

September 2020

Current Trade Matters

Trade is high up on the policy agenda

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Trade Dispute: WTO Declared US Tariffs Illegal

In 2018 and 2019, the US and China were constantly to-and-fro with new punitive tariffs on imports. The trade war affected the global economy. Now, the World Trade Organization ruled that the US tariffs were illegal. Since 2018, the trade dispute has been straining relations between the US and China. But the punitive tariffs that the US government under President Donald Trump had imposed in several steps on goods from China are not legal in the view of the WTO.¹

The WTO's Dispute Settlement Body concluded that the imposed US tariffs are a violation of the General Agreement on Tariffs and Trade (GATT). On the one hand, they were imposed by Trump's government to a much greater extent than originally promised by the US, the WTO justified its decision. On the other hand, the US had not sufficiently justified the extent to which the tariffs were necessary to protect its own market from the "unfair competition" that Trump had repeatedly accused China of.

Tariffs Were Followed by More Tariffs

At the beginning of July 2018, the US imposed tariffs of 25% on Chinese goods worth 34 billion US dollars. And further surcharges on imports from the People's Republic followed: At the end of August of the same year the next tariffs came into force. A month later, Trump issued a decree that 10% of punitive duties would be levied on additional Chinese goods worth 200 billion US dollars. China, for its part, reacted with punitive tariffs, among other things on wine or sports equipment "made in the US."

The WTO Advised the US to Bring the Imposed Measures in Line With Its Obligations

A representative of the organization announced that the WTO body had not dealt with the tariffs from the Chinese side because there had been no complaint from the US. The WTO advised the US to bring the imposed measures in line with its obligations. China and the US should make an effort to resolve their differences in view of the global trade tensions that their trade dispute had triggered.

A first step towards resolving the conflict seemed to have been taken in mid-January 2019: The US and China signed a partial agreement that would guar-

¹ <https://www.tagesschau.de/wirtschaft/usa-china-handelsstreit-119.html>

antee increased imports of US products to the Chinese market and in return would put some punitive tariffs back on hold. But in a first reaction to the WTO ruling, US Trade Representative Robert Lighthizer renewed the old accusations.²

Von der Leyen: EU Has to Lead Reform of WTO and WHO

EU Commission President Ursula von der Leyen is convinced that the European Union must lead the way in reforming the World Health Organization (WHO) and the World Trade Organization (WTO).

The revival and reform of the multilateral system has never been more urgent, she said on September 16, 2020 before the European Parliament in Strasbourg in her first State of the Union address. The global system had fallen into a creeping paralysis.³

Majority Approves Prime Minister's Single Market Act – Johnson Wants to Partially Annul the Negotiated Brexit Deal with the EU

The controversial Internal Market Act of British Prime Minister Boris Johnson has cleared another hurdle in the London Parliament. Johnson wants to use the law to partially undermine the valid, laboriously negotiated Brexit deal with the EU.⁴

A majority of MPs agreed to a compromise between the Prime Minister and his critics, so that no formal vote on their proposal had to be held in London on Tuesday.⁵

This also meant that a number of Conservative MPs agreed with Johnson's plans, who had previously spoken out against them. The head of government had previously taken a step towards the dissenters and had assured them of a further vote in parliament in the event that the measures provided for in the law for an emergency should actually be used – essentially what the rebels

² <https://www.tagesschau.de/wirtschaft/usa-china-handelsstreit-119.html>

³ <https://de.reuters.com/article/eu-kommission-wto-who-idDEKBN26717K>

⁴ <https://www.handelsblatt.com/politik/international/streit-mit-der-eu-boris-johnsons-umstrittenes-brexit-gesetz-nimmt-weitere-huerde-im-parlament/26209888.html?ticket=ST-3323501-JmBSLgUxrMKvEpDnSZsv-ap1>

⁵ <https://www.handelsblatt.com/politik/international/streit-mit-der-eu-boris-johnsons-umstrittenes-brexit-gesetz-nimmt-weitere-huerde-im-parlament/26209888.html?ticket=ST-3323501-JmBSLgUxrMKvEpDnSZsv-ap1>

had demanded. After a vote next week, the law still has to pass the House of Lords.

Johnson wants to use the law to partially undermine the already valid Brexit Deal, which he himself signed. In concrete terms, this is about special rules for the British Northern Ireland, which are intended to prevent a hard border with the EU state of Ireland and new hostilities there. For the EU, Johnson's initiative is a breach of law. Brussels therefore called on London to give in by the end of September.

