

US/CHINA/RUSSIA/EU TRADE/SANCTIONS/SUPPLY CHAIN

Drivers of the Trade Dispute

- In 2018 the US/China goods trade deficit was \$420 billion. This deficit has been growing since 2002, the year China joined WTO . Since that time China has become the world's leading exporter.
- Some economists estimate that the US lost 3.4 million jobs between 2001 and 2017 as a result of this trade deficit.
- Technology Issues.
- In 2016 as a candidate Donald Trump promised to bring jobs back to the US and get better trade deals.

Section 232 of the Trade Expansion Act of 1962

- Provides the President with the ability to impose restrictions on certain imports if the Dept of Commerce certifies that such imports threaten national security.
- Based on concerns from global overcapacity in steel and aluminum production mainly driven by China the Trump administration initiated Section 232 investigations in April 2017.

GATT article XXI

- ▣ While unilateral restrictions may appear to be counter to U.S. trade liberalization commitments under WTO agreements, Article XXI of GATT(predecessor of WTO) allows WTO members to take measures to protect “essential security Interests”.

232 continued

- Effective March 23, 2018 Trump applied 25% and 10% tariffs respectively, on certain steel and aluminum imports.
- The president exempted Brazil, Argentina and South Korea in exchange for quantitative limitations.
- On May 23, 2018, Commerce announced the initiation of a Section 232 investigation to determine whether imports of autos, including SUVs, vans, light trucks and auto parts present a national security threat.

232 continued

- As of June 1, 2018 U.S. imports of steel and aluminum from Canada, Mexico Turkey and the E.U . were subject to Section 232 tariffs.
- In May 2019 steel and aluminum tariffs on Mexico and Canada were lifted to pave the way for the ratification USMCA (formerly NAFTA).
- Mexico and Canada also lifted retaliatory tariffs.

Some retaliation measures

- China –higher tariffs on fruits, vegetables, wine meats, steel and aluminum products, soy beans
- E.U. –steel and aluminum products, bourbon, motorcycles,tobacco,denim jeans
- Russia-road construction equipment,oil and gas equipment, tools.
- Canada-Steel and aluminum.coffee,kechup.orange juice, paper products.

▪Section 301 of the 1974 Trade Act

- ▣ One of the principal statutory means by which the U.S. enforces its rights under trade agreements and addresses “unfair “ foreign barriers to U.S. exports.
- ▣ In August 2017 the President instructed USTR to investigate China’s laws, policies and practices to determine if they are unreasonable or discriminatory and may be harming American IPR and technology development.

301 continued

- ▣ In March 2018 USTR determined that :
 - China uses foreign ownership restrictions.
 - China forces licensing under non –market based terms,
 - China unfairly facilitates the acquisition of U.S. companies to obtain cutting edge technology.
 - China conducts and supports unauthorized intrusions into and theft from the computer networks of U.S. companies.

301 continued

- ▣ In Sept 2018 USTR imposed tariffs on 200 billion dollars of Chinese goods and threatened tariffs on an additional 200 billion.
- ▣ On Nov. 20, 2018 USTR determined that China has made little effort to improve trade practices.
- ▣ Between Dec. 1, 2018 and Oct. 15, 2019 there were numerous and tit for tat actions ie tariffs and tranches of goods.
- ▣ On Oct. 15th 2019 a tentative agreement (Phase 1) was agreed upon.

WTO ISSUES

- ▣ In a case involving the U.S. versus the EU relative to government subsidies for airplane producers. The WTO ruled in favor of the US . The ruling authorized the US to impose 100% tariffs on \$ 7.5 billion of goods.
- ▣ Recently it was announced that the US is weighing tariffs on olives, beer gin and trucks wine and luxury goods .

Some Issues in Technology

- ▣ The Future of technology lies in the country that develops 5G(6G,7G) networks. Currently Chinese Tech companies appear to be taking the lead in this area.
- ▣ The US has responding by adding major Chinese tech companies on the BIS entity list (presumably for security reasons) which requires a license to sell to US companies. It is presumed that this license will be denied.
- ▣ This action has disrupted the supply chain for many US tech companies and some companies doing business in Russia. This is because a major Chinese company uses 30% US components for it products.

