman defended U.S.-Peru Trade Promotion Agreement (PTPA) in blog post May 16. U.S. government dedicated more than $90 million in "technical assistance and capacity building" for Peruvian forest sector since agreement came into effect in 2009. Cooperation has "led to the detection of suspected illegality in a number of shipments going from Iquitos" to U.S., Froman wrote. He met with fellow APEC trade ministers in Peru May 17-18.

IRAN: France, Germany, UK, U.S. and EU High Representative released statement May 19 on post-Joint Comprehensive Plan of Action business with Iran. "We will not stand in the way of permitted business activity with Iran, and we will not stand in the way of international firms or financial institutions' engaging with Iran, as long as they follow all applicable laws," they wrote. EU and U.S. pledged to provide guidance for firms on specific sanctions-related questions, but blamed Iran for some of what has hindered its economic progress. "For Iran to realize the economic improvement it desires, it will also have to take steps to create an environment conducive to international investment particularly regarding the compliance with FATF [Financial Action Task Force] recommendations" (see **WTTL**, May 16, page 3).

MTB: President Obama signed American Manufacturing Competitiveness Act of 2016 (H.R. 4923) May 20. Bill passed Senate by unanimous consent May 10 and House in 415-2 vote April 27 (see **WTTL**, May 16, page 8).

TUNA: Mexico notified WTO May 13 it is requesting consultations with U.S. over second compliance panel to examine new "dolphin-safe" tuna import labeling rules National Oceanographic and Atmospheric Administration (NOAA) published in March. WTO dispute-settlement body (DSB) May 9 agreed to establish second panel over Mexico's objections (see **WTTL**, May 16, page 1). "Mexico considers that the United States has failed to implement the DSB's recommendations and rulings and that the 2016 Tuna Measure is inconsistent with the covered agreements," it said in request.

COLOMBIA: AFL-CIO and four Colombian unions filed petition at Labor's Office of Trade & Labor Affairs May 16 asking for "thorough, wide-ranging investigation" into Colombia's violations of labor obligations under U.S.-Colombia Trade Promotion Agreement (TPA). "The Colombian government was out of compliance the day the TPA took effect, and it has not yet come into compliance. The Labor Chapter was designed to address the unfair competition and worker abuse that results from a failure to enforce fundamental labor rights," petition said. "Colombia does not have in place an adequate structure – through its laws, regulations, or practices – to ensure that the rights to freedom of association and collective bargaining are upheld," Rep. Sander Levin (D-Mich.) said in statement.

NDAA: House passed FY17 National Defense Authorization Act (NDAA) in 277-147 vote May 18. President Obama said he would veto bill in Statement of Administration Policy posted May 16. "The Administration strongly objects to many provisions in this bill that impede the Administration's ability to carry out the President's defense strategy," statement said. Committee report included language on negative impact of potential Wassenaar controls on cybersecurity items (see **WTTL**, May 2, page 9).

STEEL PLATE: In 6-0 preliminary vote May 20, ITC found U.S. industry may be injured by allegedly dumped imports of certain carbon and alloy steel cut-to-length plate from Austria, Belgium, Brazil, China, France, Germany, Italy, Japan, Korea, South Africa, Taiwan, and Turkey and subsidized imports product from China and Korea. ITC also found in 6-0 vote that subsidized imports of same product from Brazil are negligible.