

Tariffs and Quotas and Trade, Oh My!

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Agenda Topics

- History and Benefits of Trade
- Recent Trade Agreements
- Status of Trade in the U.S.
- Buy America(n)/American Iron and Steel
- Tariffs
 - Section 232
 - Section 301
- Quotas
- Outlook



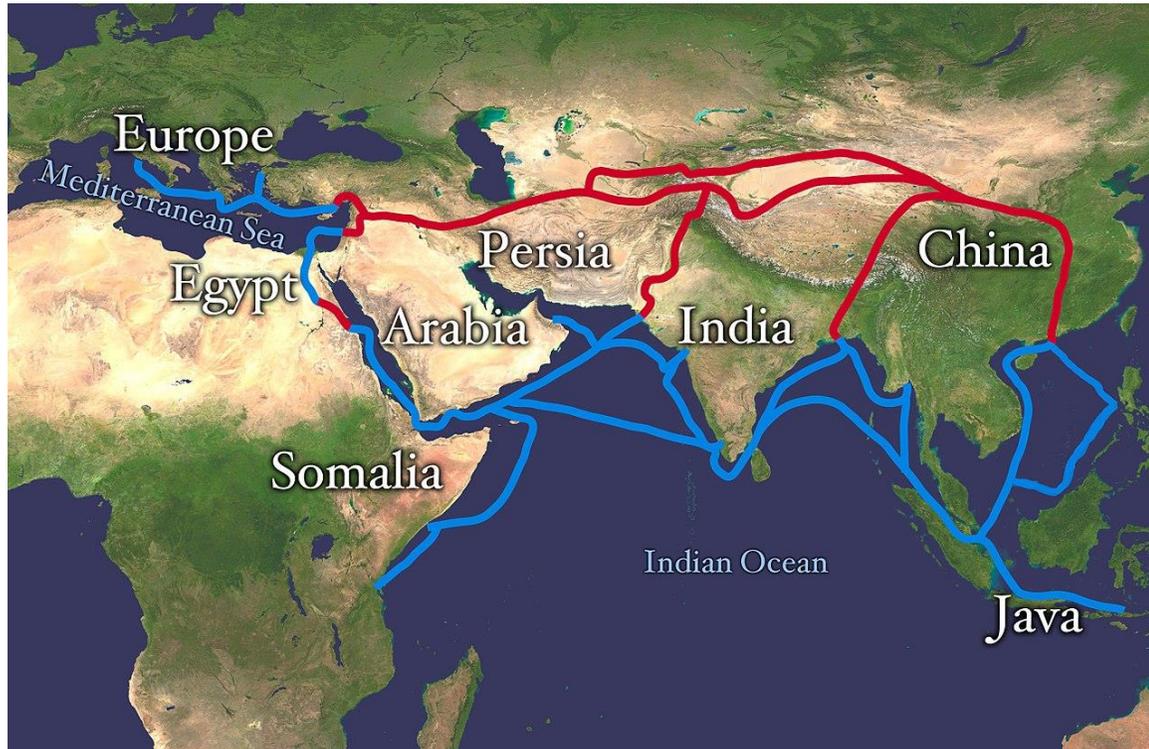
History of Trade

- Transfer of goods or services from one person or entity to another, often in exchange for money
- Market
 - Barter – direct exchange of goods or services for other goods or services
 - Money – used today includes cash, credit, transfers (Venmo), bitcoin, etc.
- Originated with human communication in prehistoric times
- Bilateral
- Multilateral
- Exists due to specialization and the division of labor



History of Trade

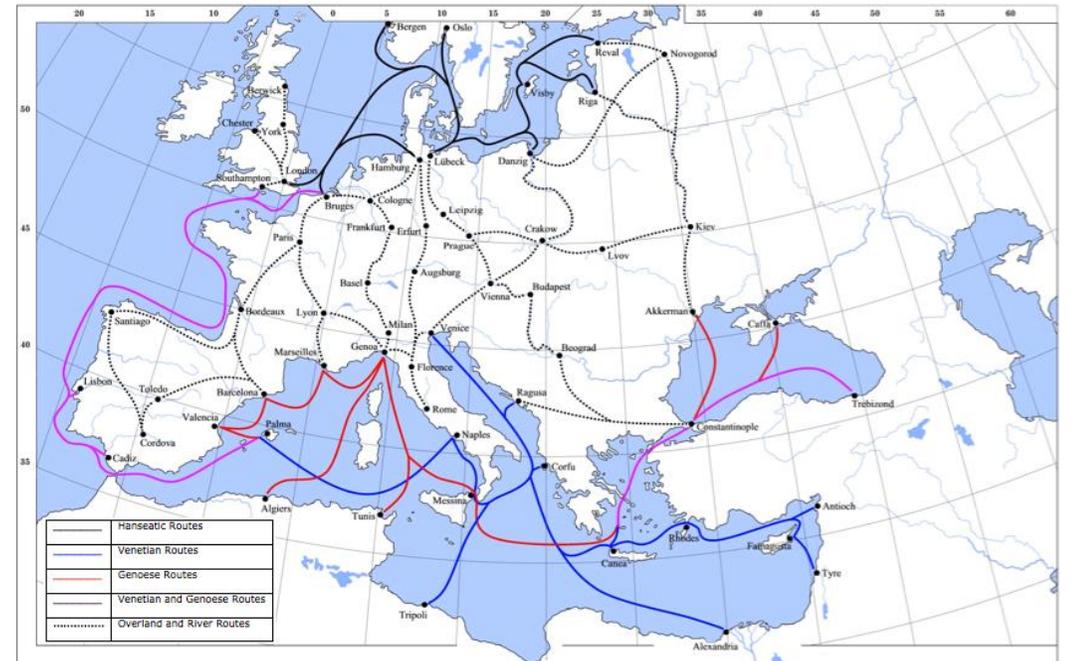
The Silk Road trade route between Europe and Asia - 2nd Century BC