Trump Officials to Probe Produce Imports, Raising the Risk for More Tariffs in 2020

On September 1, the Office of the US Trade Representative, in cooperation with the Department of Commerce (DOC) and the Department of Agriculture (USDA), announced a series of actions aimed at supporting domestic producers of seasonal/perishable products. Their plans to introduce new trade measures targeting specific fruit and vegetable imports could have far-reaching implications for product prices and the way the US government responds to allegations that unfair subcontractors are supporting foreign fruit and vegetable producers.

As part of the report, USTR announced:

- Plans to launch a Section 201 global safeguards investigation into imports of blueberries.
- Continued bilateral negotiations with Mexico over the next 90 days to address concerns regarding US imports of Mexican strawberries, bell peppers, and other seasonal/perishable products.
- USTR's plans to work with domestic producers to launch an investigation by the US International Trade Commission (ITC) into strawberry and bell pepper imports, which could lead to "expedited" Section 201 investigations on these imports later this year.

The DOC and the USDA also committed to take action to support domestic producers of seasonal/perishable products, including efforts to promote domestic breeders and to educate breeders about unfair foreign subsidies.

Section 201 investigations are conducted by the ITC to determine whether domestic industries have been seriously injured by increased imports or are threatened with serious injury. It is noteworthy that these measures do not oblige domestic parties to allege unfair acts by the foreign producer (such as "dumping" or selling goods at less than fair value or benefiting from unfair foreign government subsidies). If the ITC accepts the allegation, the President will decide for himself what, if any, facilitations should be imposed. Such relief could take the form of tariffs or quotas on foreign imports, which will almost certainly raise the price of the goods concerned.

The agency's joint actions come after years of concern from domestic industry and congressional lobbyists that existing trade measures do not adequately address concerns about unfair imports of these goods, including in the context of negotiations to modernize the North American Free Trade Agreement under its successor agreement, the US-Mexico-Canada agreement that has now entered into force.

For sovereign governments and businesses that may have questions related to Section 201 investigations and US trade enforcement procedures, our team can help prepare and submit comments during the investigation, secure congressional support for our arguments, and provide advice on the political dynamics underlying any presidential action targeting foreign imports.⁶

British Economy: Largest Quarterly Drop on Record

The British economy contracted by a record 20.4% in April, May and June as the coronavirus pandemic shut business. This represents the largest quarterly drop on record, according to the Office for National Statistics, which released the data August 12, 2020. The sharpest decrease during the second quarter was in April and May, with June seeing a gross domestic product increase of 8.7%.

The numbers show the hit to the economy was worse in the UK than countries in Continental Europe such as France and Germany, whose lockdown restrictions were eased earlier.

⁶ https://www.tradepractitioner.com/2020/09/trump-officials-to-probe-produce-imports-raising-the-risk-for-more-tariffs-in-2020/?utm_source=Squire+Patton+Boggs+-+The+Trade+Practitioner&utm_campaign=81a95fe410-RSS_EMAIL_CAMPAIGN&utm_medium=email&utm_term=0_3cd8f65938-81a95fe410-78761561

Chancellor of the Exchequer Rishi Sunak acknowledged the depth of the problem and promised to continue supporting the economic recovery through tax and spending policy.

The UK has also seen its biggest fall in employment since the global financial crisis. Economists warn the UK will have a tougher job at recovery than most developed countries.⁷

Perdue Warns of Trade Barriers because of “Farm to Fork”

US Secretary of Agriculture Sonny Perdue has expressed concern that the EU's Green Deal could undermine trade and affect the viability of EU farmers. Such allegations were immediately rejected by his counterpart in the EU Commission.

In a webinar on the transatlantic perspective on food security in a post COVID-19 world on Wednesday, Perdue warned that the new EU Farm to Fork (F2F) strategy and biodiversity regulations could be extremely prohibitive and threaten agricultural production.

While Perdue praised the EU's focus on sustainability and expressed a desire to continue to work closely with the bloc, he criticized the new food policy in particular and commented that Farm to Fork obviously did not think of the farm.⁸

The F2F strategy aims to improve the sustainability of EU agriculture and shorten the distance between farm and end consumer. Together with the Biodiversity Plan, the strategy forms the core of the EU's Green Deal.

The Order Books of German Industry are Filling after the End of the Hard Corona Restrictions

Orders in June were up 27.9% on the previous month, as the Federal Ministry of Economics announced on Thursday. Economists surveyed by the Reuters news agency had only expected an increase of 10.1%. In May, there had already been a plus of 10.4%, which, however, followed a slump of 26.1% in April.

