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Contents

Trade Briefs

- President Obama Pledges to Renegotiate the U.S.-Korea Free Trade Agreement by November
- Taiwan and China Sign Historic Economic Cooperation Framework Agreement

Dumping Watch

- Final Results of Antidumping Duty Administrative Review for Circular Welded Non-Alloy Steel Pipes from Korea

The Week Ahead

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Trade Briefs

President Obama Pledges to Renegotiate the U.S.-Korea Free Trade Agreement by November

This past weekend on the sidelines of the G20 Summit in Toronto, President Obama met with South Korean President Lee Myung-bak to discuss the stalled US-Korea Free Trade Agreement (KORUS FTA). The U.S. President stated that he is “committed to moving this forward” and wants to “make sure that everything is lined up properly by the time that [he] visits Korea in November.” He continued by saying that “in the few months that follow that, I intend to present it to Congress.” President Obama noted that this would be done in a “methodical fashion” whereby he will enlist United States Trade Representative Ron Kirk to ‘work very closely with his counterpart from the ROK to make sure that we set a path, a road, so that [he] can present this FTA to Congress.’”

Kirk mentioned that he “looks forward to finalizing ways to address concerns, level the playing field for U.S. workers and producers in the key sectors of autos and beef, and deliver to Americans the jobs and economic opportunity this agreement can bring.”

This is significant because this is the first time the President has publicly stated a timetable for ratification of the KORUS FTA. The President’s remarks did not indicate whether this will be an outright renegotiation of the pact or if the White House is simply seeking to appease those in Congress for more favorable terms for the auto and beef industries. Any severe revisions will likely be opposed by South Korea and limit the President’s ability to push the trade pact through the trade promotion authority. It appears unlikely that any substantial changes will be made outside of the two sectors USTR Kirk highlighted in his statements.

The reaction by those in Congress was generally mixed. Congressman Sander Levin (D-MI), chairman of the Ways and Means Committee which covers trade, tepidly embraced the announcement. He stated that “the date targeted by Mr. Obama can be met only if the outstanding issues are fully addressed with enforceable commitments.” He has argued that, as it stands, the KORUS FTA “does not effectively address the regulatory and tax barriers that have led one-way trade and hurt our industrial sector as well as kept out our beef.”

Congressman Dave Camp (R-MI), the Ranking Member and top Republican on the Committee, also welcomed the President’s statements and said that he “hopes this process will provide us an opportunity to address market access for autos and beef and increase the value of the trading relationship.” Both members of Congress expect to be actively involved in the consultations ahead. The KORUS FTA relies strongly on their support for passage.

The Senate’s Max Baucus (D-MT), chairman of the Senate Finance Committee, was more positive than most noting that this was “great news” for the economy and stated that he supported ratification so long as Korean barriers to American beef were removed or significantly minimized. He made no mention of the restrictions placed on American automobiles entering Korea.

Congressman Phil Hare (D-IL) of the House Trade Working Group condemned President Obama's push to ratify KORUS FTA. He states that the pact will "reverse much of the progress that has been made" and that the free trade agreement will "give Korean automakers open access to the U.S. market without requiring Seoul to dismantle its non-tariff barriers that have kept the Korean market virtually closed to U.S. built automotive products." He cited the \$7.8 billion automotive trade deficit the United States currently shares with South Korea.

The New Democrat Coalition, Business Roundtable, U.S. Chamber of Commerce, National Foreign Trade Council, National Pork Producers Council, and the National Cattlemen's Beef Association all strongly supported the President's statements.

The trade pact is picking up steam as both General Motors and Chrysler now support ratification. There remains lingering opposition from Ford and the United Automobile Workers union who feel that South Korea has done little to address market access for American automobiles. It is difficult to predict how this commitment will play out in the coming months. We must wait to see how opposition groups, such as the AFL-CIO, react and respond to President Obama's announcement and the subsequent discussions.

