# INTERNATIONAL TRADE POLICY DEVELOPMENTS

Q2 2024 Report

## MAJOR DEVELOPMENTS

## UNITED STATES & CANADA



## EUROPEAN UNION



## UNITED KINGDOM



## ASIA-PACIFIC



## WTO

## GLOBAL VALUE & SUPPLY CHAINS

# MAJOR DEVELOPMENTS

## NEW US TARIFF INCREASES ON IMPORTS FROM CHINA

On 14 May, President Biden proposed significant tariff increases on a range of imports from China, including electric vehicles (EVs), batteries and other products related to the EV supply chain, computer chips, steel, and medical products. Following public comments and potential changes, the tariffs will become final by year-end.

The US Administration justified the tariffs as necessary in view of over-capacity and subsidisation in China, and to combat China's alleged intellectual property theft, although it has also proposed exclusions from the tariffs for industrial machinery used in domestic manufacturing and for solar panel equipment.

> "President Biden proposed significant tariff increases on a range of imports from China."

## CANADA'S DIGITAL SERVICES TAX

Canada's proposed Digital Services Act completed its parliamentary process in Ottawa on 19 June and received "Royal Assent" the following day, thus becoming law. Under the terms of the Act, large Canadian and non-Canadian businesses will be liable for a 3 percent Digital Services Tax on digital services revenues earned from customers located in Canada.

## NEW EUROPEAN PARLIAMENT - WHAT ARE THE IMPLICATIONS FOR THE EU'S TRADE POLICY?

The results of the votes in the EU's 27 member states indicate that, for trade policy at least, continuity is broadly likely – although there will probably be less emphasis on 'Green Deal' - related issues.

It remains to be seen whether the new political environment will favour the conclusion of trade deals. While a less ambitious sustainability policy might facilitate negotiations, rising protectionism could also hinder them.

## EUROPEAN COMMISSION "PROVISIONALLY CONCLUDES THAT ELECTRIC VEHICLE VALUE CHAINS IN CHINA BENEFIT FROM UNFAIR SUBSIDIES"

In a statement released on 12 June 2024, the European Commission announced that it had provisionally concluded that the Battery Electric Vehicle (BEV) value chain in China benefits from unfair subsidisation, which is causing a threat of economic injury to EU BEV producers.

In response, China has already announced anti-dumping investigations into imports of pork and cognac from the EU.

## COUNCIL OF THE EU GIVES ITS FINAL APPROVAL TO SUPPLY CHAIN RULES

On 24 May, the Council of the EU formally adopted the Corporate Sustainability Due Diligence Directive (CSDDD), which introduces legal obligations on large corporations to conduct human rights and environmental due diligence in their global supply chains. This is the last step in the decision-making procedure. After being signed by the President of the European Parliament and the President of the Council, the Directive will be published in the Official Journal of the European Union and will enter into force on the 20th day following its publication.

Companies are required to ensure that human rights and environmental obligations are respected throughout their supply chains.
If a violation of these obligations is identified, companies will have to take the appropriate measures to prevent, mitigate, bring to an end or minimise the adverse impacts arising from their own operations, those of their subsidiaries and those of their business partners in their chain of activities. Companies can be held liable for the damage caused and will have to provide full compensation.

### WHAT TO WATCH IN QUARTER AHEAD

- **16-19 July**
  First European Parliament plenary
- **Q2 2024**
  WTO Trade Policy Review of China
- **Q3 2024**
  Further negotiations on Fisheries Subsidies (WTO)

# UNITED STATES & CANADA

## NEW US TARIFF INCREASES ON IMPORTS FROM CHINA

On 14 May, President Biden proposed significant tariff increases on a range of imports from China, including electric vehicles (EVs), batteries and other products related to the EV supply chain, computer chips, steel, and medical products. A public comment period closed on June 28; modifications may take place, but the increased tariffs will become final by the end of 2024.

While Biden seeks to bolster support for his “worker-centred” trade policy, the move will escalate tensions with China. Biden emphasised the need for fair competition, criticising China's past trade practices and vowing to protect the US market from being flooded by Chinese goods.

China swiftly condemned the tariff hikes, promising retaliatory measures to safeguard its interests. Biden plans to maintain tariffs introduced by his predecessor while intensifying others, such as quadrupling duties on EVs to over 100 percent and doubling semiconductor tariffs to 50 percent. These measures affect $18 billion worth of imports, encompassing goods like steel, aluminium, EVs, critical minerals, solar cells, and cranes.

> “Biden seeks to bolster support for his “worker-centred” trade policy.”

Despite the headline-grabbing nature of these tariffs, their practical impact in the US could be limited in some cases – for example, the country currently imports few Chinese EVs. The US Administration nevertheless justifies the tariffs as pre-emptive in view of over-capacity and subsidisation in China as well as necessary to combat China's alleged intellectual property theft, although it has also proposed exclusions from the tariffs for certain categories of industrial machinery.

## NEW SECTION 232 TARIFFS ON STEEL AND ALUMINUM IMPORTS FROM MEXICO

On July 10, 2024, the Biden Administration issued two proclamations (A Proclamation on Adjusting Imports of Steel Into the United States, WHITE HOUSE, July 10, 2024; A Proclamation on Adjusting Imports of Aluminum Into the United States, WHITE HOUSE, July 10, 2024.) concerning imports of steel and aluminum from Mexico and imports of aluminum from Russia, China, Belarus, and Iran. The domestic steel industry had long sought the "melt and pour" in North America rule that the proclamation now formalises for imports from Mexico.