History of Trade

- Middle Ages – commerce developed in Europe by trading luxury goods at trade fairs
- Wealth became converted into moveable wealth or capital
- Banking systems developed to move money across national boundaries
- Western Europe established expansive trade networks with cargo ships
- Central Asia was the economic center of the world

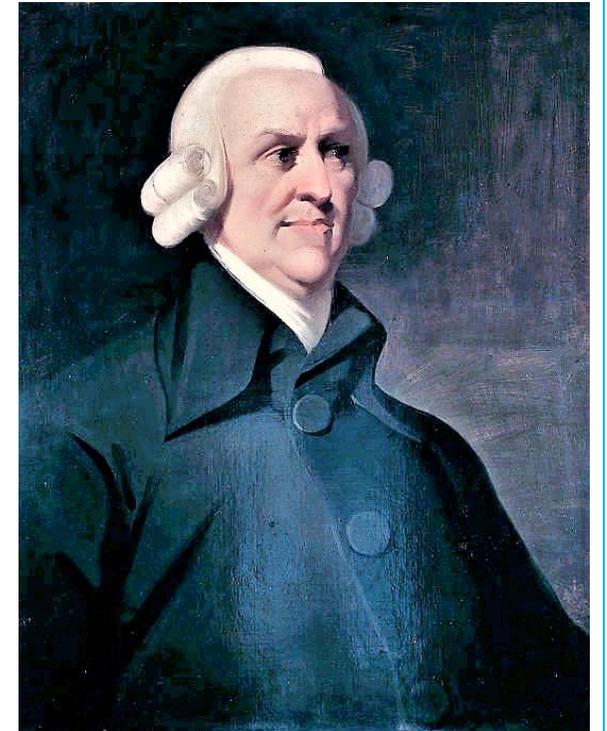
Trade routes of late medieval Europe



Economics of Trade – 18th Century

- In 1776, Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations*
 - Criticized mercantilism
 - Argued that economic specialization could benefit nations just as much as firms
 - Since the division of labor was restricted by the size of the market, he said that countries having access to larger markets would be able to divide labor more efficiently and thereby become more productive
 - He considered all rationalizations of import and export controls "dupery", which hurt the trading nation as a whole for the benefit of specific industries

Adam Smith



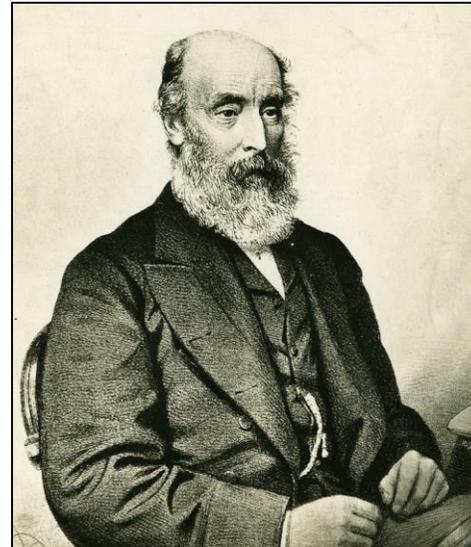
Economics of Trade – 19th Century



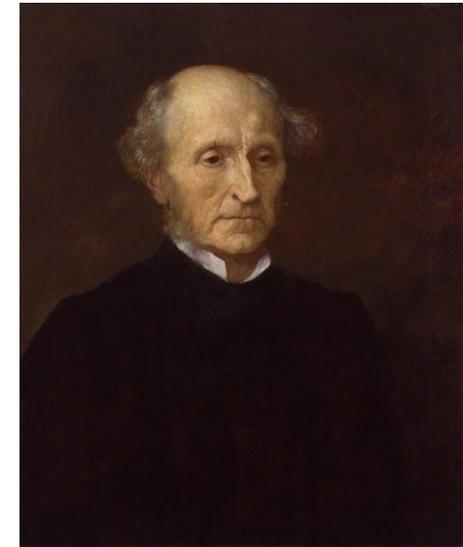
David Ricardo



James Mill



Sir Robert Torrens



John Stuart Mills

Economics of Trade – 20th Century

- Lack of free trade was considered by many as a principal cause of the Great Depression
- In 1947, 23 countries agreed to the *General Agreement on Tariffs and Trade* to promote free trade
- NAFTA took effect 01/01/1994
- WTO created 01/01/1995
- The EU became the world's largest exporter of manufactured goods and services
- Central American Free Trade Agreement was signed in 2005