We will continue to follow the consultations in the coming weeks.

Taiwan and China Sign Historic Economic Cooperation Framework Agreement

This week the People's Republic of China and Taiwan signed the historic Economic Cooperation Framework Agreement (ECFA) as a means of reducing tariffs and minimizing the barriers to entry on both sides of the Taiwan Strait. The agreement is set to boost two way trade in the amount of \$100 billion and lower tariffs on over 800 items with thousands more to come as Chinese and Taiwanese officials continue to expand the covered list of goods.

The pact stands to benefit Taiwan far more than mainland China as the "early harvest" list of tariff reductions covers over 530 Taiwanese products as opposed to 270 Chinese ones. Over 100 Taiwanese goods will receive a zero tariff almost immediately while rates on other goods will be reduced or terminated in three stages over a two year period. Initial estimates suggest that Taiwan will benefit in the amount of \$13.8 billion while China stands to gain \$2.8 billion in increased annual trade.

Taiwanese Premier Wu Den-yih stated that while he was not completely satisfied with the full result, "on the part of protecting our side, we protected it quite beautifully, but on the attack side, we didn't get everything according to our wishes and aims, so more effort will be needed."

Democratic Progressive Party (DPP) Chairwoman Tsai Ing-wen said that the "Legislative Yuan should examine ECFA article by article and clause by clause" as many are skeptical of the supposed benefits of the agreement. She cited a study released by her opposition party which

states that the ECFA will enlarge the gap between rich and poor and increase unemployment due to the influx of cheap Chinese goods.

While China conceded far more than Taiwan, its goal was more political than economic as it seeks to further integrate the island with the mainland. Many from the opposition Democratic Progressive Party within Taiwan have stated that the ECFA will only make the island's export driven economy "too dependent on China" and risk its sovereignty as it becomes the "realization of the One-China policy."

What does this mean for Taiwan?

The Framework Agreement will change the political and economic landscape of Taiwan as it can open new doors to additional trade agreements if China allows such moves. In the past the Chinese believed any free trade agreements (FTAs) established outside of Beijing would only move Taiwan towards independence, not reunification. Now that a framework has been put into place China has signaled that it would be more willing to support FTA expansion. If the ECFA does create a "new hub for China investment" then the island will be able to export its transparent business practices and open legal system to the mainland and turn Taiwan into a hub for businesses looking to invest in the Chinese market.

On the other hand, if the island fails to secure trade deals quickly or if China chooses to withdraw support then the Taiwanese economy will ultimately slow down. Taiwan will remain in the status quo and isolated from regional trade blocs. This scenario is unlikely because China-Taiwan relations are at a high and the mainland is reluctant to spark a change in government, especially one run by the pro-independence DPP.

Taiwan-China Tariff Reduction Arrangements

The tariff reduction arrangements for both are listed below:

	2009 Import Tax Rate (X%)	Mainland China Tariff Reduction Arrangements for Early Harvest Products		
		Early Harvest Program to Implement the First 1 Year	Early Harvest Program to Implement the First 2 Years	Early Harvest Program to Implement the First 3 Years
1	$0 < X \leq 5$	0	-	-
2	$5 < X \leq 15$	5	0	-
3	$X > 15$	10	5	0

	2009 Import Tax Rate (X%)	Taiwan Tariff Reduction Arrangements for Early Harvest Products		
		Early Harvest Program to Implement the First 1 Year	Early Harvest Program to Implement the First 2 Years	Early Harvest Program to Implement the First 3 Years
1	$0 < X \leq 5$	0	-	-
2	$5 < X \leq 15$	5	0	-
3	$X > 15$	10	5	0

We will continue to follow the developments of the ECFA.

Dumping Watch

Final Results of Antidumping Duty Administrative Review for Circular Welded Non-Alloy Steel Pipes from Korea:

The Department of Commerce (DOC) gave notice that it had reached final results in the administrative review of the antidumping (AD) duty order on certain circular welded carbon steel pipes from Korea.