Under these proclamations, additional import duties of 25% for steel and 10% for aluminum can be levied on these categories of merchandise under the Trade Expansion Act of 1962. To avoid these additional duties, i.e., those imposed in addition to the Normal Trade Relations duties and any other trade remedy duties such as antidumping and countervailing duties, the importer must certify to U.S. Customs & Border Protection (CBP) that (a) the steel in any finished good was melted and poured in the United States, Canada, or Mexico; and (b) that aluminum products were not smelted and cast using primary aluminum from Russia, China, Belarus, or Iran.

> "The domestic steel industry had long sought the 'melt and pour' in North America rule"

The first July 10th proclamation closed a loophole in the Section 232 exemption for Mexico. Previously, raw steel materials - primarily from China due to that country's overcapacity in steel production - were shipped to Mexico for further processing into finished articles. The country of origin of the finished articles would then become "Mexico" and, in most cases, enter the U.S. duty-free under USMCA. The new proclamation puts an end to this version of "transshipment" that has allowed China to escape the Section 232 tariffs on steel products. Thus, effective July 10th, only steel and derivative steel articles that are melted and poured in Mexico, Canada, or the U.S. will qualify for tariff exemptions. Imports of steel and derivative steel articles that are products of Mexico but were melted and poured in a country other than Mexico, Canada, or the U.S. will be subject to the Section 232 tariff rate of 25%.

Importers of steel and steel derivative articles will need to provide to CBP the information necessary to identify the countries where the steel used in the manufacture of these articles is melted and poured.

The second July 10th proclamation addressed a similar issue of Mexico using other countries' raw aluminum materials in manufacturing finished goods for export to the U.S., with a significant increase in those exports since 2019. Accordingly, the proclamation imposes a new rule that imposes Section 232 tariffs of 10% on aluminum and derivative aluminum articles that are products of Mexico containing aluminum for which the reported primary country of smelt, secondary country of smelt, or country of most recent cast is China, Belarus, Iran, or Russia. (For the latter country, duties are imposed at the rate of 200% pursuant to Presidential Proclamation 10522 (Feb. 24, 2023)). Imports of aluminum and derivative aluminum articles that are products of Mexico must be accompanied by a certificate of analysis to be exempt from Section 232 tariffs.

## TRUMP SIGNALS HE WOULD RAISE TARIFFS EVEN FURTHER, AND NOT ONLY ON IMPORTS FROM CHINA

Former President Trump, meanwhile, promised that his second term would see 60 percent tariffs on everything imported from China and 10 percent tariffs on imports from the rest of the world, apparently including imports covered by 14 free trade agreements with 20 partners. He had initially promised 100 percent tariffs on EVs, but when Biden declared that he was hiking tariffs on EVs from China to 100 percent, Trump raised the ante to 200 percent.

> "60 percent tariffs on everything imported from China."

A former Trump national security adviser, Robert O'Brien, went further in an article in Foreign Affairs, arguing that "Washington should, in fact, seek to decouple its economy from China's".

This contrasts with Biden's more selective "de-risking" approach with what National Security Advisor Jake Sullivan described as a "small yard and a high fence" to safeguard essential US interests in the relationship with China.

## US-UK TALKS TO BE RESTARTED IF TRUMP GETS ELECTED

The renewal of negotiations for a bilateral trade agreement between the US and the UK would be a 'priority' for Donald Trump if he secures a second term as US President later this year, according to Robert Greenway, director of the Center for National Security at the Heritage Foundation and a close Trump ally.

The US and UK completed five full negotiating rounds on a trade deal during the latter part of the first Trump Administration in 2020. However, these negotiations were halted after Joe Biden's victory in November of that year, as Biden chose not to pursue trade deals with any partners during his first term.

> "The renewal of negotiations for a bilateral trade agreement between the US and the UK would be a 'priority' for Donald Trump"

Significant groundwork has been laid in those talks, meaning that any revived FTA negotiations would not need to start from scratch. However, now that a Labour government is installed in London after the early July general election, the UK might want to conduct a review of past negotiations while a Trump Administration in the US might be less enthusiastic.

## PRESIDENT'S EXPORT COUNCIL ISSUES RECOMMENDATIONS ON TRADE IN SERVICES, AND TRADE WITH THAILAND

The President's Export Council (PEC), a major advisory body which includes both prominent private sector and Administration members, recently submitted recommendations on the need for the US to re-emphasise improved market access and non-discriminatory treatment for services in its trade relations, while simultaneously promoting high-standard labour and environmental commitments. One of the specific recommendations is to restart negotiations for a Trade in Services Agreement (known as 'TiSA'). These talks, which started in 2013 between 23 like-minded countries, almost came to fruition at the end of 2016, but then stalled.

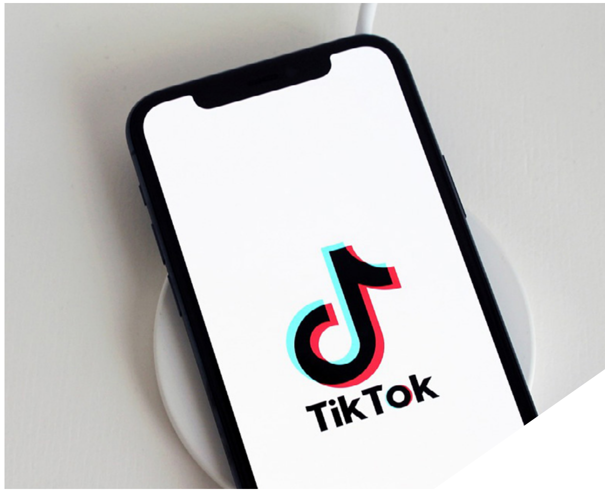
The PEC also recently issued a report on a visit to Thailand led by Secretary of Commerce Gina Raimondo, in which it proposes that the US should pursue an economic agreement with Thailand to facilitate trade and reduce trade barriers.