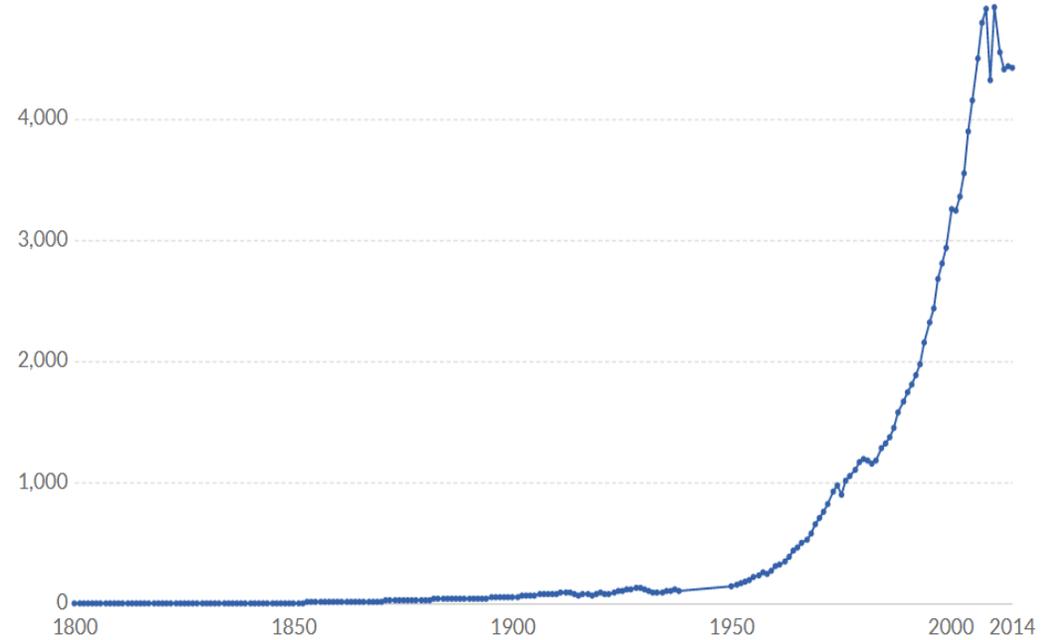


Value of Exports vs. U.S. Trade Balance

The value of global exports

Time series of value of world exports at constant prices, relative to 1913 (i.e. values correspond to world export volumes indexed at 1913=100)

LINEAR

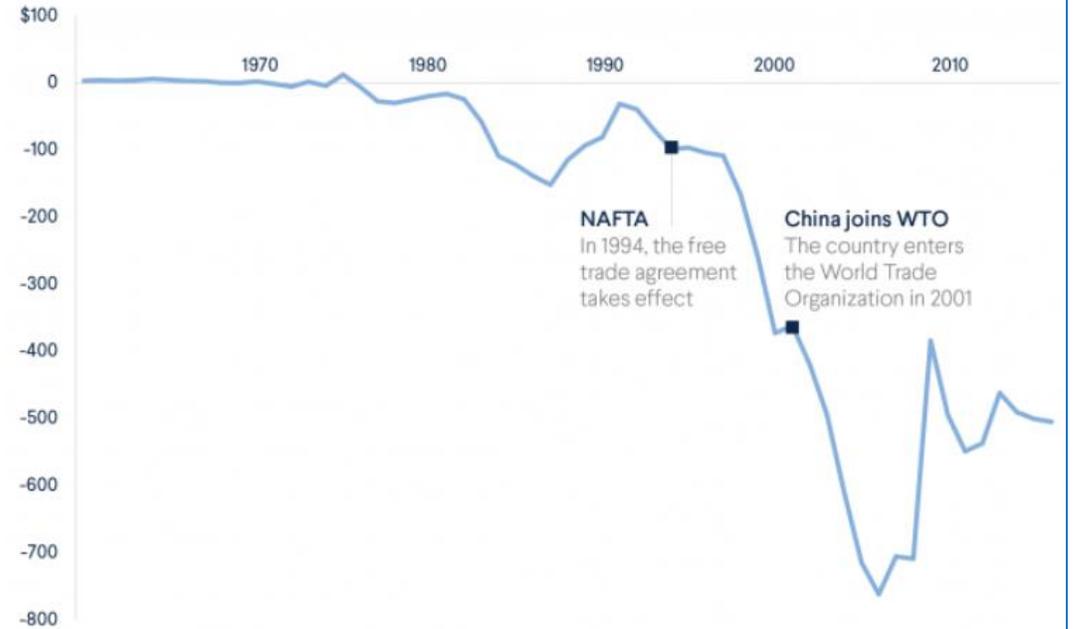


Source: Federico and Tena-Junguito (2016)

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U.S. Goods and Services Trade Balance, 1960–2016

