

Current Trade Matters

Trade Is High up on the Policy Agenda

July 2020



In This Issue

Candidacies for WTO Director-General	4
Report From the Commission on Competition Policy 2019	5
UK-US: Trade Negotiations Started in May	6
US-EU: Only a Limited Trade Deal Is Being Discussed	9
US-China: Suspend the Special Treatment	9
EU-China: Defending EU Interests and Values in a Complex and Vital Partnership	11

European Commission Kicks off Major EU Trade Policy Review

The European Commission launched a major review of the European Union's trade policy, including a public consultation seeking input from the European Parliament, Member States, stakeholders and civil society. The Commission's objective is to build a consensus around a fresh medium-term direction for EU trade policy, responding to a variety of new global challenges and taking into account the lessons learned from the coronavirus crisis.

A strong European Union needs a strong trade and investment policy to support economic recovery, create quality jobs, protect European companies from unfair practices at home and abroad, and ensure coherence with broader priorities in the areas of sustainability, climate change, the digital economy and security.¹

German Presidency of the EU Council: Altmaier in Brussels

On July 10, the Federal Minister for Economic Affairs and Energy, Peter Altmaier, held talks in Brussels, with several Members of the European Commission on the medium-term and long-term challenges for the EU.

Some of these challenges, which are the focus of Germany's Presidency of the Council of the European Union, have become even more urgent due to the COVID-19 crisis. As regards economic policy, the focus is on

- a stronger orientation of the economy towards clean growth by means of innovation and climate-friendly technologies ('clean economy');
- the creation of an environment that is as favorable as possible for companies – especially for small and medium-sized enterprises – for example by cutting red tape and strengthening the European internal market;
- open markets and a rules-based trade policy;
- strengthening digital and technological sovereignty, and
- a modern cohesion policy that fosters an innovative and smart economic transformation.

During his first visit to Brussels since the outbreak of the COVID-19 pandemic, Federal Minister Altmaier met with Vice-President of the Commission Maroš

¹https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158779.pdf

Šefčovič, Commissioner for the Internal Market Thierry Breton and Commissioner for Trade Phil Hogan²

Candidacies for WTO Director-General

Phil Hogan, the EU's Trade Commissioner, has withdrawn from the race for the next head of the World Trade Organization. The last day to announce candidates for the position was July 8. On June 30, Hogan said that he had decided not to propose his name out of concern that protracted competition would distract too much from his role as EU Trade Commissioner during a crucial period for relations with the US, China and the UK³. Read Phil Hogan's statement [here](#).

Former British International Trade Secretary Liam Fox has been nominated by the UK for the position of the Director -General of the WTO. However, UK International Trade Secretary Liz Truss expressed caution with the nomination, [warning](#) Prime Minister Boris Johnson that Britain could face a legal challenge from the WTO regarding its post-Brexit border plan. A new border regime established in a post-transition environment could put the UK in a vulnerable position, particularly on issues such as the differences in tariff controls between Great Britain and Northern Ireland, according to Truss⁴.

Other candidacies for the coveted WTO Director-General position [include](#): Ngozi Okonjo-Iweala (Nigeria), Hamid Mamdouh (Egypt), Amina Mohamed (Kenya), Yoo Myung-hee (Korea), Jesús Seade (Mexico), Tudor Ulianoschi (Moldova), and Mohammad bin Maziad Al-Tuwaijri (Saudi Arabia). The last day to announce candidates for the position was July 8.

On July 10, General Council Chair David Walker (New Zealand) [announced](#) timelines for the next phases in the selection process to choose a successor to departing Director-General Roberto Azevêdo. The second "campaigning" phase will be shortened by one month and will expire on September 7. The third phase of the process is to last no more than two months, which means a

²<https://www.bmwi.de/Redaktion/DE/Pressemitteilungen/2020/20200710-bundeswirtschaftsminister-altmaier-zu-gespraechen-mit-der-eu-kommission-ueber-die-deutsche-eu-ratspraesidentschaft-in-bruessel.html>