These recommendations from an influential body are relevant in that the United States Trade Representative (USTR) has to date not shown any interest in what it regards as 'traditional' trade deals of this nature. It seems unlikely that the USTR will change policy in the short term, but there are grounds for thinking that some support for a more pro-trade agenda exists within the Administration.

## US TREASURY SECRETARY YELLEN VISITS CHINA

In April, US Treasury Secretary Janet Yellen and her team concluded a visit to China, where they discussed key issues regarding bilateral relations with their Chinese counterparts.

Yellen addressed the US Administration's concerns about China's economic model, which is seen as disadvantaging US companies through heavy subsidies for solar products, EVs, and lithium-ion batteries. She highlighted the risks of overcapacity and the global economic impact of China's dominant production. The discussions resulted in an agreement to engage in "intensive exchanges" on more balanced economic growth, though specific timelines and locations were not determined.




"China raised the issue of banning TikTok, owned by ByteDance."

China raised the issue of banning TikTok, owned by ByteDance. Despite TikTok's proposed data security plan, US lawmakers are pushing to either ban the app or force divestment, due to national security concerns. Yellen expressed support for addressing these security issues and noted an imbalance, as many US social apps are banned in China.

## NEW US SANCTIONS ON RUSSIA

On 1 May 2024, the US announced new sanctions targeting over 280 individuals and entities, to increase pressure on Russia.

The Department of State sanctioned more than 80 entities and individuals involved in various sectors critical to Russia's economy and war efforts. These sectors include the development of future energy, metals, and mining production and export capacities, as well as activities related to evading existing sanctions. The sanctions also target individuals and entities that support Russia's ability to continue its military operations in Ukraine.

Simultaneously, the Department of State submitted a determination to Congress under the Chemical and Biological Weapons Control and Warfare Elimination Act of 1991 concerning Russia's use of the chemical weapon chloropicrin against Ukrainian forces. As a result, the US re-imposed restrictions on foreign military financing, US Government credit lines, and export licenses for defence-related and national security-sensitive items to Russia.

Additionally, three Russian government entities linked to chemical and biological weapons programmes and four companies supporting these programmes were sanctioned.

These sanctions fall under Executive Order 14024, which addresses harmful foreign activities of the Russian Government.

## CANADA'S DIGITAL SERVICES TAX

Canada's Digital Services Tax Act entered into force on 28 June, based on an Order in Council issued on that date. The DST Act, which is part of Bill C-59, was passed by parliament on 19 June 2024 and received 'Royal Assent' on 20 June. The DST is an annual 3% tax on revenue from companies that provide digital services to Canadian users or sell Canadian user data. The tax will be applied retroactively to taxation years as from 2022.

US industry believes the measure to be targeted at US digital services and content providers, and therefore to be effectively discriminatory.

The USTR has been urged to take counteraction under the US-Mexico-Canada trade agreement. Furthermore, business groups argue that the new tax will complicate ongoing negotiations at the OECD where a large group of countries is trying to agree on a deal to reform the international tax structure.

## CANADA SEEKS INPUT FROM TRADE COMMUNITY RE CHINA'S UNFAIR COMPETITION

On 24 June 2024, the Canadian Federal government began consultation with the trade community on the impact of "unfair competition from China's international, state-directed policy of overcapacity that is undermining Canada's EV sector's ability to compete in domestic and global markets". (Chrystia Freeland, Canadian Minister of Finance.) It is unclear at this time how the Canadian Federal government will proceed post consultation, but it appears punitive tariffs on certain items originating in China are possibly being considered.


### Further Information

What Will the Election Bring on Trade?, William Alan Reinsch, Center for Strategic & International Studies,13 May 2024 (link)

# EUROPEAN UNION

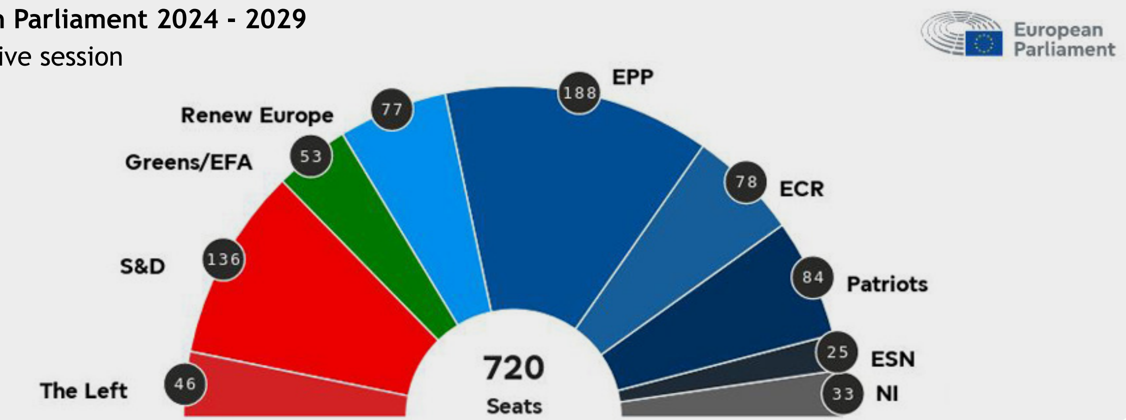
## NEW EUROPEAN PARLIAMENT - WHAT ARE THE IMPLICATIONS FOR THE EU'S TRADE POLICY?