Sanctions



➤ US Department of State



➤ US Department of Treasury – Office of Foreign Assets Control (OFAC)



➤ US Department of Commerce – Bureau of Industry and Security (BIS)



U.S. DEPARTMENT OF COMMERCE
BUREAU OF INDUSTRY AND SECURITY

ZTE fined 1.4 billion\$

- ▣ 2018 ZTE China's second largest tech company was fined 1.4 billion \$ for violating US sanctions on Iran and North Korea.
- ▣ Initially the US imposed a 7 year ban on purchasing components from US suppliers upon which ZTE heavily relied. This ban forced ZTE to announce that it was shutting down.
- ▣ A deal was reached a personal favor to president Xi Jinping.

Rusal

- ▣ In April of 2018 OFAC imposed sanctions on Rusal. These secondary sanctions prohibited Rusal from receiving payments in dollars effectively cutting it off from commodity markets. These sanctions caused a significant increase in world aluminum prices and created huge financial problems for Rusal.
- ▣ These sanctions were removed in January of 2019 by a vote in the US senate.

GAZ

- ▣ Oleg Deripaska was sanctioned by OFAC in April of 2018 for alleged malign activities this essentially cut GAZ off from global markets.
- ▣ GAZ is currently operating under a OFAC waiver that expires July 22, 2020.

BNP Paribas

- ▣ In 2014 this bank was fined 8.9 billion dollars for falsifying documents regarding transactions with Iran. Also it was cut off from engaging in dollar transactions.

NORDSTREAM 2

- ▣ A recent bill introduced in the US Senate extends sanctions to anyone who provides port facilities to pipe-laying and tethhering services.

Significance of Entity list

- ▣ This designation prohibits any US person from exporting or reexporting any item to Huawei by requiring a license(that has a presumption of denial). Huawei was added (May 19)to this list because it allegedly offended U.S, national security.
- ▣ A TGL (Temporary General License valid for 90 days) that allowed certain activities necessary to maintain the current TGL expires in August .
- ▣ Existing operational networks .
- ▣ Support to existing handsets including software updates.

BIS SANCTIONS MAY 20

- ▣ The US Department of Commerce requires licenses when a foreign supplier has knowledge that the products destined for Huawei and its affiliates or designs for chips make use of U.S. technology and or software .This is known as the direct product rule.
- ▣ This rule is intended to hamper Huawei 's development of 5G technology,

U.S. threatens to delist Chinese companies

- ▣ Recently the Senate passed a bill that threatens to delist chinese companies onNYSE and NASDAQ who do nont comply with SOX.
- ▣ Currently there are 194 Chinese companies with a market cap of \$1.1 trillion on these exchanges.

Sanctions over Hong Kong

- ▣ There are bills in Congress to sanction Chinese officials for alleged human rights violations In Hong Kong.

Digital Service Tax conflict

- ▣ The U.S. Is threatening to impose tariffs on EU auto imports if EU countries implement a tax on US tech companies.

Russia and Huawei

- ▣ Huawei has about 37 % of Russia's smartphone market
- ▣ Huawei is working with MTS to develop a 5G network
- ▣ Huawei is working with Sberbank to develop cloud services
- ▣ Many other joint activities

Some Supply Chain Issues

- ▣ According to Dun and Bradstreet Voltswagon has 5000 suppliers each with an average of 250 tier-two suppliers .That means the company has 1.25 million suppliers.
- ▣ 51000 companies around the world have one or more direct suppliers in Wuhan and at least 6 million companies around the world have one or more suppliers in Wuhan region.
- ▣ Many companies have difficulty understanding their own supply chains.

Pharma

- ▣ The EU,US and Russia import a large percentage of their pharmaceuticals from China.
- ▣ It is difficult to quantify the amount because of APIs (Active Pharmaceutical Ingredients)
- ▣ The US considers the large amount of Chinese drugs to be a threat to national security.

Phase 1 agreement

- ▣ Intellectual Property: The Intellectual Property (IP) chapter addresses numerous longstanding concerns in the areas of trade secrets, pharmaceutical-related intellectual property, geographical indications, trademarks, and enforcement against pirated and counterfeit goods.
- ▣ Technology Transfer: The Technology Transfer chapter sets out binding and enforceable obligations to address several of the unfair technology transfer practices of China that were identified in USTR's Section 301 investigation.

Phase 1 (cont.)

- ▣ • Currency: The chapter on Macroeconomic Policies and Exchange Rate Matters includes policy and transparency commitments related
- ▣ • Expanding Trade: The Expanding Trade chapter includes commitments from China to import various U.S. goods and services over the next two years in a total amount that exceeds China's annual level of imports for those goods and services in 2017 by no less than \$200 billion.