³<https://www.ft.com/content/f94683c0-5020-4570-8a14-85bb13016f6a>

⁴<https://www.capitalthinkingblog.com/2020/07/transatlantic-trade-us-and-european-trade-talk-update-july-12-2020/#more-19153>

new Director-General could be announced either ahead of or just days after the US presidential and congressional elections conclude (3 November)⁵

Report From the Commission on Competition Policy 2019

As world markets continue to integrate and more and more companies rely on global value chains, competition agencies need to increase their collaboration and agree on common standards and procedures more than ever before. Effectively enforcing competition rules depends to a growing extent on cooperation with other enforcement authorities. The Commission continued to be at the forefront of international cooperation in the competition field, both on the multilateral and bilateral levels. In 2019, the Commission continued its active engagement in competition-related international fora such as the OECD Competition Committee, the International Competition Network (ICN), the World Bank, and the United Nations Conference on Trade and Development (UNCTAD). The Commission remains committed to fostering a far-reaching competition culture, as well as to promoting a global level playing field where companies can compete on their merits⁶.

In 2019, the Commission continued its endeavors to improve international rules for subsidies. Reforming the subsidy rules is one of the EU's main priorities for the modernization of WTO trade rules. It also contributed to a common understanding reached with the competition authorities of the G7 countries regarding the challenges raised by the digital economy for competition analysis. At bilateral level, the Commission aims at including provisions on competition and State aid control when negotiating Free Trade Agreements⁷.

UK-EU: Trade Negotiations Concluded Rather Abruptly

The EU-UK negotiations last week concluded rather abruptly with UK Chief Negotiator David Frost noting significant differences remain. European Trade Commissioner Hogan believes the UK needs to demonstrate more ambition if it seeks to secure a post-Brexit deal with the EU ahead of the transition period at the end of the year. According to Commissioner Hogan, the UK's perceived lack of ambition has led to very little progress; he reiterated that despite the EU's effort to advance the negotiations the ball is in the UK's court.

⁵<https://www.capitalthinkingblog.com/2020/07/transatlantic-trade-us-and-european-trade-talk-update-july-12-2020/#more-19153>

⁶https://www.parlament.gv.at/PAKT/EU/XXVII/EU/02/66/EU_26626/imfname_10992604.pdf

⁷https://www.parlament.gv.at/PAKT/EU/XXVII/EU/02/66/EU_26626/imfname_10992604.pdf

It seems UK International Trade Secretary Truss' warning about a possible WTO legal challenge stemming from the post-Brexit border regime has spotlighted significant tensions in the UK Government with respect to its future trading relations. A [leaked letter](#) written by Truss highlighted the "key areas of concern on border policy risks" include a lack of sufficient border controls, failures in tariff management and differences in the Northern Ireland regime – all of which could factor into a possible WTO challenge.

The UK Government plans to publish its full border control plan on 13 July. According to a presentation by the EU Chief Negotiator to the House of Lords meeting last month, the EU will introduce full border checks with the UK from January 1, 2021, irrespective of the outcome of the current talks on the future relations. The UK will follow suit with a six-month delay.

On Thursday, the European Commission published [guidelines](#) for business, governments and citizens to prepare for the new situation between the EU and the UK after the end of the transition period. The document outlines expected changes in multiple scenarios, whether there is an agreement on the future partnership or not. It covers issues such as trade in goods and adjacent custom issues, trade in services, energy, mobility issues, energy, company and civil law and many others⁸

UK-US: Trade Negotiations Started in May

Trade negotiations between the UK and the US officially started in May. Both parties are working towards a free trade agreement.

On July 12, the United Kingdom unveiled its new human rights sanctions regime, along with its first designations. The US welcomed the action, and some US lawmakers continue to urge the EU to adopt a similar regime⁹.

There are doubts about the timeframe when these talks will be concluded. In addition to the COVID-19 pandemic, the picture is further complicated by the ongoing talks between the EU and the UK. But at the beginning of this process there are some things we know about what each side wants to get out of an agreement.

The US is already the UK's main destination for goods, with 13% of its exports going there in 2018. The UK would like to see better access for these exports

⁸https://ec.europa.eu/info/sites/info/files/brexit_files/info_site/com_2020_324_2_communication_from_commission_to_inst_en_0.pdf

⁹<https://www.capitalthinkingblog.com/2020/07/transatlantic-trade-us-and-european-trade-talk-update-july-12-2020/>

to the US, especially for food and agricultural products, even though these account for only 5% of its total US exports.