Elections to the European Parliament were held from 6-9 June, with the centre-right group, the European People's Party (EPP), being the clear winner with an increase of seats from 176 to 188. The centre-left Socialists and Democrats (S&D) came in second place with 136 seats, while the losers were the centrist Renew Europe group and the Greens, who have 19 fewer parliamentarians each, the latter being a victim of an anti-Green Deal backlash.

The win for the EPP makes it almost certain that the next European Commission President will come from the same political group. The EPP's main candidate for the Presidency is the incumbent Ursula von der Leyen, whose nomination has already been endorsed by the heads of government of the EU Member States. The former German defence minister now needs approval of the European Parliament.

Despite the significant increase in votes for hard right and far right parties, there is still a solid pro-EU majority in Parliament.

**European Parliament 2024 - 2029**
Constitutive session




**Source:** Provided by Verian for the European Parliament

Its three biggest representatives, the EPP, S&D, and Renew have substantially more seats than the needed 361 votes to achieve a majority. Hence, the most likely scenario is a renewal of the existing parliamentary coalition that supported the Commission in the past legislative term. However, if some of the MEPs of the coalition parties decide not to vote in favour of the new Commission, other votes coming from other political groups, probably the Greens or even the right-wing European Conservatives and Reformists (ECR) might be necessary.

The results of the votes in the EU's 27 member states indicate that, for trade policy at least, continuity is broadly likely, although there will probably be less emphasis on Green Deal-related issues.

Two of the outgoing Parliament's most influential members on trade - the chair of the international trade committee, Bernd Lange, and the EPP's trade coordinator Jörgen Warborn - were both re-elected.

A key question is how the EU will move forward with new legislation that has created significant friction with its trading partners, such as the carbon border measure (CBAM) and the deforestation-free supply chains Regulation.

The US Government, among others, recently urged the EU to delay implementation of the Deforestation Regulation, which is due to take effect at the end of 2024, because it poses "critical challenges" to US industry.

A common thread running through many of the election manifestos would also cause trade friction: the emphasis on "reciprocity" or "mirror measures". This principle requires producers of agri-food products in third countries to abide by the same production rules as EU producers when exporting to the bloc.

Even the pro-trade EPP backs such a principle, saying that "a new smart trade policy" should be "based on the principle of reciprocity, especially to safeguard the interests of our farmers and fishers".

The eclipse of the Greens could, however, herald a more conducive environment for deal-making at a time when the EU is seeking to diversify its trade relationships, although this depends on the extent to which the centrist coalition is ready to compromise on sustainability issues.

Free trade agreements under negotiation include that with Mercosur, and ongoing talks with India, Indonesia and other ASEAN members, as well as Australia. Most are wary of mirror clauses or sustainability-related sanctions.

It remains to be seen whether the new political environment will favour the conclusion of trade deals. While a less ambitious sustainability policy might facilitate negotiations, rising protectionism could also hinder them.

## EUROPEAN COMMISSION "PROVISIONALLY CONCLUDES THAT EV VALUE CHAINS IN CHINA BENEFIT FROM UNFAIR SUBSIDIES"

In October 2023 the Commission launched an "anti-subsidy investigation" into imports of battery electric vehicles (BEVs) originating in China. In a statement released on 12 June 2024, it announced that it had provisionally concluded that the BEV value chain in China benefits from unfair subsidisation, which is causing a threat of economic injury to EU BEV producers.

The Commission added that it has reached out to Chinese authorities to discuss these findings and explore possible ways to resolve the issues identified in a WTO-compatible manner. Should these discussions not lead to an effective solution, the provisional duties will be applied from 4 July 2024. The provisional duties range between 17.4 percent and 38.1 percent, depending on the Chinese producer concerned. These duties are on top of the standard EU tariff of 10 percent on imported automobiles.

In its initial response, China's Ministry of Commerce accused the EU of a "naked protectionist act", disregarding facts and WTO rules. The Chinese Government would take all necessary measures to defend its rights. Observers think that, if bilateral talks are unsuccessful, retaliation could focus on EU automobiles, agricultural products and luxury goods. China has already announced anti-dumping investigations into imports of pork and cognac from the EU (see here).

## EU AND AUSTRALIA SIGN PARTNERSHIP ON SUSTAINABLE CRITICAL AND STRATEGIC MINERALS

On 28 May, the EU and Australia signed a Memorandum of Understanding (MoU) for a bilateral partnership to cooperate on sustainable critical and strategic minerals.

The agreement, which has political more than legally binding value, aims to help the EU diversify its sources of minerals that are critical to meet its digital and green transition goals. Another aim of the agreement is to develop Australia's domestic minerals sector.

The signing of the MoU follows a failure by the two sides last year to secure a free trade agreement. The EU was keen to access Australia's abundant supply of minerals and diversify minerals supply away from China but talks broke down over Canberra's demands for increased market access for its agricultural products.

## NEW SAFEGUARDS ON UKRAINIAN AGRICULTURAL EXPORTS

On 23 April, the European Parliament endorsed the extension of temporary trade liberalisation measures for Ukraine, while protecting EU farmers.

