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December Chemical Notes

Special Note: As you know the MTB (duty suspension legislation) has not yet been enacted. This means that some of the granularity that had been the norm in the census statistics is still missing which makes pulling the necessary data for this report more difficult. While the Chairman of the House Ways & Means Committee's subcommittee on Trade has signaled his support for this legislation, the best that we can hope for at this point is that they will re-authorize the USITC to begin collecting new details for a new round of petitions for duty relief. If they began the process early in 2024, it is likely that such relief could not be in place before July 1, 2025. Any reductions in tariffs that were in the draft legislation would have expired on December 31, 2023, with no potential that this date could have been expended, so passing the existing draft legislation would be pointless.

GSP renewal, which is tied to MTB also remains in limbo at this time. However, there appears to be an enormous amount of interest in making sure that AGOA (African Growth & Opportunity Act) does not lapse when it is set to expire in September of 2025. Maybe there is the potential for a grand bargain to tie these three programs together and get them all past early in the new year. Once GSP is re-authorized, it would be expected that earnest discussions would be held between the U.S. and India that could lead to India rejoining this valuable program.

Peoples Republic of China international trade policy and issues.

Note – while the following is slanted towards agrochemicals, the issues are basically the same for specialty chemicals, basic chemicals and intermediates.

China is clearly the dominant force in agrochemicals as well as many of the complex intermediates that are consumed by active ingredient producers worldwide. Through a myriad of individual companies, many of which are SOEs (State Owned Enterprises), it is likely that more than 50% of all active agrochemicals, worldwide, either originate in China or contain a critical component solely or predominantly sourced from China. Therefore, it is important to have a better understanding of China's current international trade agreements, many of which help support these businesses.

China joined the WTO on December 11, 2001. This was a very important achievement as it assures China access to the worldwide market. The WTO is a rules-based system, with tiered membership. China is considered a developing country which gives them some special privileges that would be lost if this status were upgraded to developed, including the fact that their "dues" would increase substantially.

There is pressure to change their status from “developing” to “developed” as China has the second largest economy in the world. The U.S. remains the largest.

Various sources report that China has bilateral investment agreements with over 107 countries and economies, including Austria, the Belgium-Luxembourg Economic Union, Canada, France, Germany, Italy, Japan, South Korea, Spain, Thailand, and the United Kingdom. China’s bilateral investment agreements cover expropriation, arbitration, most-favored-nation treatment, and repatriation of investment proceeds. They are generally regarded as weaker than the investment treaties the United States seeks to negotiate. (Trade.gov)

China maintains 17 Free Trade Agreements (FTAs) with its trade and investment partners and is negotiating or implementing an additional eight FTAs. China’s FTA partners are ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste, and Vietnam), Korea, Pakistan, New Zealand, Chile, Peru, Costa Rica, Iceland, Switzerland, Maldives, Mauritius, Georgia, South Korea, Australia, Cambodia, Hong Kong, and Macao. (Trade.gov)

In addition, in November 2020, China and 14 other countries signed the Regional Comprehensive Economic Partnership (RCEP). China announced the ratification of the agreement in early 2021. The Regional Comprehensive Economic Partnership is a free trade agreement among the Asia-Pacific nations of Australia, Brunei, Cambodia, China, Indonesia, Japan, South Korea, Laos, Malaysia, Myanmar, New Zealand, the Philippines, Singapore, Thailand, and Vietnam. The 15 member countries account for about 30% of the world's population (2.2 billion people) and 30% of global GDP (\$29.7 trillion), making it the largest trade bloc in history. Signed in November 2020, RCEP is the first free trade agreement among the largest economies in Asia. It is said that this agreement reduces tariffs to zero for over 90% of their trade. (ASEAN.ORG)

While few of these agreements are as “robust” as similar agreements that the U.S. has negotiated, most have requirements that includes MFN status (most favored nations) requiring that their exports get treated fairly. They all include duty free access for all or almost all manufactured goods produced in China.

The combination of all of these agreements gives China a strong leg up in the region. However, except for Switzerland and their strong working relationship with Russia, there are no FTA’s in existence with the European countries. With the outstanding exception of Brazil, there are few such agreements in the Western Hemisphere. Interestingly, while committees of investigation were set up with India in 2003, nothing has come to fruition from this effort.

The current situation with the U.S. remains difficult:

- USTR (United States Trade Representative) has been reviewing the impact of the currently levied surtaxes on the imports of many Chinese goods into the U.S. since the comment period ended in early January 2023. It is not expected that any significant changes in these levies will be made until at least after the next Presidential election.
- China levied retaliatory tariffs on many U.S. goods after the U.S. took this action. These levies make it very difficult for U.S. producers to ship anything to China that is on the list.