Billions of dollars, USD



Source U.S. Census Bureau

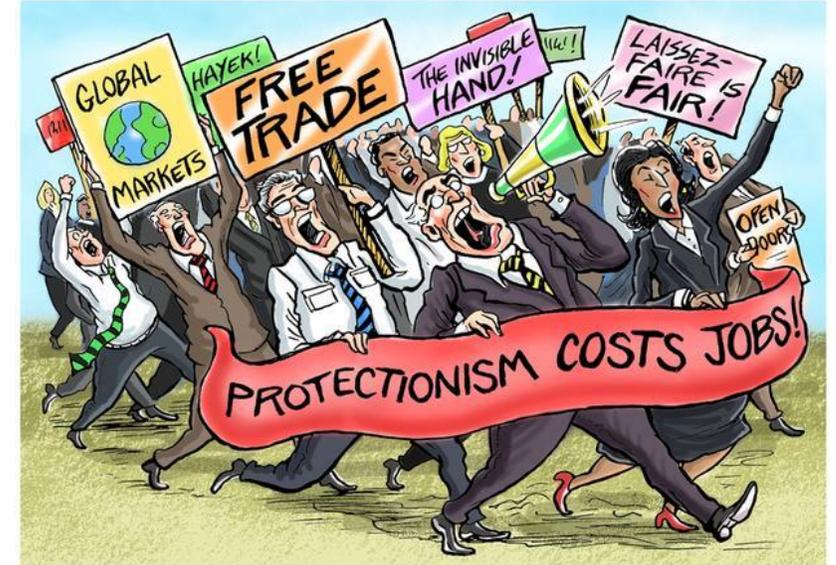
Economics of Trade - 21st Century

“Today, trade is a subset within a complex system of companies which try to maximize their profits by offering products and services to the market (which consists both of individuals and other companies) at the lowest production cost. A system of international trade has helped to develop the world economy but, in combination with bilateral or multilateral agreements to lower tariffs or to achieve free trade, has sometimes harmed third world markets for local products.”

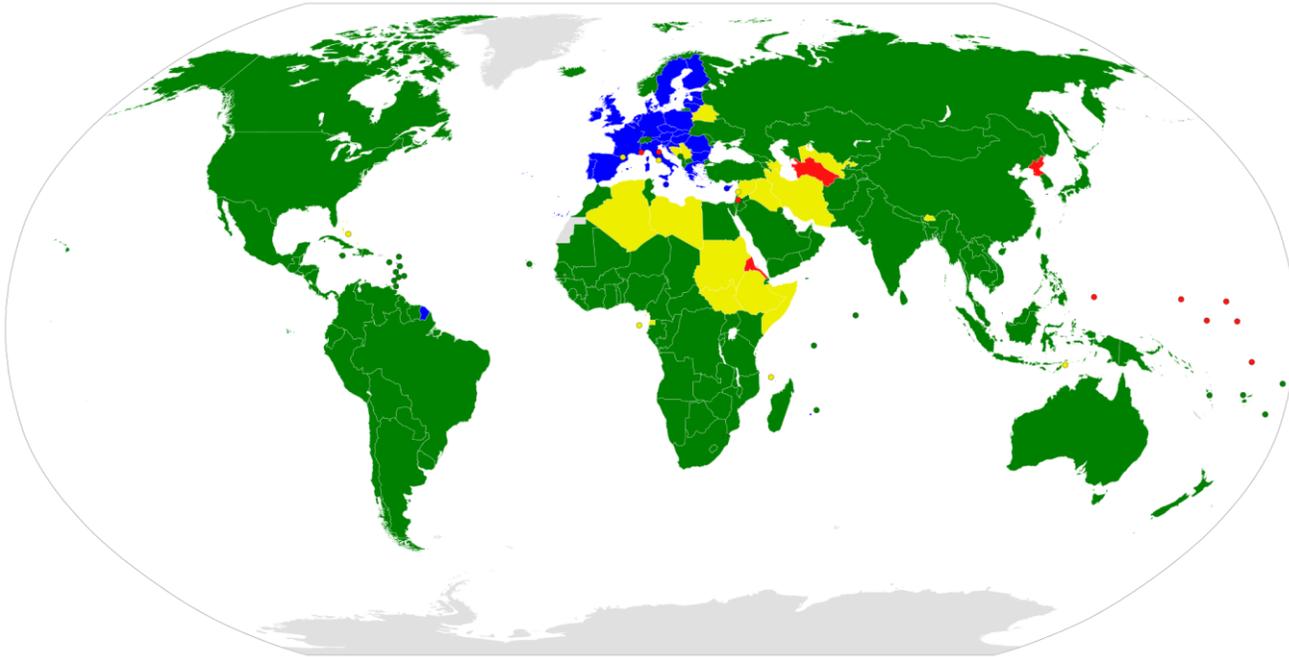


Free Trade

- Free trade/free market
- Protectionism
- Trade barriers include:
 - Tariffs on imports
 - Subsidies to exports
 - Import quotas
 - Taxes
 - Non-tariff barriers, such as regulatory legislation
- Protectionism=negative
- Free trade=positive



World Trade Organization (WTO)



WTO members and observers:

