American Chamber of
Commerce in Germany e.V.

Current Trade Matters

Trade is high up on the policy agenda

Impacts of Coronavirus:

- Following an **interim economic review** of the OECD, the coronavirus could reduce global economic growth by about half a percentage point to a rate of 2.4 percent. That would be the case if the epidemic reaches its peak in the first quarter of 2020 and the outbreaks in other countries are "mild and contained".
- In a worst case scenario, global growth could fall to 1.5 percent in 2020 (half the rate predicted before the outbreak) if the epidemic lasts longer and spreads widely. This could plunge several economies into recession, including Japan and the Eurozone.
- The OECD noted that the economic outlook for all G20 countries has declined, but economies heavily intertwined with China, including Japan, South Korea and Australia, will feel the negative effects of the outbreak more strongly. Production declines in China have quickly affected companies around the world.[1]
- The US Chamber of Commerce recently published an assessment of the economic impact the coronavirus might have on the US and the world economy. "The spread of the coronavirus is a drag on global growth, which includes the United States. Growth in the United States will likely drop in the first quarter by 0.1 to 0.3 percent. Under this scenario, growth could fall under 2 percent in the first quarter." [2] At present, some forecasters expect growth in China to decline from 5 to 6 percent to 2 to 3 percent in the first quarter, but this figure could be much lower.
- The ongoing spread of the virus in Japan, Korea, Italy and other markets is causing additional demand shocks and disruptions in the supply chain, with corresponding downside risks to growth in the US and globally. Some forecasters warn of a sharp decline in US corporate earnings in 2020.[3]
- Find out more about the coronavirus' impacts on businesses of all sizes and sectors at the **press conference** held by the US Chamber of Commerce.
- Read more about client advisory on operational and legal issues related to the disruptions caused by the corona outbreak **here**.
- The US Chamber of Commerce published interim guidances for **businesses and employers** on how to plan and respond to coronavirus disease as well as on workplace tips for **employees**.

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[1] https://bit.ly/2TmvuTW
[2] https://bit.ly/2TmvuTW
[3] https://uscham.com/2vvXRGj

Section 232 Steel and Aluminium

- According to a White House announcement on 24 January, the existing punitive tariffs (10% on aluminium imports and 25& on steel imports) were extended to additional steel and aluminium products from 8 February 2020. Newly affected are the so-called derivatives (derived items) of aluminum and steel products, where aluminum and steel account on average for two-thirds or more of the total cost of materials, whose imports have increased annually since the imposition of tariffs on June 1, 2018, and whose imports exceed the average annual increase in the total volume of US imports of goods (in the amount of four percent) since the tariffs were imposed. With the extension, the US government wants to prevent the previous tariffs from being circumvented. As has been customary since 2018, exemptions for specific products of US subsidiaries, US agencies or customers in the US must be submitted to the US Department of Commerce. Find out more **here**.

Update on the WTO

EU, US and Japan agree on proposal to limit state aid

- On 15 January 2020, the EU, the US and Japan presented a proposal to limit industrial subsidies among WTO members and explored ways of regulating forced technology transfer (particularly in China).
- Alongside Phil Hogan's visit to Washington, a number of points in the EU-US trade issues, including the Airbus-Boeing issue were negotiated
- EU, US and Japan reiterated their view that the current WTO list of prohibited subsidies (which comprises only two categories) "is not sufficient" to tackle market and trade distorting practices. It is proposed to add four new types of "unconditionally prohibited subsidies" to the list. These are: unlimited guarantees; subsidies to an insolvent firm or a firm in financial difficulties in the absence of a credible restructuring plan; subsidies to firms in sectors or industries in overcapacity which are unable to obtain long-term financing or investment from independent commercial sources; and certain direct debt write-offs.
- WTO rules currently only prohibit subsidies that are linked to export performance and dependent on the use of excessively imported domestic goods.
- With regard to other subsidies with "injurious effects", the joint statement proposes a reversal of the burden of proof. This would require the subsidising country to demonstrate that there is no serious negative effect on trade.
- These "harmful subsidies" include excessive subsidies, public aid to rescue uncompetitive enterprises, subsidies that create massive production capacity or

subsidies that reduce domestic input prices relative to the price of exported goods.[4]

Establishment of interim dispute settlement

- Since December 2019, the WTO Appellate Body only consists of one judge. even though, three judges are required to settle disputes. However, the US Administration is blocking the replacement of the vacant judges' positions. Furthermore, the government has frozen all payments to finance the Appellate Body, which is why the Body is currently unable to act. As an interim solution, the EU and 16 other WTO states have established a two-stage dispute settlement procedure for legally binding decisions. At the same time, the EU states stressed that an independent and neutral appellate body must be an essential part of the WTO dispute settlement system. Further negotiations on reforms and improvements to the WTO structures are currently taking place.[5]
- The US Trade Representative (USTR) has outlined his criticism of the WTO Appellate Body in a new **report**, according to which the Appellate Body had frequently failed to comply with WTO rules and misinterpreted the WTO agreements. These measures have harmed the US and its citizens, workers and businesses while undermining the effectiveness of the WTO dispute settlement system. Despite the strong criticism, the comprehensive report does not propose any solutions.[6]

US-China Relations

- After the trade conflict between the US and China lasted for almost two years, a slight easing is now becoming apparent. Both states signed a first partial agreement in Washington in January 2020, the Phase One Agreement. The agreement provides for a partial reduction in US punitive tariffs on Chinese imported goods (now 7.5 percent instead of 15 percent on goods worth USD 120 billion). However, customs duties on Chinese goods worth a total of USD 370 billion will largely remain in place.
- According to American sources, the agreement obliges the People's Republic to significantly increase its imports from the US. China has committed itself to additional imports worth at least 200 billion US dollars over the next two years compared to the import level of 2017. The agreement also addresses issues such as forced technology transfers, intellectual property protection, monetary policy, market access for US financial services providers and agriculture. It also contains

[4] https://bit.ly/2TielJI
[5] https://bit.ly/2TgFlt0
[6] https://bit.ly/32reLBR

a dispute settlement mechanism. In return, the US waives the threat of new punitive tariffs worth 150 billion US dollars. China was also removed from the US blacklist of currency manipulators. The signed agreement is considered the first of several phases of a comprehensive trade agreement.

- At the beginning of February 2020, the Chinese Ministry of Finance announced that the tariffs imposed in September 2018 on several US imported products would be halved as of February 14, 2020. Tariffs on about 1700 US product groups are to be reduced from 10 to 5 or from 5 to 2.5 percent, depending on the type of goods. It remained unclear, however, which goods with which trade volume will be affected by the reduction.[7] Read more about US-China relations in our **briefing**.

US-India Relations

- In February, Donald Trump visited New Delhi for political talks with Indian Prime Minister Narendra Modi. USTR Lighthizer did not travel to India earlier this month as originally planned, however a limited agreement between the two states was likely. Even though Trump left Delhi without a negotiating a deal, he and the Indian Prime Minister Modi are optimistic, that there could still be a comprehensive agreement later this year.
- The Indian government's goal for an agreement is to restore benefits under the Generalized System of Preferences program, which reduced tariffs on Indian imports worth nearly $6.2 billion. The US has made it clear that restored benefits only correspond to the value of Indian market access. India is expected to relax price caps on US medical products, remove certain import barriers to US agricultural products, including dairy products, and reduce tariffs on motorcycles and other US goods. Technical problems between the two trading partners still need to be resolved. However, India experts in the US point out that there was too much momentum not to have some level of agreement when the leaders meet.[8]

[7] https://bit.ly/2HQ5NVc
[8] https://politi.co/2vi0tXU