As part of the deal the EU institutions agreed to introduce an automatic safeguard for poultry, eggs, sugar, oats, groats, maize, and honey. This obliges the EU to impose tariffs within 14 days if import levels for these products exceed the average import volumes for 2023, 2022 and the second half of 2021.

The automatic safeguard is an acknowledgement by EU decision-makers of EU farmers' concerns.

Farmers from countries bordering Ukraine have felt threatened by the influx of cheaper imports from their war-torn neighbour following the EU's decision to temporarily lift all remaining tariff rate quotas on a range of agricultural products.

The European Commission will also be able to act if there is significant market disruption in one of more EU member states due to imports from Ukraine of other agriculture commodities such as wheat.

## EU'S 14TH PACKAGE OF SANCTIONS AGAINST RUSSIA

On 24 June, the Council of the EU adopted the EU's 14th package of sanctions against Russia. The package contains important new energy-related measures targeting liquified natural gas (LNG), and measures targeting vessels which support Russia's war.

As regards LNG, the package prohibits all future investments in, and exports to, LNG projects under construction in Russia. It will also prohibit, after a transition period of 9 months, the use of EU ports for the transshipment of Russian LNG.

Moreover, the package prohibits the import of Russian LNG into specific terminals which are not connected to the EU gas pipeline network. Also, for the first time, the EU has adopted a measure targeting specific vessels contributing to Russia's warfare against Ukraine, which are subject to a port access ban and ban on provision of services.


### Further Information

Von der Leyen feels the squeeze as EU liberals implode, Politico, 24 June (link)

EU adopts 14th package of Russia sanctions, Global Sanctions, 24 June (link)

# UNITED KINGDOM

## UK 'BREXIT' BORDER CHARGE ON IMPORTS OF EU PLANT AND ANIMAL PRODUCTS

UK trade groups have expressed strong disapproval of the government's decision to impose charges of up to £145 on imports of EU plant and animal products. Businesses warned that the new "common user charge" on imports through Dover's main Channel port, introduced on 30 April, would increase food prices and discourage EU producers from exporting to the UK.

The British Chambers of Commerce (BCC) criticised the Department for Environment, Food and Rural Affairs (Defra) for not considering industry feedback. Defra announced the charges would apply to all consignments entering the UK via government-controlled border points at Dover and the Eurotunnel, which handle most UK food imports.

William Bain, BCC's head of trade policy, said the £29 per commodity line charge (capped at £145 per consignment) would severely impact smaller importers. He urged the government to reconsider the proposal, as even small consignments with five different medium-risk products would face a £145 charge.

> "Charges of up to £145 on imports EU plant and animal products."

Despite opposition from the plant and food sectors, the UK government maintains that the post-Brexit border controls, delayed five times since January 2021, are necessary to enhance biosecurity and ensure fair competition for UK businesses exporting to the EU. Since January 2024, EU exporters have needed extra paperwork, including Export Health Certificates (EHCs), with physical inspections starting on 30 April and additional security documentation to be required from October.

## EU TRIGGERS TCA DISPUTE SETTLEMENT MECHANISM IN ROW OVER UK FISHING BAN

On 16 April, the European Commission initiated dispute settlement proceedings against the United Kingdom over a British ban on fishing for sandeel in UK waters. This marks the first use of the dispute settlement provisions under the EU-UK Trade and Cooperation Agreement (TCA).

The sandeel (also called sand eels) fishing ban, implemented by the UK to protect seabirds and marine mammals, has angered Denmark, as Danish fishers catch a significant amount of sandeel in UK waters for fish oil and meal production. Despite the recent agreement on a catch quota, the UK's closure of the fishery affects Danish and Swedish fishers, who have lodged complaints with the EU.

The EU contends that the UK's ban is not consistent with its TCA commitments, which require fisheries conservation policies to be evidence-based, proportionate, and non-discriminatory. The parties have 30 days to negotiate a solution, failing which the EU may seek arbitration and potentially impose trade sanctions under Article 506 of the TCA.

"The sandeel (also called sand eels) fishing ban, implemented by the UK to protect seabirds and marine mammals, has angered Denmark."

Despite tensions, the EU acknowledges generally good current bilateral fisheries relations with the UK and remains open to a mutually agreeable resolution. The UK maintains that its decision aligns with its TCA obligations and applies equally to all vessels.

## AUTONOMOUS RAW CANE SUGAR QUOTA

The UK Government will decide by summer 2024 on potential changes to its autonomous tariff quota (ATQ) for raw cane sugar imports, following a stakeholder consultation that concluded in May. This ATQ, which allows up to 260,000 tonnes of raw cane sugar to enter the UK duty-free annually, is set to expire on 31 December 2024. The government has not yet indicated its plans regarding the quotas.

A new consideration is the duty-free raw cane sugar quota from Australia under the UK-Australia free trade agreement, which now allows 100,000 tonnes of duty-free sugar, increasing annually until 2031 when full duty-free access will be granted.

This development could influence the Government's decision on the ATQ, which was originally introduced in January 2021 as the UK's sole new autonomous tariff quota post-Brexit.

The ATQ has been extended twice, with the latest extension agreed in 2022. Tate & Lyle, a UK refiner, has benefited significantly from the ATQ and the Australian quotas, while Brazil has been the main exporting country beneficiary of the ATQ since its inception. However, the political implications are complex, as any changes to the ATQ will affect domestic sugar beet producers who are currently facing challenges from poor weather and environmental regulations. In addition, UK imports of raw cane sugar from smaller Commonwealth and ACP countries (such as Belize, Guyana and Fiji) have been declining since the introduction of the ATQ.