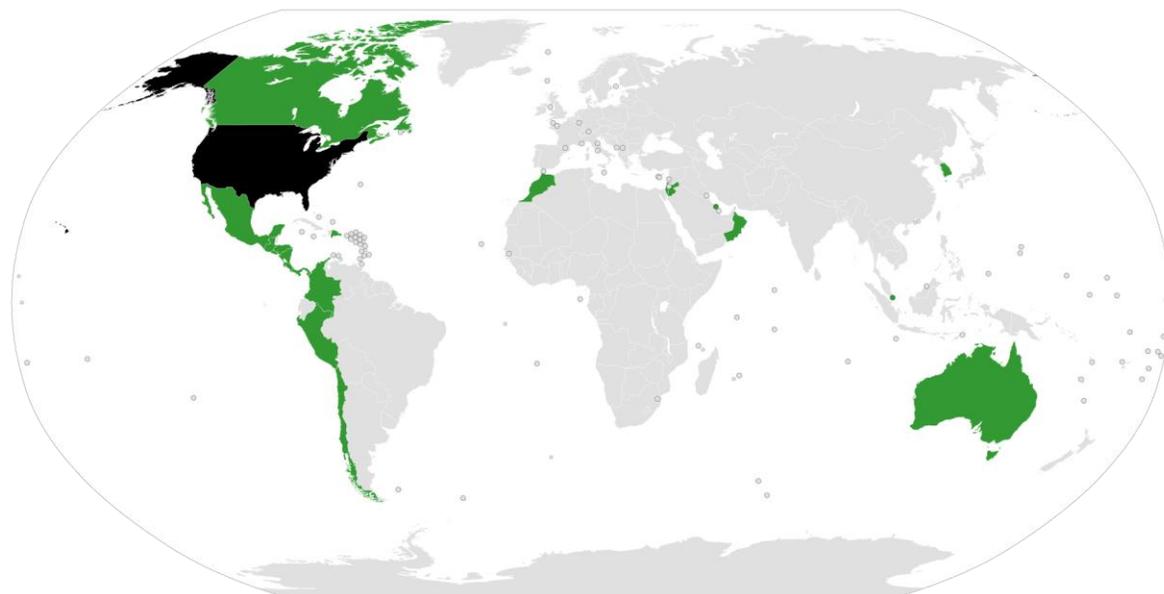
- Members
- Members, dually represented by the European Union
- Observers
- Non-members

U.S. Trade Agreements



- USTR responsible for administering U.S. trade agreements:
 - Monitoring trading partners' implementation
 - Enforcing America's rights under those agreements
 - Negotiating and signing trade agreements that advance the President's trade policy
- The U.S. is a member of the WTO
 - Governs trade among the WTO's 164 members
- U.S. has FTAs in 20 countries
 - Build on WTO, more comprehensive, stronger disciplines
 - Most are bilateral
 - NAFTA and Dominican Republic-Central America-U.S. FTA are multilateral

