



## FANWOOD CHEMICAL, INC.

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### **May Notes**

Special note: Some of the data points in our report are only available from the US Census statistical database. Since the temporary duty suspensions/reductions expired, there will be less “granularity” to these details until this benefit is re-instituted.

### **General Update**

Please see the January notes for our update on the new Administrations trade priorities. This letter has been truncated to focus on things that have evolved over the last month.

It is still yet to be determined if Ambassador Tai will actually be calling the shots, or if key players in the State Department and/or the White House will actually be controlling the narrative.

It is now abundantly clear that the status quo, as described below will be maintained for quite a while concerning the US’s bilateral relationship with China. Within the last week or so, USTR reported that the promised review of the China Stage 1 agreement has not yet begun.

Abandoning the tariffs would also nullify the phase one agreement, including the purchase commitments made by the Chinese Government. While China did not meet their purchase commitments for 2020, the US is in a stronger position with these commitments being in place for 2021. Ambassador Tai has made it plain that she does not intend to give up “this leverage” without getting something substantial in return.

Further, there is a bipartisan push in the U.S. Senate for legislation, largely targeting China that would crack down on the use of forced labor, fight censorship, protect U.S. jobs by rooting out counterfeits, shore up supply chains, including semiconductors and medical products, as well as step up trade enforcement and oversight. In addition, a number of Senators are pushing to include in the package strengthening U.S. antidumping and countervailing duty laws and procedures.

Therefore, unless they are due to be processed or sold onward shortly after they arrive, you should consider placing incoming imports of China Surtax-able items into a bonded warehouse. Since President Trump imposed these levies by Executive Order, they can be reversed by another Executive Order on very short notice. If this were to occur, you could end out with a warehouse full of very expensive inventory, with little or no chance of receiving any refunds of surtaxes previously paid.

The following US tariffs against Chinese imports impacting chemicals remain in place:

- **Tranche 3: 25%.** At this point in time, there are no exceptions in place. It is likely, based on Ms. Tai's testimony, that some type of exceptions procedure will be announced in the near term. As soon as this announcement is made, we will update this guidance. Please plan accordingly.
- **Tranche 4a:** On September 1, 2019, tariffs of 15% were imposed for products on this list. The 15% tariff for products in this tranche were cut to 7.5% on February 14, 2020. As in Tranche 3, you can expect these levies to remain in place for the foreseeable future. Please plan accordingly.
- **Tranche 4b:** On December 15, 2019, tariffs of 15% were scheduled to kick-in. As you know, these tariffs were held in obedience because of the agreement on a phase one deal. It is now highly unlikely that these tariffs will be imposed. Please plan accordingly.

If you don't already have it, please ask for the list we prepared detailing our best efforts to sort out how this impacts individual Agrochemicals.

Other issues that need to be considered, include:

- **Trade Promotion Authority:** No further progress. TPA provides the basis for USTR to negotiate free trade agreements. It strictly lays out Congressional goals and expectations for such negotiations, and in return provides for a simple up or down vote on a completed agreement, no amendments allowed. Without such authority, it would be impossible for USTR to do its job since they would then have 535 masters. The existing TPA authority expires in July of this year. There is no indication that this administration will seek to renew TPA. There is also little likelihood that Congress would agree to an extension.
- **China Surtax Lawsuit:** There are several law firms that filed suit at the US Court of International Trade to show that the much of the 301 effort was improperly imposed by the US Government. Arguments in the Court of International Trade continue as the Biden Administration is defending this case and former Ambassador Lighthizer has made very dismissive comments concerning this suit saying that the Trump Administration was very careful when they imposed these levies.
- **Department of Defense list of companies dominated by the Chinese Military:** On August 28, 2020, both ChemChina and Sinochem were added to a list kept by the US Department of Defense of entities that are deemed to be "Communist Chinese military companies". While there is no immediate impact to this listing, it could eventually have a significant impact on Syngenta and Adama's ability to operate freely in the US. It is unknown how the new administration will work with this listing.

This issue got more complex when ChemChina and Sinochem were officially merged under a new holding company funded and overseen by a government body that holds state enterprises. It created the world's largest chemical conglomerate with more than USD 153 B in sales (~2.5 X BASF!). It was apparently done in this manner to avoid a CFIUS (Committee on Foreign Investments) review of Syngenta.

Farm Progress reported that several members of Congress have asked for a review of the implications of this merger on U.S. farmers and ranchers.

Further, the recent announcement that Nantong Jiangshan Agrochemical & Chemicals Company is looking to purchase Sichuan Leshan Fuhua Tongda Agro-chemical Technology Company could also come into play. Several months ago, it was reported that Sinochem had a significant stake in Nantong Jiangshan. If this is still correct, since Sinochem is also involved with Yangnong, Syngenta will have control of a substantial percentage of all of the Glyphosate manufactured in China.

The EU is also working on legislation to protect their companies and economies from State Owned Enterprises. Further, they appear to be pulling back from the previously announcement that an investment treaty with China was basically done.

This action will clearly raise the visibility of these companies as “State Owned Enterprises” (SOE’s), worldwide. It should present a significant obstacle to further acquisitions outside of China, especially in the U.S., and especially for anything related to biotechnology. This could put additional international pressure on Syngenta to be divested, sooner, than the June 2022 date being floated.

- **Duty Suspension update:** No further progress, though a couple of Republican Senators have suggested that the “China Bill might be an appropriate vehicle to get this done”.
- **US/UK Free Trade Agreement:** No further progress.
- **GSP:** No further progress, though a couple of Republican Senators have suggested that the “China Bill might be an appropriate vehicle to get this done”.
- **US/Japan Stage 2 free trade agreement:** No apparent progress.

**General observation:** We noted a significant up-tick in activity in March. The number of “lines” added to many of our reports is significantly larger than in previous months. The figures shown below tell the story. Perhaps March of 2021 will mark the turning point for the agrochemical industry! Please see additional details below in the notes section under “the Index”.

It is important to observe, that the value figures shown below are “customs value” which would include materials entered into Free Trade Zones, but not China surtaxes.

March 2021 details are as follows (000):

	3/2018	3/2019	3/2020	3/2021
3808.91 – insecticides	\$42,364	\$43,812	\$33,859	\$59,831
3808.92 – fungicides	\$39,224	\$29,714	\$52,225	\$71,180
3808.93 – herbicides	\$78,973	\$82,892	\$67,094	\$65,538

First Q details (000) are shown below:

	2018	2019	2020	2021
3808.91 – insecticides	\$130,703	\$103,899	\$101,309	\$123,151
3808.92 – fungicides	\$139,254	\$75,231	\$133,129	\$161,843
3808.93 – herbicides	\$243,480	\$189,340	\$166,170	\$155,170

Please let us know how we can best be of service.

Very truly yours,

*Jim*

V.M. (Jim) DeLisi

VMJD: me