BACKGROUNDER

No. 3482 | MAY 18, 2020
THOMAS A. ROE INSTITUTE FOR ECONOMIC POLICY STUDIES

Legislative Trade Agenda for 2020

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KEY TAKEAWAYS

The freedom of individuals to buy and sell with one another, without government intervention, is an essential component of a free society and effective trade policy.

U.S. trade policy is becoming less free due to a focus on imposing new trade barriers, primarily through executive action. Congress cannot let this trend continue.

In 2020, Congress should work to lower tariff and non-tariff barriers for Americans, and exert its active, constitutional role in executing U.S. trade policy.

The freedom of individuals to buy and sell with one another, without government intervention, is an essential component of a free society. That is why The Heritage Foundation's annual *Index of Economic Freedom* measures trade freedom as one of its 12 indicators. Year after year, the *Index* shows that higher levels of trade freedom contribute to overall prosperity in the U.S. and around the world.

U.S. trade policy in recent years has not prioritized advancing trade freedom for Americans. Instead, the Trump Administration has erected new barriers through executive action or regulatory barriers within trade agreements. This trend cannot continue. It is crucial that the primary goal of U.S. trade policy is to eliminate barriers that restrict trade.

Congress has done little to exercise its authority over trade in recent years, allowing the executive branch to almost entirely dictate trade policy. This

Backgrounder will highlight the laws and issues that Congress should evaluate and reform in 2020. Areas for congressional action are separated into two categories: rebalancing trade authority and eliminating tariffs. Advancing these policies will help to lower tariff and non-tariff barriers for Americans, as well as ensure that Congress has an active role in the execution of U.S. trade policy.

Rebalancing Trade Authority

The Constitution grants Congress the power to regulate commerce and set tariff rates, but for decades Congress delegated aspects of that power to the executive. Some delegation of power may be practical, but Congress should only do so while incorporating strong oversight mechanisms. Unfortunately, checks on executive trade authority were not always included in the past, which left the door open for the current misuse of some trade laws. Loopholes in our trade laws must be remedied without delay.

Section 232. This statute gives the President the power to restrict imports if they are thought to threaten U.S. national security. Between 1962 and 2016, the Secretary of Commerce conducted more than two dozen investigations under Section 232 of the Trade Expansion Act of 1962, but presidential action was taken in only six cases. The Trump Administration has conducted five investigations since 2017 and imposed tariffs twice under the law in 2018. During these investigations, the Administration has used broad interpretations of national security and has even imposed tariffs on close military allies of the United States.[1] In January 2020, the Administration took the law one step further and announced that it would be imposing new tariffs on steel and aluminum derivative products, which were not included in the previous steel and aluminum investigations or reports.[2]

Congress failed to grant itself oversight mechanisms in this law, except in the case of petroleum products. In a recent appropriations bill, Congress included a provision requiring the Commerce Department to release a report detailing the Section 232 investigation into automobile and automobile part imports.[3] Section 112 of the bill required the report to be released within 30 days of passage, but the Administration declined, citing executive privilege due to ongoing trade negotiations.[4]

At this juncture, the only way for Congress to exercise oversight when the President employs Section 232 is by reforming the statute. In 2019, a Heritage Foundation report detailed five guiding principles for reforming Section 232. Those principles were: (1) narrow the scope; (2) make the Department of Defense the principle agency; (3) make the International

Trade Commission the secondary agency and require an economic impact analysis; (4) establish a congressional approval process; and (5) include a retroactivity provision.[5]

There is bipartisan and bicameral interest in amending Section 232, and Congress should follow the foregoing recommendations to ensure that trade policies focus on what is best for all Americans, not single out certain sectors of the economy.

Section 201. Section 201 of the Trade Act of 1974 allows the International Trade Commission (ITC) to investigate imports to determine if they are "a substantial cause of serious injury, or threat thereof, to the domestic industry."[6] Section 201 is also referred to as the "safeguard" mechanism because the ITC typically uses it to shield domestic producers from international competition. The Trump Administration imposed trade restrictions under this law on two occasions in 2018. A tariff-rate quota scheme was placed on washing machines and parts with penalties ranging from 20 percent to 50 percent, decreasing gradually over three years.[7] In February 2020, the Administration made a technical change that makes the quota more restrictive.[8] Solar panels and modules were assessed a 30 percent tariff after the first 2.5 gigawatts of imported cells in 2018.[9] The Administration is also considering changes to this measure that would be even more restrictive to imports.[10]

Congress mistakenly set the bar for "injury" too low. Currently, "declining sales, market shares, profits, employment, productivity, and access to capital" are all acceptable measures for determining injury.[11] In a globally connected economy, the nature of increased competition causes these measures to fluctuate, and stifling variability can actually hinder future innovation and artificially increase prices for consumers. Tariff-rate quotas on solar products and washers resulted in Americans paying nearly $1.5 billion in additional tariffs since 2018.[12] For washers, this has turned into an $86-per-unit price increase. Since consumers often purchase washers and dryers as a set, companies have been able to spread out the costs associated with the tariffs by also increasing dryer prices by $92 per unit.[13]

Tariffs are taxes, and Section 201 tariffs are no exception. A business or industry may successfully argue injury, but these investigations do not take potential consumer or downstream industry injury into account. The same is true for Section 232 of the Trade Expansion Act. Congress should amend Section 201 to address these concerns.