- There are very testy discussions concerning a range of issues impacting China trade with a number of their trading partners impacting Agrochemicals, including but not limited to:
 - State Owned Enterprises (SOE's): Syngenta, the worlds' largest agrochemical/seed company is an SOE. The U.S. and the EU have been working on ways to "discipline" SOEs so that they cannot dominate industries.
 - Food Security: There is concerns that China's dominance in the agrochemical industry could potentially cause issues with food security. It is likely that more than 50% of all formulated agrochemicals have an active ingredient or intermediate that is produced dominantly in China.
 - Russia/Ukraine: China appears to be supporting Russia in this conflict, if by no other means than purchasing Russian oil, which is what largely funds Russia's war efforts. If Chinese explosives turn up in the Ukraine, this could have a huge impact on the agricultural chemical industry as the U.S. seeks out and then penalizes any company that supplies such munitions and the chemicals required to produce them.
 - Taiwan: China's continued aggressive acts against Taiwan threaten to overturn decades of stability in this region. If they choose to re-unite Taiwan with mainland China by force, it could lead to World War III.
 - Forced labor: The issues with the Uyghurs' region of China are not likely to subside in the near term. U.S. Customs seizures of goods have impacted items far beyond solar panels, including some chemicals.
 - As of the date of this writing, it is difficult to decern how China is responding to the war in the Middle East.
 - Arkansas is the first state to impose its own restrictions on Syngenta's investments in the U.S. Their recent demand that Syngenta divest farmland that it owns in the state is unprecedented and has the possibility to spread to other states where Syngenta owns similar parcels. Several other states are considering similar bans on China land purchases, though none appear to target Syngenta directly as does the law in Arkansas. It is possible that the federal government might pass legislation or take regulatory action to limit the ability of Chinese citizens and/or companies to own farmland, especially if it is close to a military installation.
 - The House of Representatives Select Committee on China continues its work which included recently completed hearing in the mid-west concerning food security issues. It is very hard to predict where and how this committee's work will impact the U.S./China trading relationship.

One other commercial issue which will have a continuing impact on trade is falling prices, many of which are caused by the massive amount of inventory that pervades the supply chain for agrochemicals. In addition, in some instances, many Chinese companies have made investments decisions that have resulted in significant excess capacity impacting many individual products. These inventories and the crashing of values and volumes that has occurred have resulted in some of the worst earnings performance in all areas of the agrochemical sector in memory.

The Chinese Government encourages their agrochemical producers to export formulated products over straight active ingredients. In this manner, as much of the "value added" as possible can be retained in China.

Chinese "census" statistics, sourced from Datamyne for the period January 1 through September 30, 2023, appear to show the following for total exports by value in USD and in metric tons (MT) for formulated Insecticides (3808.91), formulated Fungicides (3808.92) and formulated

Herbicides (3808.93). Also included is the number of countries that this report shows as receivers of these materials directly from China.

For point of comparison, we have included U.S. exports for the same time-period, sourced from the USITC Dataweb. As you will see, China has exports that greatly exceed the U.S. in every way, except for the gross value of insecticides. Since the U.S. figures are based on “total exports”, it would be expected that at least some of these quantities are based on active ingredients sourced from China. With the exception of USMCA partners, Canada and Mexico, U.S. law allows for the refunding of import duties, which would include “the China surtax”, so such levies would not be an impediment to U.S. exporters.

China	MT	USD (000)	# of countries
Insecticides	277,430	\$1,154,035	172
Fungicides	119,517	\$644,042	146
Herbicides	978,380	\$2,756,298	139

USA	MT	USD (000)	# of countries
Insecticides	42,110	\$1,170,246	117
Fungicides	38,583	\$637,350	74
Herbicides	124,654	\$1,365,424	74

We can provide charts that show the top 25 countries by volume and value for China for each of these classes of Agrochemicals, or charts that show all countries receiving quantities of formulated agrochemicals from China upon request.

News:

There is again not much “trade news” to report this month, except that the U.S. definitely has abandon efforts to include a digital trade pillar in the IPEF negotiations. This is a surprising move since many sectors that utilize these processes were hoping that strong rules would have been helpful into the future. It is another indication that left leaning policy makers are strongly in control of the U.S. trade agenda. Ambassador Tsai made this decision because she did not want to “get ahead of domestic policy” on this important issue.

However, the main topic of discussion over the last few weeks was that Bayer CropScience lost another big verdict on Glyphosate. There is soon to be a decision in another case that was brought in Philadelphia. Hopefully, it will be decided for BCS. If not, it would represent the fifth loss in a row! This may make it more likely that Bayer will find a way to divest itself of Bayer CropScience, sooner rather than later.

Other news:

Surprisingly, while the **Syngenta IPO** had supposedly been “green lighted” by the Shanghai Stock Exchange, has now been put off until sometime late next year.

As previously reported, the Biden Administration has published a proposal for placing restrictions on U.S. private investments in certain countries. These rules, as drafted, would not appear to inhibit a U.S. citizen or company from investing in this IPO. Congress may choose to

revise these rules in a way that will make it more difficult to make such an investment. We will continue to monitor this situation.

Taiwan: No update, though China apparently continues to harass the island with aggressive military maneuvers and exercises.

USMCA – Mexico – GMO Corn & Glyphosate: A panel has been set though we have not seen dates for it to meet to try to resolve this issue. December 31, 2023, is quickly approaching!

China section 301 tariffs (25% surtaxes): USTR continues to diligently work on their review of this program. There is no definitive date for the review's conclusion, though now they are predicting that a report will be ready "in the fall". We continue to believe that it is highly unlikely that there will be a change in position by the Administration prior to the 2024 election.

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

Very truly yours,

Jim

V.M. (Jim) DeLisi

VMJD: me