Due to the long lead times for shipping raw cane sugar from southern hemisphere suppliers, a decision on the volume of quotas starting from January 2025 must be made in the next few months.

## NEW ZEALAND BECOMES FOURTH CPTPP MEMBER TO RATIFY UK ACCESSION

On 6 June, New Zealand announced its ratification of the UK's accession to the Comprehensive and Progressive Agreement on Trans-Pacific Partnership (CPTPP). New Zealand is the fourth member to do so, following Singapore, Chile, and Japan.

At least six members need to ratify the UK's accession protocol for the agreed concessions to take effect among those ratifying countries. Vietnam has recently completed its ratification process, which leaves the UK just one member short of the required total to activate its membership.

> "At least six members need to ratify the UK's accession protocol."


### Further Information

Brussels picks fight over UK ban on sand eel fishing, Euronews, 16 April (link)

# ASIA-PACIFIC

## KEY TAKEAWAYS FROM CHINESE PRESIDENT XI'S EUROPEAN TOUR

In May, Chinese President Xi Jinping conducted a five-day tour to Europe, visiting France, Serbia and Hungary, where he promoted Beijing's vision of a multipolar world and held talks on trade, investments and Russia's war in Ukraine.

Xi's main aims with the visit were advancing his vision of a world in which the US is less dominant and controlling potential damage to China's relations with the EU amid growing trade tensions.

During the two-day visit to France, President Macron pressed the Chinese leader to address Beijing's trade imbalances with the EU, with the bloc running a goods trade deficit of 292 billion euros ($314.72bn) last year, and to use his influence on Russian President Putin to end the war in Ukraine.

Macron invited European Commission President Ursula von der Leyen to join his talks with Xi to underline European unity on calls for greater access to the Chinese market and to address the bloc's complaints regarding its excess capacity in EVs and green technology. They also pushed Xi to control the sales to Russia of products and technologies that can be used for both civilian and military purposes.

> "Xi to control the sales to Russia of products and technologies."

Xi denied there was a Chinese "overcapacity problem" and reiterated his calls for negotiations to end the war between Russia and Ukraine.

In contrast with France, President Xi's visits to EU candidate country Serbia and EU member state Hungary were marked by pledges to deepen political ties and expand investments in eastern and central Europe. Both countries are participants in China's Belt and Road Initiative.

## CHINA LAUNCHES ANTI-DUMPING PROBE INTO EU'S PORK IN RESPONSE TO EU'S DUTIES ON ELECTRIC VEHICLES

On 17 June, a few days after the EU announced new duties on imports of Chinese BEVs, Beijing launched an anti-dumping investigation on certain pork products imported from the EU.

The European Union Chamber of Commerce in China saw the investigation as straightforward retaliation for the EU action on BEVs. However, according to Chinese authorities, the probe was initiated by a formal complaint by a domestic industry group, the China Animal Agriculture Association.

In the complaint, the EU's pork industry is accused of creating overcapacity and benefiting from large subsidies, which it said has impacted China's domestic pork industry.

The announcement of the probe has triggered concern from the EU's pork industry, with China representing one of its largest markets.

## IPEF'S CONTOURS TAKE SHAPE

The US-led Indo-Pacific Economic Framework for Prosperity (IPEF) is gradually taking shape as its 14 participants signed a 'clean economy agreement', a 'fair economy agreement' and an 'overarching agreement on IPEF' during a ministerial meeting in Singapore on 6 June.

The IPEF partners are Australia, Brunei Darussalam, Fiji, India, Indonesia, Japan, Republic of Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, the US and Vietnam.

The latest three agreements follow on the signing of a supply chain agreement concluded last autumn which is also IPEF's most advanced agreement.

Green hydrogen, carbon markets, labour rights and reducing non-tariff barriers are some of the most important aspects addressed by the new agreements.

As expected, the newly signed IPEF agreements include few 'hard law' commitments and there is no mention of a dispute settlement system.

## KOREA AND UAE SIGN TRADE AGREEMENT

South Korea and the United Arab Emirates signed what they termed a comprehensive economic partnership agreement (CEPA) during a bilateral summit in Seoul on 30 May.

The CEPA is a framework agreement on the basis of which the two sides aim to liberalise trade further in future. The deal was flanked by 19 memoranda of understanding on the economy, investment, conventional energy, clean energy, peaceful nuclear energy, infrastructure and culture.

Sheikh Mohamed bin Zayed Al Nahyan, the UAE head of state, is the first leader from the country to make a state visit to Korea. The new agreement forms part of an ambitious UAE trade agenda in the Asia-Pacific region.

The Korean Presidential Office said: “We have formed the institutional basis to strengthen our bilateral economic partnership in comprehensive areas like trade liberalization and investment expansion.”

## CHINA AND AUSTRALIA REBUILDING TRADE RELATIONS

On 15 June 2024, Chinese Premier Li Qiang began the first visit to Australia by a senior Beijing leader since 2017, signalling an improvement in ties between the two nations. Relations were seriously affected by a row over investigating the origins of the COVID pandemic following which, to signal its displeasure with the Australian government, China had effectively banned imports of Australian coal, wine, barley, beef and wood. Australia had retaliated, albeit only to a limited degree.