U.S. Bilateral Trade Agreements



- United States
- Free-trade areas

U.S. Imports and Exports



Image by © The Balance 2019

Top 5 U.S. Trading Partners

Volume of Trade

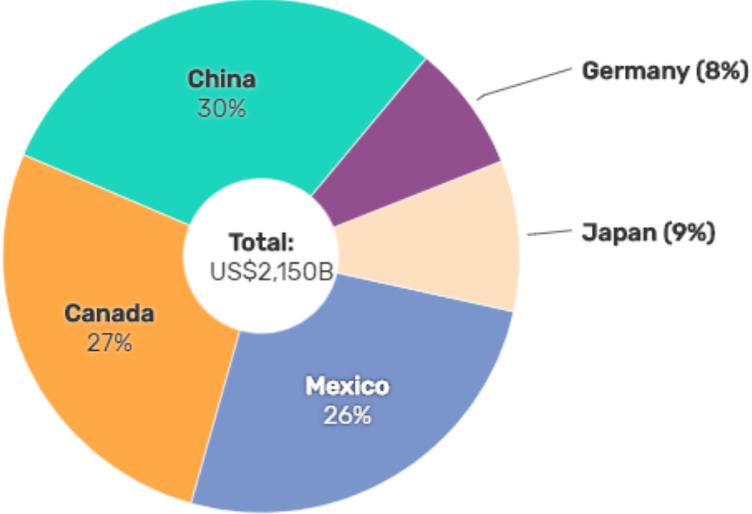


Chart: The Balance • Source: U.S. Census Bureau

Deficit Amount

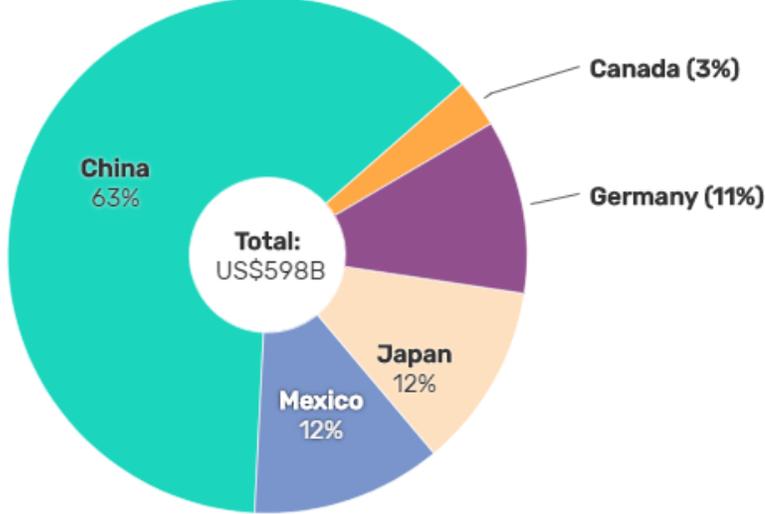


Chart: The Balance • Source: U.S. Census Bureau

U.S. Trade Surplus in Services

- The U.S. exported more services than it imported
 - It [exported \\$828 billion](#) in services while [importing only \\$558 billion](#)
 - That created a trade surplus of \$270 billion
 - It means U.S. services are very competitive in the global market
 - The surplus helps offset the deficit in goods
- Here's how much each category contributed to the trade surplus in services:
 - [Intellectual property](#), as measured by royalties and license fees -- \$79 billion
 - Travel-related services and transport -- \$54 billion
 - Computers and other business services -- \$55 billion
 - [Financial and insurance services](#) -- \$63 billion

No Simple “Buy American” Requirement

- The Buy American Act ([41 U.S.C. §§ 8301-8305](#))
- The Buy America Act ([49 U.S.C. 5323\(j\)](#) and [23 U.S.C. § 313](#))
- Trade Agreements Act ([19 U.S.C. §§ 2501-2581](#))
- The Recovery Act ([Pub. L. No. 111-5, § 1605](#))
- The Berry Amendment ([10 U.S.C. § 2533a](#))



Buy America vs Buy America(n)

- Buy American Act (1933)
 - Statute creates a national preference for the federal government's procurement of domestic construction materials.
 - Federal government must purchase domestic construction materials for public use unless a waiver has been granted.
 - In order for a manufactured good to qualify as domestic, it must be manufactured in the U.S. and the cost of the components mined, produced, or manufactured in the U.S. must exceed 50 percent of the cost of all the components.
 - Substantial transformation – performance-based criteria



Buy America vs. Buy America(n)

- Buy America Act (Provision of the *Surface Transportation Assistance Act of 1982*)
 - Various domestic content restrictions that attach to U.S. Department of Transportation grants to state and local government entities for the construction of transportation projects.
 - Buy America requirements differ
 - Federal Transit Administration (FTA)
 - Federal Highway Administration (FHWA)
 - Federal Aviation Administration (FAA)
 - “Shall not obligate any funds authorized to be appropriated to carry out the Surface Transportation Assistance Act ... unless steel, iron and manufactured products used in such project are produced in the United States.”
 - Process-based compliance

Buy America vs. Buy America(n)

- ARRA – Buy American and Buy America
- FAA – Buy American and Buy America
- FHWA – Buy America
- FRA – Buy America
- AMTRAK – Domestic Buying Preference
- FTA – Buy America
- EPA - AIS – Buy America



Federal Transit Administration



Committed to the future of rural communities.



American Iron and Steel (AIS) Provisions - SRFs

- CWSRF projects – permanent
- DWSRF – through FY 2023
- Use iron and steel products that are produced in the U.S. for the construction, alteration, maintenance, or repair of a public water system or treatment works: <https://www.epa.gov/cwsrf/state-revolving-fund-american-iron-and-steel-ais-requirement>
- The same AIS requirements apply to the USDA RUS: https://www.ejcdc.org/wp-content/uploads/2018/10/RUS-Bulletin-1826_9-7-17.pdf

American Iron and Steel (AIS) Provisions - SRFs

- Produced in the U.S.
 - All manufacturing processes must take place in the U.S. with the exception of:
 - Metallurgical processes involving refinement of steel additives
 - Coating process applied to external surface of iron/steel components
 - Melting, refining, forming, rolling, drawing, finishing, fabricating
 - Non-iron or steel components of an iron and steel product do not have to come from the U.S.
- Raw materials
 - Raw materials, such as iron ore, limestone, and iron and steel scrap, do not have to come from the U.S.
 - National waiver for pig iron and direct reduced iron

American Iron and Steel (AIS) Provisions - SRFs

Listed Iron and Steel Products

- Lined or unlined pipes or fittings
- Manhole Covers
- Municipal Castings
- Hydrants
- Tanks
- Flanges
- Pipe Clamps and Restraints
- Valves
- Structural Steel
- Reinforced Precast Concrete
- Construction Materials