Improving market access depends on a number of factors, starting with tariffs. For example, ceramics are subject to a particularly high tariff of 28% and some categories of textiles to 32%. [More on UK-US trade negotiations.](#)

70% of Trade Is Carried Out Through Global Value Chains

Agreement must also be reached on rules of origin, where there is a common understanding of how the origin of individual products is decided. This is very important, as 70% of trade is carried out through global value chains, so most goods have added value from producers in more than one country. This means that deciding on a single origin for each product is delicate and can have an impact on the cost of trade, as different tariffs depend on the origin of the product. Other issues are technical barriers to trade, standards and agreements on test methods.¹⁰

Besides goods, trade in services is also on the agenda. Great Britain is interested in improved market access for British services in the fields of accounting, architecture and finance, as well as in the free movement of persons and the mutual recognition of professional qualifications.

The US already has lower tariffs than the UK for most categories of products, so they would expect more concessions from the UK in this respect. For example, US tariffs on imported cars are 2.5%, while British tariffs are 10%.

The UK currently meets EU requirements for environmental, fuel economy and safety standards for cars. A comparison of EU and the US regulations shows many differences: The US directly sets minimum fuel efficiency standards while the EU does not; the EU and the US have different emission standards. Even the regulations on seat belts differ. This has important implications for the way cars are built and makes it more difficult and expensive to export cars to both markets.

The US team will also push for US products to be traded more freely in the UK market, that is, chicken and other agricultural and food products produced to US standards. When it comes to services, the US will seek better access for its healthcare and pharmaceutical companies¹¹.

¹⁰<https://theconversation.com/us-uk-trade-talks-have-begun-heres-what-each-side-wants-and-what-to-expect-138180>

¹¹<https://dgap.org/en/research/publications/how-will-covid-19-affect-transatlantic-relationship>

US Seaports Threatened With Congestion

Experts report that the trade in goods between Germany and the US has been running smoothly so far. This also applies to customs clearance. The long production stop in China has caused a considerable container backlog there, so that containers have become scarce in Europe. This applies even more to reefer containers and special equipment such as flatrack containers. Flatracks consist only of floor and end walls and are used for transporting heavy cargo and oversized cargo. Although the situation is gradually calming down somewhat, sea freight rates continue to rise as some shipping companies have withdrawn container ships from the market.

Container lines, port operators and forwarders are warning of an overload of US ports by imported goods that could accumulate at the terminals there in the coming weeks. It is true that shipping companies are urging freight owners to pick up containers promptly. However, freight forwarders at important US seaports such as New York, Boston and Los Angeles are no longer able to load containers and goods without problems in some cases due to the reduced capacities. Some manufacturing and retail companies ask distribution centers to postpone their deliveries. Even if the ports are working to create more storage space, this will certainly not solve all problems.

There are also fears that container chassis will become scarce. Empty runs in the wake of factory closures in Asia have also interrupted the flow of import containers to the US. Since not all freight forwarders are able to cover their costs because of the empty runs, some containers could soon be taken off the market. In addition, shipowners cancelled many departures on transpacific routes.

Slot Rules Suspended Until End of October

Although transport costs, especially in the air freight sector, have been falling again for several weeks now, they are still significantly higher than before the crisis. This is because the decline in ship deliveries means that many importers now have to purchase goods by air. There are hardly any passenger planes left, which normally also transport a lot of goods. Some of them are being converted to cargo-only operation; otherwise they are almost exclusively used for freight.

In order not to lose attractive take-off and landing slots, many airlines were still operating empty flights at the beginning of the corona crisis. In order to be able to keep the slots, they had to be filled to at least 80 percent in a given

season. At the end of March, the European Commission decided to temporarily suspend the slot rules until the end of October 2020. A similar exemption was already granted in 2009 in response to the economic and financial crisis.

In view of the corona pandemic, countries around the world are adopting special measures for the movement of goods. You can read about the changes you should be aware of when importing and exporting goods in our reporting on the US¹².