Following the change of government in Canberra and appointment of Anthony Albanese as Prime Minister in 2022, hostile rhetoric was dialled back, and more attention began to be paid to the economic costs on both sides. Trade barriers have been progressively dismantled: China’s imports of Australian wine, coal, beef and barley have resumed. One barrier remains, on Australian lobster.

Nevertheless, Li and Albanese both recognised that there are still irritants in the relationship. Li said that “We had a candid exchange of views on some differences and disagreements and agreed to properly manage them in a manner befitting our comprehensive strategic partnership.”


### Further Information

South Korea and UAE sign milestone trade agreement, boosting economic ties, Korea Pro, 30 May (link)

China’s Premier Li Qiang Visits Australia: A Step Toward Stabilizing Relations, Yu Tao, The Diplomat, 14 June (link)

# WTO

It has been a quiet period in the WTO as members digest the limited results from the Ministerial Conference held at the end of February (as summarised in the report on Q1 2024).

On **agriculture**, no progress has been made to date on breaking the continuing deadlock in negotiations. A workshop has been arranged for July to try to brainstorm new ideas. Most likely these will include increasing the focus of the negotiations on sustainability issues and food security.

The negotiations on harmful **fisheries subsidies** contributing to overcapacity and overfishing came close to a successful conclusion at the February 2024 Ministerial Conference but there has been little progress since then. Gaps still persist between the positions of some of the major players, although Director-General Okonjo-Iweala has expressed some optimism that these can be bridged in the near future - a stance which has been supported by a range of countries including the US, China and South Africa.

> "The negotiations on harmful fisheries subsidies contributing to overcapacity and overfishing came close to a successful conclusion."

**Dispute settlement reform** continues to be a major preoccupation. While there is a high level of engagement among members and significant progress on procedural matters, there seems to be little prospect of movement on the key issue of the future of the Appellate Body in a US presidential election year.

Despite the widespread belief that the WTO dispute settlement system is dysfunctional, it continues to perform at a reduced level. The EU and Australia, having been found to be at least partially at fault in two individual disputes, indicated that they would implement WTO panel rulings. South Africa has also requested the establishment of two new dispute panels to review EU measures affecting the import of South African citrus fruit into the EU.

The future of a plurilateral agreement being negotiated in Geneva among about 90 WTO members on **Electronic Commerce** hangs in the balance. The deal has almost been finalised, but the US still has one or two outstanding issues (notably on exceptions from the terms of the agreement for personal data protection measures, and for national security). It is not clear whether these issues can be resolved, and what the effect would be on the agreement as a whole if the US withdraws. The agreement mainly aims at providing a basic commonly-agreed framework for enabling and facilitating E-commerce.

# GLOBAL VALUE & SUPPLY CHAINS

## CHINA'S LARGEST FUNDING ROUND TO DATE TO SUPPORT ITS CHIP INDUSTRY, IN DRIVE FOR SELF-SUFFICIENCY

China has concluded its largest funding round to date in support of its semiconductor industry, with the so-called 'Big Fund' raising Rmb344bn ($47bn) to aid President Xi Jinping's self-sufficiency drive in the face of US efforts to restrict the country's access to the latest technology.

The third round of the fund, officially called the National Integrated Circuit Industry Investment Fund Phase III, is China's largest pool of capital targeted at seeding companies and technologies to overcome what Beijing refers to as "chokepoints" for its chip industry. It has been assembled from contributions from the finance ministry, local governments, state-owned enterprises and, for the first time, state-owned banks.

It comes amid an escalating technology race with the West and echoes efforts in Washington and European capitals to build up their own domestic semiconductor industries. The US has extended billions of dollars in subsidies for groups to build chip plants on American soil.

The Big Fund previously raised Rmb139bn and Rmb200bn in 2014 and 2019 and has a record of supporting Chinese chip champions and propelling the industry's growth.

It is believed that this third fund will target Chinese makers of equipment for chip factories, after the previous two rounds ploughed capital into semiconductor manufacturing.

> "The US has extended billions of dollars in subsidies for groups to build chip plants on American soil."

## COUNCIL OF THE EU GIVES ITS FINAL APPROVAL TO SUPPLY CHAIN RULES

On 24 May, the Council of the EU formally adopted the Corporate Sustainability Due Diligence Directive (CSDDD), which introduces legal obligations on large corporations to conduct human rights and environmental due diligence in their global supply chains. This is the last step in the decision-making procedure. After being signed by the President of the European Parliament and the President of the Council, the Directive will be published in the Official Journal of the European Union and will enter into force on the 20th day following its publication.

The CSDDD also lays down the liabilities linked to these obligations. The rules concern not only the companies' operations, but also the activities of their subsidiaries, and those of their business partners along the companies' chain of activities.

It will affect companies with more than one thousand employees and with a turnover of more than €450 million and covers their activities ranging from the upstream production of goods or the provision of services, to the downstream distribution, transport, or storage of products. Companies falling within the scope of the legislation will have to implement risk-based systems to monitor, prevent or remedy human rights or environmental damages identified by the Directive. The following matrix summarizes the scope of the CSDDD.

| **Group 1:** EU companies | **Group 2:** Third country companies | **Group 3:** Franchised companies (EU and non-EU) | |
|---|---|---|---|
| | | **EU** | **Non - EU** |
| > 1000 employees<br>*Employee threshold* | N/A<br>*Employee threshold* | > 1000 employees<br>*Employee threshold* | N/A<br>*Employee threshold* |
| EUR 450 million turnover globally<br>*Financial threshold* | EUR 450 million turnover in the EU<br>*Financial threshold* | EUR 80 million turnover<br>EUR 22.5 million in royalties<br>*Financial threshold* | |

Companies are required to ensure that human rights and environmental obligations are respected throughout their supply chains.