Phase 1(cont.)

- ▣ • Dispute Resolution: The Dispute Resolution chapter sets forth an arrangement to ensure the effective implementation of the agreement and to allow the parties to resolve disputes in a fair and expeditious manner.

Where In The World Huawei Is Rolling Out 5G

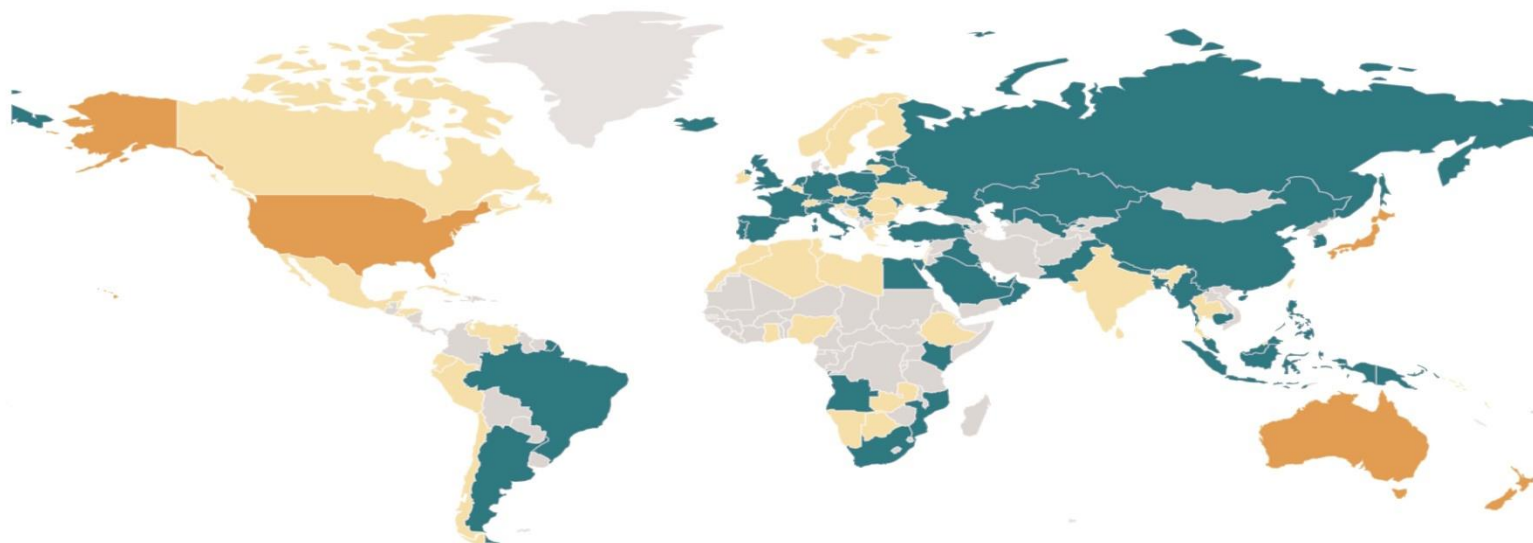
Despite U.S. pressure to ban the Chinese company, Huawei is setting up the next generation of mobile networks in dozens of countries and regions worldwide

ALLOWED (54)

BANNED (4)

UNDECIDED (48)

NO DATA (92)



ALLOWED

Angola, Argentina, Armenia, Austria, Bahrain, Bangladesh, Belarus, Brazil, Cambodia, China, Cyprus, Egypt, Estonia, Faroe Islands, France, Germany, Hong Kong, Hungary, Iceland, Indonesia, Iraq, Italy, Kazakhstan, Kenya, Kuwait, Latvia, Malaysia, Maldives, Mauritius, Moldova, Monaco, Mozambique, Myanmar, Nepal, Netherlands, Oman, Pakistan, Papua New Guinea, Philippines, Poland, Portugal, Qatar, Russia, Samoa, Saudi Arabia, Serbia, Slovakia, South Africa, South Korea, Spain, Turkey, United Arab Emirates, United Kingdom, Uzbekistan

BANNED

Australia, Japan, New Zealand, United States

Credit: Emily Feng, Amy Cheng and Thomas Wilburn / NPR

The United States government doesn't want the Chinese technology giant Huawei to

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Thank You

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