US-EU: Only a Limited Trade Deal Is Being Discussed

The US welcomed the new human rights sanctions regime, the UK unveiled on July 12 and some US lawmakers continue to urge the EU to adopt a similar regime. Meanwhile, the EU moved forward with its trade policy review, with some seeking to provide the bloc with additional leverage in trade negotiations¹³.

On July 9, US Trade Representative Robert Lighthizer suggested a path forward to resolving the long-standing large civil aircraft dispute needs to include the EU paying back some of subsidies it paid decades ago with respect to Airbus.

His comments on the US-EU trade negotiations were not encouraging, with him confirming only a limited trade deal is being discussed at this time. He furthermore suggested an avenue of collaboration, saying, “what is needed is probably some kind of coalescing around ways to fix the WTO and reset the things that I talk about, which is to say stop this [free trade agreement] business, reset tariffs.” He reiterated, “Europe is probably the leading anti-multinational force in the world right now on the issue of standards”¹⁴

US-China: Suspend the Special Treatment

On Monday, 29 June, US Department of State and Commerce officials confirmed the United States would suspend the special treatment of the Hong Kong Special Administrative Region of the People’s Republic of China under US export regulations. Exports of certain sensitive technologies will now face

¹²<https://www.gtai.de/gtai-de/trade/specials/special/usa/covid-19-hat-die-usa-fest-im-griff-233810>

¹³<https://www.capitalthinkingblog.com/2020/07/transatlantic-trade-us-and-european-trade-talk-update-july-12-2020/>

¹⁴<https://www.capitalthinkingblog.com/2020/07/transatlantic-trade-us-and-european-trade-talk-update-july-12-2020/#more-19153>

the same licensing requirements as those required by exporters to China. The action is the latest response to a new national law for safeguarding national security approved by the National People's Congress regarding Hong Kong, which has enjoyed special status in its relations with the United States for decades. The Administration is reportedly considering other moves to end preferential trade treatment for Hong Kong.

On Tuesday, 30 June, the US Export-Import Bank released its [Global Export Competition Report](#). The Report reflected China provided \$33.5 billion in official medium- and long-term (MLT) export credit in 2019, which was more than three times the amount of the next closest provider. From 2015 to 2019, China's official MLT export credit activity was at least equal to 90 percent of that provided by the G7 countries combined¹⁵.

Congress also continues its consideration of additional sanctions related to the situation in Hong Kong. On Wednesday, 1 July, the House of Representatives adopted an amended version of the *Hong Kong Autonomy Act*, sanctions legislation originally introduced and already passed in the Senate. The Senate swiftly approved the House-passed version of the sanctions bill on Thursday, sending the measure to the President's desk. President Trump is expected to sign the bill into law¹⁶.

Also on July 1, the Departments of State, Treasury, Homeland Security, and Commerce issued a [joint business advisory](#) on "Risks and Considerations for Businesses with Supply Chain Exposure to Entities Engaged in Forced Labor and other Human Rights Abuses in Xinjiang." The document cautions businesses operating in this region to ensure adequate human rights due diligence policies and procedures. The US Government continues to target imports from and businesses operating in the Xinjiang region that allegedly engage in human rights violations, including forced labor¹⁷.

On July 7, EXIM President and Chairman Kimberly Reed briefed the US House of Representatives China Task Force on the role of EXIM and how the Bank's 2019 Congressional reauthorization can help counter China. The China Task Force is focusing on five pillars that reflect the key aspects of the United States' strategic competition with China:

¹⁵https://www.exim.gov/sites/default/files/reports/competitiveness_reports/2019/2019-EXIM-Competitiveness-Report-FINAL.pdf

¹⁶Squire Patton Boggs Trade Talk (29 June – 10 July 2020)

¹⁷https://www.treasury.gov/resource-center/sanctions/Programs/Documents/20200701_xinjiang_advisory.pdf

1. National Security,
2. Technology,
3. Economics and Energy,
4. Competitiveness,
5. Ideological Competition

This develops policies, ideas, and legislative strategies to counter the Chinese Communist Party. Chairman Reed highlighted key aspects of the recently released Global Export Competition Report, stressing China is using its two official export credit agencies, in conjunction with a number of other state entities, to gain competitive advantages and expand its influence¹⁸.