American Iron and Steel (AIS) Provisions - SRFs

- **Construction materials**

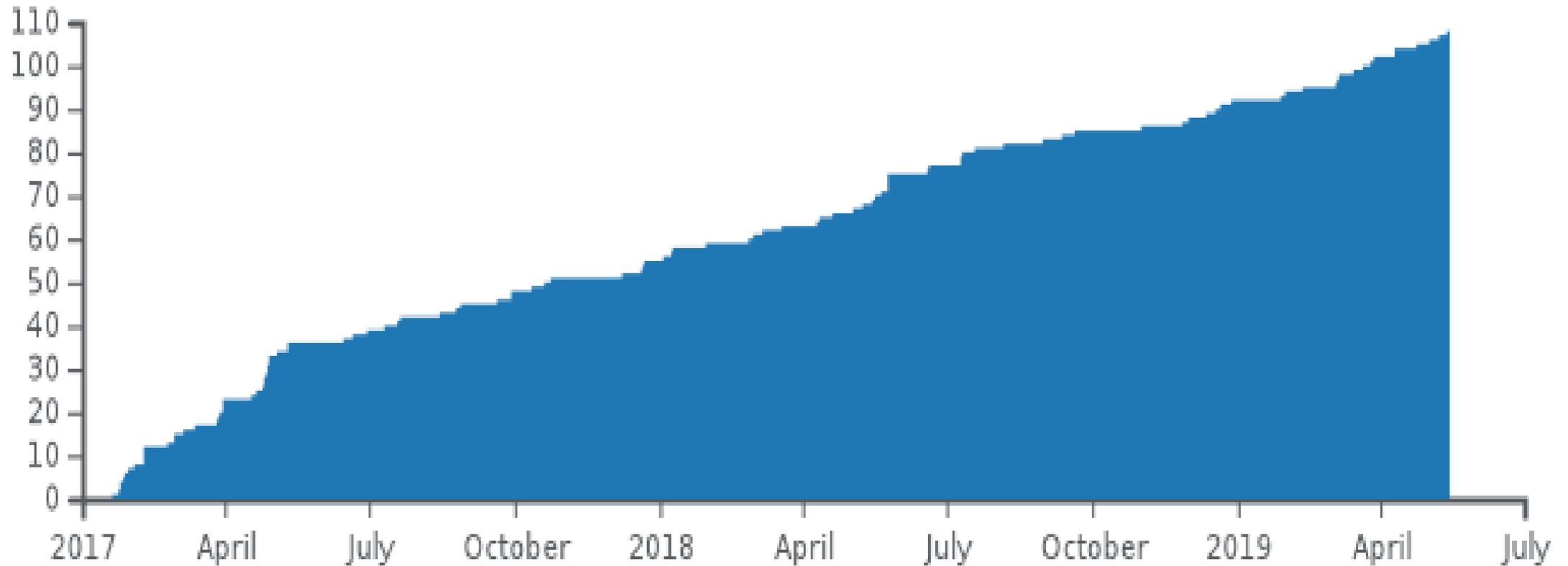
- Wire rod, bar, angles
- Concrete reinforcing bar
- Wire, wire cloth, wire rope and cables, tubing
- Framing, joists, trusses
- Fasteners (i.e., nuts and bolts), welding rods
- Decking, grating, railings, stairs, access ramps, fire escapes, ladders
- Wall panels, dome structures, roofing, ductwork, surface drains, cable hanging systems, manhole steps
- Fencing and fence tubing, guardrails, doors, and stationary screens

American Iron and Steel (AIS) Provisions - SRFs

- **NOT Construction Material**

- Mechanical and electrical components, equipment, and systems
- Pumps, motors, gear reducers, drives (including VFDs)
- Electric/pneumatic/manual accessories used to operate valves (such as electric valve actuators)
- Mixers, gates, motorized screens (such as traveling screens)
- Blowers/aeration equipment, compressors, dewatering equipment
- Meters, sensors, controls and switches, SCADA, analytical instrumentation
- Membrane bioreactor systems, membrane filtration systems, filters, clarifiers and clarifier mechanisms, rakes, grinders, disinfection systems, presses (including belt presses), conveyors, cranes
- HVAC (excluding ductwork), water heaters, heat exchangers, generators
- Cabinetry and housings (such as electrical boxes/enclosures), lighting fixtures, electrical conduit, emergency life systems, metal office furniture, shelving, laboratory equipment

Cumulative Executive Orders Signed by President Trump



President Trump Executive Orders

- [Buy American and Hire American - April 18, 2017](#)
- [Strengthening Buy-American Preferences for Infrastructure Projects – January 31, 2019](#)
- [Maximizing Use of American-Made Goods, Products, and Materials – July 15, 2019](#)
 - Directs FAR Council to:
 - Consider lowering Buy American foreign origin threshold for iron and steel from $\geq 50\%$ to $\geq 5\%$ for iron and steel (based on cost)
 - Lower from $\geq 50\%$ to $\geq 45\%$ for other products; and consider lowering further to $\geq 25\%$ (based on cost)
 - Within 180 days consider proposing rules for public comment