⁷ <https://www.politico.eu/article/uk-economy-plunged-record-20-percent-in-second-quarter/>

⁸ <https://www.euractiv.de/section/landwirtschaft-und-ernahrung/news/zu-gruen-fuer-us-minister-perdue-warnt-vor-handelsbarrieren-wegen-farm-to-fork/>

The Ministry emphasized that the recovery was a big step forward. Incoming orders had already returned to a level of 90.7% of orders before the outbreak of the pandemic in the fourth quarter of 2019. However, orders from abroad are lagging behind developments at home, this shows why the further recovery process will be slower. Orders from Germany climbed by 35.3% in June, and orders from abroad by 22%. Orders from the Euro zone increased by 22.3% and those from the rest of the world by 21.7%.

The gross domestic product slumped at a record pace in the second quarter due to the measures taken to combat the spread of the Corona pandemic. It was 10.1% lower than in the previous quarter. However, most experts are expecting a significant recovery in the current summer quarter.⁹

German Economy in Alabama Most Important Foreign Investor¹⁰

More than 30 well-known German companies have now settled in the state of Alabama, and the trend is rising. They primarily represent the automotive and automotive parts, systems and components for the aerospace industry, logistics, iron and steel, automation technology, industrial gases, medical technology, pharmaceuticals, plastics and chemicals. However, the two lighthouse projects are clearly the Daimler plant in Tuscaloosa and the Airbus assembly facility at the Mobile site. Both factories act like a magnet for international supplier industries, including those from Germany.

Structural Change and Site Optimization

The economy of Alabama is in a constant state of change. The expansion of industry since the 1960s has had a lasting effect, which has pushed the previously dominant cotton production into the background. According to the Alabama Department of Commerce, industrialization is now to be intensified once again. A lot of space is being devoted to the expansion of automotive assembly, which Daimler, Toyota, Mazda and Hyundai are operating in Alabama. The expansion also includes the supplier structures, which are to move closer to the assembly plants from all over the world.

⁹ <https://www.euractiv.de/section/finanzen-und-wirtschaft/news/deutsche-industrie-erlebt-rasanten-comeback/>

¹⁰ <https://www.gtai.de/blueprint/servlet/gtai-de/trade/wirtschaftsumfeld/wirtschaftsstandort/usa/deutsche-wirtschaft-in-alabama-wichtigster-auslandsinvestor-546766>

Automotive Industry as a Driver of Innovation

One example is the joint venture between Mazda and Toyota at the Huntsville site for more than 2 billion US dollars (US\$) with a new Toyota engine plant for 1.6 billion US\$ as the core. The suppliers did not take long to set up plants in Alabama with a total value of US\$ 400 million. This will create 1,700 jobs. YKTA is carrying out its most extensive construction project in Limestone County. Here alone 650 jobs will be created.

Meanwhile, Daimler, Toyota, Mazda and Hyundai are expanding their Alabama-based model range from currently eleven to fourteen by 2021. Hyundai, for example, is preparing the series production of the Santa Cruz Cross Over model in Montgomery, for which US\$410 million is being invested. In general, Alabama is the fourth most important state in the US ranking of automotive locations, after Michigan, Ohio, and Kentucky, closely followed by Indiana.

Aerospace Industry firmly Established

In addition to the expansion of Airbus' A320 and A220 production, the regional aerospace industry is relying on rapidly increasing volumes in rocket assembly. At the United Launch Alliance plant in Decatur, for example, production of the latest generation launcher system, the Vulcan Centaur rocket, has begun.

Meanwhile, Blue Origin is building a rocket engine plant worth US\$200 million in Huntsville. Dynetics is building a test facility on the ULA campus to conduct rocket tests, including the Vulcan Centaur system, but also the even more powerful SLS.

Boeing is also based in Alabama, but concentrates here less on aircraft construction and more on the business of rocket technology, both for civil and military purposes. GE Aviation is also involved in rocket projects. At its Auburn site, for example, the company builds rocket engine components such as fuel injectors using 3D printing technology.

Lockheed Martin's program in North Alabama for the development and series production of hypersonic technologies required by the US Department of Defense is also stimulating economic development in the region and its supplier structure. The Group is expanding its own plant in Courtland. The research and development for this will be concentrated in Huntsville. Dynetics Technical Solutions is also working on the Hypersonic topic and in this context received an order from the US Army with a volume of US\$ 352 million.

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