The DOC published notice of the preliminary results of the AD order in December 2009. This review covered six producers/exporters of the subject merchandise: SeAH Steel Corp., Dongbu Steel Co. Ltd., Korea Iron & Steel Co. Ltd, Union Steel Co. Ltd., Nexteel Co. Ltd., and A-JU Besteel Co. Ltd. SeAH is the only mandatory respondent and the DOC received comments on the preliminary results in April 2010 from SeAH and the following petitioners: United States Steel Corp., Allied Tube and Conduit Corp. and TMK IPSCO Tubulars. Based on the analysis of the comments and the results of verification the Department has made the following changes:

- revised calculations to account for minor corrections that SeAH submitting during home market and constructed export price
- included SeAH's allowance for doubtful accounts in the indirect selling expense calculation
- reclassified the reported grades of certain pipes for product comparison purpose
- treated all of SeAH's letter of credit charges related to its U.S. sales as direct selling expenses
- corrected the margin program by calculating SeAH's dumping margin by comparing monthly weighted average normal values to U.S. prices
- excluded inventory valuation losses from SeAH's cost calculations

The DOC has calculated an average-weighted margin of 3.28% which is to be applied to all respondents. This is a decrease of the 4.42% originally assessed in the preliminary review.

Federal Register Notices

International Trade Administration

[A-549-821] Polyethylene Retail Carrier Bags from Thailand: Extension of Time Limit for Preliminary Results of Antidumping Duty Administrative Review 75 FR 36359-36360, June 25, 2010.

[A-533-813] Certain Preserved Mushrooms from India: Notice of Rescission of Antidumping Duty Administrative Review 75 FR 35769-35770, June 23, 2010.

[C-570-966] Drill Pipe from the People's Republic of China: Alignment of Final Countervailing Duty Determination with Final Antidumping Duty Determination 75 FR 34974-34975, June 21, 2010.

[A-549-822] Certain Frozen Warmwater Shrimp from Thailand: Notice of Extension of time Limit for the Final Results of the 2008-2009 Administrative Review 75 FR 34976, June 21, 2010.

[A-570-831] Fresh Garlic from the People's Republic of China: Final Results and Partial Rescission of the 14th Antidumping Duty Administrative Review 75 FR 34976-34980, June 21, 2010.

[A-580-809] Circular Welded Non-Alloy Steel Pipe from the Republic of Korea: Final Results of the Antidumping Duty Administrative Review 75 FR 34980-34982, June 21, 2010.

[C-570-968] Aluminum Extrusions from the People's Republic of China: Notice of Postponement of Preliminary Determination in the Countervailing Duty Investigation 75 FR 34982-34983, June 21, 2010.

International Trade Commission

[Investigation No. 337-TA-723] In the Matter of Certain Inkjet Ink Cartridges With Printheads and Components Thereof; Notice of Investigation 75 FR 36442-36443, June 25, 2010.

[Investigation No. 337-TA-666] In the Matter of Certain Cold Cathode Fluorescent Lamp Inverter Circuits and Products Containing the Same; Notice of Commission Final Determination of No Violation of Section 337 75 FR 36119, June 24, 2010.

[USITC SE-10-022] Government in the Sunshine Act Meeting Notice; 75 FR 36119, June 24, 2010.

[Investigation No. 731-TA-1071 and 1072 (Review)] Magnesium from China and Russia; Notice of Commission Determinations to conduct full five-year reviews concerning the antidumping duty orders on magnesium from China and Russia 75 FR 35086-35087, June 21, 2010.

The Week Ahead

- On July 6th, the ITC will hold a vote on five year (sunset) review adequacy determinations on Hot-rolled flat-rolled carbon quality steel products from Brazil, Japan, and Russia
- On July 7th, the ITC will hold a hearing on the Andean Trade Preference Act