If a violation of these obligations is identified, companies will have to take the appropriate measures to prevent, mitigate, bring to an end or minimise the adverse impacts arising from their own operations, those of their subsidiaries and those of their business partners in their chain of activities. Companies can be held liable for the damage caused and will have to provide full compensation.

Companies affected by the CSDDD will also have to adopt and put into effect a climate transition plan in line with the Paris Agreement on Climate Change.

## UN GLOBAL SUPPLY CHAIN FORUM CALLS FOR RESILIENCE AMID WORLD TRADE DISRUPTIONS

The inaugural United Nations Global Supply Chain Forum, hosted by UN Trade and Development (UNCTAD) and the Government of Barbados, convened from 21-24 May 2024.

UN Deputy Secretary-General Amina Mohammed, Prime Minister Mia Amor Mottley of Barbados, and UN Trade and Development Secretary-General Rebeca Grynspan inaugurated the forum amidst a volatile global trade landscape, marked by global disruptions that are causing ships to spend more days at sea and emit higher levels of greenhouse gases, illustrating growing unreliability and uncertainty in an interconnected world.

Against this backdrop, UN Trade and Development Secretary-General Rebeca Grynspan highlighted the urgent need to make global production and distribution networks more inclusive, sustainable, and resilient.

> "A volatile global trade landscape, marked by global disruptions that are causing ships to spend more days at sea and emit higher levels of greenhouse gases."

During the forum a "Manifesto for Intermodal, Low-Carbon, Efficient and Resilient Freight Transport and Logistics" was launched. This emphasizes the urgent need for transforming freight transport to meet global climate targets and enhance socio-economic resilience. Key focus areas include transitioning to zero-emission fuels, optimizing logistics systems, and creating sustainable value chains, with the goal of keeping global warming below 1.5°C.

UN Trade and Development also presented guidelines for developing an electronic single window for trade. Key industry voices emphasized the importance of collaboration and digitalization in the maritime sector, urging ports to become intermodal hubs integrating energy and digital capabilities.

The forum also saw the launch of the UN Trade and Development Trade-and-Transport Dataset, which covers all countries and trading partners, with data on over 100 commodities and various transport modes.

## FOREIGN INVESTMENT REMAINS SUBDUED AMID GLOBAL ECONOMIC SLOWDOWN AND RISING GEOPOLITICAL TENSIONS

On 20 June, UN Trade and Development (UNCTAD) released its annual World Investment Report. The 2024 version reviews investment trends in 2023.

Overall, in 2023 global foreign direct investment (FDI) decreased by 2 percent (compared with 2022), to $1.3 trillion. However, excluding the impact of a few exceptions, notably “conduit” flows in some European economies, the report charts a steeper decline of 10 percent for the second consecutive year.

> With tight financing conditions in 2023, the number of international project finance deals for funding infrastructure and public services such as power and renewable energy fell by a quarter, raising questions about the adequacy of investment for sustainable development.

While the prospects for FDI remain challenging in 2024, the report says that “modest growth for the full year appears possible”, citing the easing of financial conditions and concerted efforts towards investment facilitation.

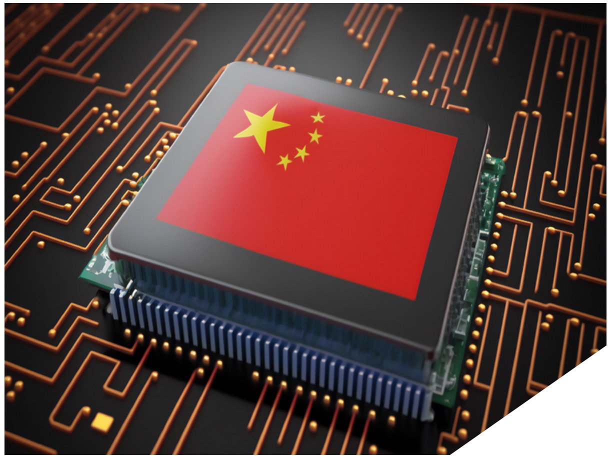
## EXECUTIVE ORDER FORMALISES WHITE HOUSE COUNCIL ON SUPPLY CHAIN RESILIENCE

On 14 June, President Biden signed an Executive Order on the “White House Council on Supply Chain Resilience”, directing it to complete a sweeping review of US critical supply chains by the end of the year. This follows an announcement in November 2023 of a range of actions to strengthen US supply chains and secure key sectors.

The Council is directed to conduct a quadrennial supply chain review of industries critical to US national or economic security, addressing the processes in place to monitor supply chains and the timeliness of associated data. The first review is to be completed by the end of 2024.

The Council is also directed to draw up a strategic plan that includes diplomatic, economic, security, international development, trade, and other policy actions to guide administration engagement with allies and partners to strengthen global supply chain resilience in critical sectors.

White House National Economic Council Director Lael Brainard and National Security Adviser Jake Sullivan will co-chair the Council, membership of which covers some 30 cabinet-level officials including Commerce Secretary Gina Raimondo, Secretary of State Antony Blinken and US Trade Representative Katherine Tai.



### Further Information

China Creates $47.5 Billion Chip Fund to Back Nation’s Firms, Bloomberg, 27 May (link)

# CONTACT

**Noel Clehane**
*Global Head of Public Policy*
noel.clehane@bdo.global

**www.bdo.global**