On July 8, Undersecretary of Defense for Acquisition and Sustainment Ellen Lord spoke virtually at the Brookings Institution's European Union Defense Washington Forum on defense spending and capabilities in light of COVID-19. She noted the United States and its allies and partners now have a better understanding of the fragility of the supply chain. Apart from problems spotlighted during the pandemic in the manufacturing of military components, Undersecretary Lord underscored the risks posed by intellectual property theft, as well as merger and acquisition activity that involves takeovers of critical companies in the United States and allied nations.

Looking ahead, reports emerged on July 10, that the Trump Administration may make an announcement next week related to the South China Sea, where the United States and China have clashed over rights of passage in the region, militarily and commercially¹⁹.

EU-China: Defending EU Interests and Values in a Complex and Vital Partnership

EU Warns China That Investment Talks Are Entering Critical Stage

The European Union and China held their bilateral Summit via a video conference on June 22, 2020. President of the European Council, Charles Michel, and President of the European Commission, Ursula von der Leyen, accompanied by High Representative Josep Borrell, hold the Summit meeting with Chinese Prime Minister Li Keqiang followed by exchanges with Chinese President Xi Jinping.

¹⁸Squire Patton Boggs Trade Talk (29 June – 10 July 2020)

¹⁹<https://www.defense.gov/Newsroom/Releases/Release/Article/2246604/peoples-republic-of-china-military-exercises-in-the-south-china-sea/>

EU-China relations have evolved in recent years. The economic interdependency is high, and they must work together on global challenges like climate action, meeting the Sustainable Development Goals and dealing with COVID-19. Engaging and cooperating with China is both an opportunity and necessity. But, at the same time, the countries do not share the same values, political systems, or approach to multilateralism. The EU will engage in a clear-eyed and confident way, robustly defending EU interests and standing firm on its values²⁰.

The EU-China Summit had a comprehensive agenda addressing bilateral relations; regional and international issues, the COVID-19 pandemic and economic recovery²¹.

The EU recalled the important commitments made at the 2019 EU-China Summit and stressed the need for the implementation of these commitments in a dynamic and result oriented manner as progress today is limited.

The EU strongly emphasized the need to advance negotiations for an ambitious EU-China Comprehensive Investment Agreement that addresses the current asymmetries in market access and ensures a level playing field. Urgent progress is needed in particular on behavior of state-owned enterprises, transparency on subsidies and rules tackling forced transfers of technology.

Brussels has also said that negotiations with Beijing on an investment treaty are entering a critical phase and warns that it is preparing new instruments to restrict Chinese investment in Europe if China does not agree to harmonize competitive conditions in trade.

EU trade officials have said the prospects for an agreement should become clearer by the end of July after Beijing signaled that it would come forward with proposals to address the most difficult issues in the talks. A meeting of the “High Level Economic and Trade Dialogue” is planned for this month.

Brussels sees the investment treaty, which has been under negotiation for six years, as the most direct solution for addressing key irritants in the two sides’ trading relationship. The EU has argued that the current unbalanced situation is untenable²².

²⁰<https://moderndiplomacy.eu/2020/06/24/eu-china-summit-defending-eu-interests-and-values-in-a-complex-and-vital-partnership/>

²¹<https://www.consilium.europa.eu/en/press/press-releases/2020/06/22/eu-china-summit-defending-eu-interests-and-values-in-a-complex-and-vital-partnership/>

²²<https://www.ft.com/content/a5197502-6106-48e9-bb81-e4d87925d619>

Read the statement by President von der Leyen at the joint press conference with President Michel, following the EU-China Summit video conference [here](#).

**Communications &
Government Relations****Ann-Cathrin Spranger**

T +49 69 929104-43

E [aspranger\(at\)amcham.de](mailto:aspranger(at)amcham.de)**Philipp Mittag**

T +49 30 2130056-24

E [pmittag\(at\)amcham.de](mailto:pmittag(at)amcham.de)