Section 301. Also stemming from the Trade Act of 1974, Title III is commonly referred to as Section 301. It allows the Office of the United States Trade Representative (USTR) to investigate "unfair" economic practices and in areas outside those covered by World Trade Organization agreements to impose trade restrictions. Importantly, those trade restrictions must be "equivalent in value to the burden or restriction being imposed" by the offending country.[14] In one case, the USTR found that several Chinese trade practices, including intellectual property theft, cost the U.S. economy $50 billion per year.[15] However, tariffs ranging from 7.5 percent to 25 percent have been levied on more than $360 billion worth of Chinese imports.[16]

The Trump Administration's use of Section 301 tariffs in this case has exceeded the equivalent value of any burden from China. Otherwise, Section 301 has no limitations and therefore abuses the U.S. Constitution and Congress's ability to regulate commerce. Congress needs to reform Title III to balance trade authority between the executive and congressional branches. Congress should also ensure future Section 301 investigations are transparent, with adequate cost–benefit analysis.

Antidumping and Countervailing Duties. The Tariff Act of 1930 allows companies to petition the U.S. International Trade Commission (ITC) and the Department of Commerce to review and restrict imports if the goods in question are alleged to be dumped, sold below market value, or beneficiaries of foreign subsidies. The ITC also determines if the domestic industry has experienced "material injury" or the threat thereof. The U.S. currently has 523 antidumping and countervailing duty measures in place against imports from 46 countries.[17]

In practice, antidumping laws almost guarantee success for petitioners. The initiation of a trade case causes a disruption in imports because the Commerce Department almost always finds for the petitioners and imposes preliminary duties on imports at the beginning of the process. The respondents' only opportunity to "win" is at the very end of the case, when the ITC votes on whether the dumped imports caused injury.

One case involving wooden cabinets and vanities from China, specifically ready-to-assemble (RTA) cabinets, serves as a prime example of petitioner abuse of the process. In this case, the petitioners are custom cabinet makers alleging RTA cabinet distributors cause them material injury. The ITC did not identify significant price effects in its preliminary investigation, but determined "that there is reasonable indication that an industry in the United States is materially injured."[18] This means that, despite the fact that the ITC could have voted for "no injury" at the end of the process in March 2020, the Commerce Department, in October 2019, imposed preliminary rates of up to 262 percent on imports of RTA cabinets from China.[19] Importers must provide cash deposits for wooden cabinets based on these preliminary rates, making even a preliminary decision extremely costly.

Ultimately, the ITC ruled that RTA imports injured the domestic industry in this case an importers will face duties for at least the next five years.

In a 2015 report, Alden Abbott, former Heritage Senior Legal Fellow, explained the need to reform U.S. antidumping law specifically, calling it "a set of arcane rules, unmoored from free-market principles that are designed to shield domestic producers from competitive forces at the expense of American consumers rather than promote competition on the merits."[20] Abbott suggests reforming the law to apply predatory pricing standards used in antitrust cases to ensure that "the U.S. government favors competition on the merits and rejects special-interest cronyism."[21]

Trade Promotion Authority. Congress temporarily delegates the power to negotiate trade agreements on behalf of the United States to the President through Trade Promotion Authority (TPA). This tool, often referred to as "fast track," was reauthorized in the Bipartisan Congressional Trade Priorities and Accountability Act of 2015 and expires on July 1, 2021. A trade agreement requires changes to U.S. law—including the tariff schedule—and therefore must go through the legislative process, but TPA provides expedited procedures for trade agreements. In TPA, Congress also lays out negotiating objectives and reporting requirements for the executive.[22]

The 2015 TPA included broad negotiating objectives on labor and the environment, topics that have little to do with eliminating tariff and non-tariff barriers. Labor policies should have a minimal role in trade agreements, seeking to protect basic rights, such as freedom from forced labor and freedom of association. However, modern trade agreements have begun to include expansive labor chapters that introduce social policy issues, as well as wage requirements. TPA leaves the door open for further expansion of labor and environmental provisions in trade agreements that act as regulatory barriers for individuals and businesses. Future iterations of TPA should leave out these negotiating objectives.