Tariffs – Section 232

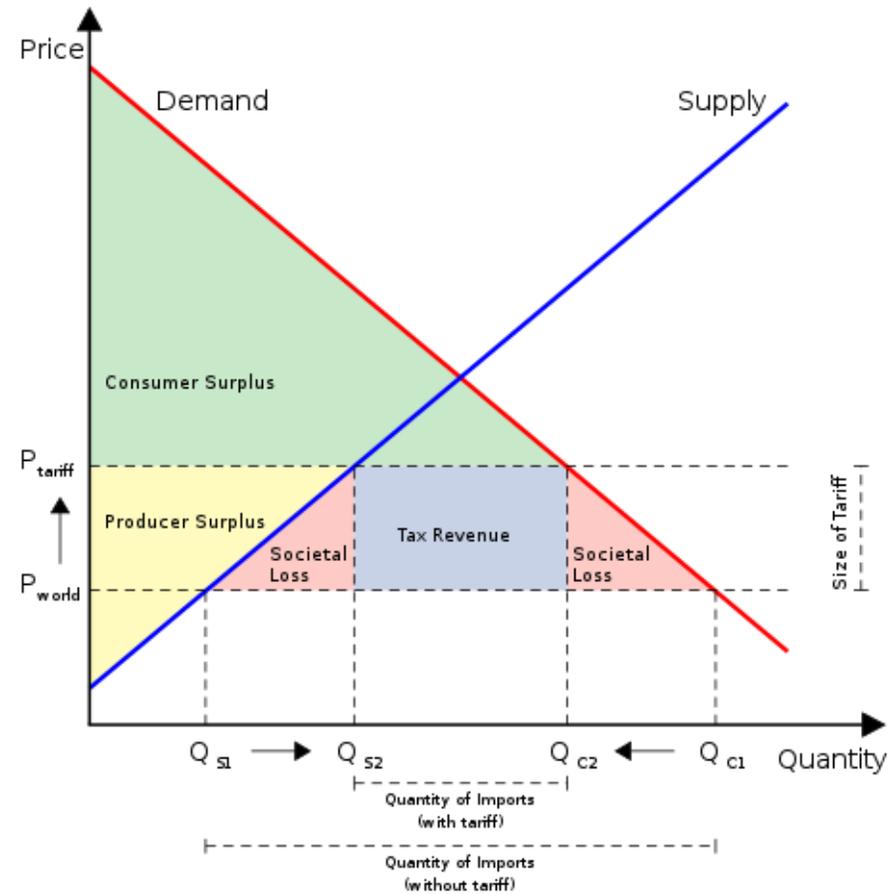
- March 8, 2018, President Trump announced new Section 232 tariffs
 - 25% tariff on steel imports
 - 10% tariff on aluminum imports
- March 16, 2018, WWEMA sends letter to President Trump and Secretary Ross regarding potential impact of tariffs
- May 19, 2019, President Trump removes Section 232 tariffs on Canada and Mexico
- May 21, 2019, Section 232 steel tariffs apply to all countries except Argentina, Australia, Brazil, Canada, Mexico and South Korea; aluminum to all but Argentina, Australia, Canada, and Mexico
- <https://www.cbp.gov/trade/remedies/232-tariffs-aluminum-and-steel>

WWEMA Tariff Letter

- Potential unintended consequences of tariffs
 - Panic buying of raw materials
 - Insufficient U.S. steel and aluminum capacity to meet cross-sector industry needs
 - Current and anticipated price increases
 - Increased costs to American tax payers
 - A slowdown in current infrastructure projects due to unforeseen cost escalation affecting current fixed-price contracts
 - Unmanageable risk profiles causing significant equipment and construction price increases
 - Quality products omitted from projects due to restrictions
 - Lack of clarity and education on implementation of the program
 - Possible retaliation from other nations
 - More government oversight and red tape



Impact of Tariffs



Global Retaliation to Section 232 Tariffs



Tariffs – Section 301

- A Section 301 investigation determined that China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable and discriminatory
- Product Lists
 - [Final List 1 - \\$34 Billion - 25% Tariff](#) (June 20, 2018)
 - [List 1 - Exclusion Requests Granted](#)
 - [Final List 2 - \\$16 Billion - 25% Tariff](#)
 - [Final List 3 - \\$200 Billion - 25% Tariff](#)
 - [Proposed List 4 - \\$300 Billion - Up to 25% Tariff](#)
 - [Combined Section 301 Lists - Lists 1, 2, 3 & 4](#)
- How to navigate the Section 301 tariff process: <https://ustr.gov/issue-areas/enforcement/section-301-investigations/search>



Quotas

- Countries Covered by Section 232 Absolute Quotas
 - Steel - As of June 1, 2018: Argentina, Brazil, and South Korea
 - Aluminum - As of June 1, 2018: Argentina

Import Quota

A restriction on the quantity of a good that can be imported into a country.

Reasons for an import quota

	Tit for Tat	The country is responding to an import quota which the other country had imposed.
	Protection	To protect a domestic industry that is vulnerable to larger and more efficient foreign competitors.

Just a few decades ago, China was in favor of import quotas and tariffs while the USA was not. Today, however, it appears to be the other way round.

Quotas

- Customs and Border Protection (CBP) Quota Administration page:
 - <https://www.cbp.gov/trade/quota/guide-import-goods/administration>
- CBP also publishes Quota Bulletins:
 - <https://www.cbp.gov/trade/quota/bulletins>
- Information on Quota Enforcement and Administration:
 - <https://www.cbp.gov/trade/quota#>



Outlook

- Expect more E.O.s
- Focus will continue on enhancing U.S. manufacturing
 - Iron and steel/coal major targets
- More bilateral agreements
- To be seen if trade agreement reached with China
- Congress working on USMCA



Thank You!



Questions?



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