The United States–Mexico–Canada Agreement (USMCA) is the latest trade agreement to be fast-tracked. While considering the USMCA, the Trump Administration held extensive, closed-door negotiations with members of only one political party. The members involved in these exclusive negotiations were able to secure significant changes to the USMCA that did not advance free trade. Following these meetings, some Members of Congress expressed frustrations about the effects of fast-tracking trade deals. Senator Pat Toomey (R–PA) described the USMCA as "an agreement that is meant to restrict trade"[23] and expressed displeasure with the labor rules added to the USMCA during the closed-door negotiations.[24]

TPA also allows for, but does not require, a mock mark-up of draft implementing legislation for an agreement. In the past, this process provided a fair and transparent venue for both parties to offer amendments. The Administration is not required to include the suggested changes in its final implementing legislation, but a mock mark-up does allow Congress a voice in the process. Members were not pleased with the lack of a mock mark-up for the USMCA implementing legislation. Senator John Cornyn (R–TX) explained that "if we aren't going to follow our own rules… it's going to make it harder and harder to pass these trade agreements in the future."[25]

While TPA remains in effect until July 2021, it is crucial that Congress begin thinking about reauthorization now. The Trump Administration has formally expressed a desire to reach new trade agreements with the European Union, Japan, and the United Kingdom. It would also benefit Americans for the U.S. to seek agreements with Georgia, Switzerland, and Taiwan.[26]

The current TPA's expiration also provides an important opportunity for Congress to re-evaluate and refine the process. Specifically, Congress should consider reining in the negotiating objectives on labor and the environment, making the mock mark-up a required step in the process, and eliminating loopholes that allow the executive to set tariff rates without congressional approval. More broadly, Congress should evaluate the effectiveness of TPA and determine if this fast-track authority is the best way to advance free trade.

Eliminate Tariffs on Intermediate Goods

Tariffs act like a tax on imports, making goods subject to them more expensive relative to market prices. Likewise, tariffs on intermediate goods (inputs used by American businesses) increase the price of manufacturing. In 2018, intermediate goods, including raw materials and machinery, accounted for approximately 60 percent of imports.[27]

When tariffs are low or zero on intermediate goods, American businesses, especially manufacturers, are able to produce more competitively priced final goods, while also increasing productivity and output.[28] Moreover, fewer trade restrictions lead to more growth, innovation, and competition.[29] For Americans, this translates into things like higher wages, better benefits, infrastructure investments, and more job opportunities.[30]

Eliminating all tariffs on intermediate goods is the simplest way to keep American manufacturers competitive. As Congress works to achieve this ideal, two trade preference programs make gains in eliminating these costly barriers—the Generalized System of Preferences and Miscellaneous Tariff Bill.

Generalized System of Preferences. The Generalized System of Preferences (GSP) is a program that eliminates tariffs on thousands of products from developing and least-developed countries. Many of the products imported through this program are raw materials and component parts used to manufacture goods,[31] saving American companies millions of dollars every year. The GSP was reinstated in 2018 and is due to expire on December 31, 2020.

However, it is never too early to place the GSP renewal on the congressional agenda, as the program is a massive benefit to businesses and consumers, and reauthorization is often delayed. In 2018, approximately $24 billion worth of goods were imported under the GSP, saving American companies more than $1 billion in tariffs.[32] Rather than paying these tariffs, American businesses that benefit from the GSP are able to invest extra capital in their workforces and factories.

Although the benefits are substantial, there have been multi-year lapses in the GSP that have cost U.S. companies upwards of $1 billion in import tariffs. Tariffs are oftentimes refunded after the GSP is renewed, but paying these extra costs during the lapse puts a strain on capital. For example, a failure to reauthorize the GSP in 2013 forced companies to make major layoffs and reduce wages, benefits, and investments.[33] In addition to those lapses, the unpopular decision to eliminate major beneficiaries Turkey and India from the GSP in mid-2019 cost American companies as much as $210 million in extra tariffs between May and November of that year.[34]

Strong bipartisan support in 2017 helped lead to the GSP's renewal, and that support still exists today. As recently as September 2019, 26 Democrats and 18 Republicans signed onto Representative Jim Himes' (D–CT) and Representative Ron Estes' (R–KS) letter urging U.S. Trade Representative Robert Lighthizer to reinstate India as a beneficiary under the GSP.[35] Lawmakers noted, "The costs are real for [their] constituents and growing every day," and encouraged Lighthizer to "consider an early harvest to help American jobs that depend on two-way trade between the United States and India."[36]

In a single year, the GSP saved American companies over $1 billion, proving that tariff reductions advance the U.S. economy. Congress should not ignore the short-term impacts of this program. Rather, these outcomes should incentivize legislators to extend the GSP so more businesses and consumers can reap the benefits. Congress should proactively commit to renewing the Generalized System of Preferences before it expires in

December. Additionally, Congress should elect to extend the GSP for at least 10 years to further encourage economic growth and American prosperity.

Miscellaneous Tariff Bill. Similar to the GSP, a Miscellaneous Tariff Bill (MTB) reduces tariffs on imports. Specifically, this program eliminates tariffs on goods that are not available in the U.S., many of which are intermediate goods.

In 2017, over 190 organizations sent a letter to Congress urging members to advance the Miscellaneous Tariff Bill Act of 2018.[37] The previous MTB expired in 2012, causing American businesses to pay billions of dollars in taxes. These tariffs hit products in every sector, ranging from agriculture to textiles to chemicals.[38] After Congress unanimously passed the bill, President Trump signed it into law in late 2018, further proving strong bipartisan support for tariff reductions.[39]

The bill included reductions for a long list of intermediate goods, including many raw materials like iron oxide or sodium fluoride.[40] In fact, over 75 percent of the products included in the 2018 MTB were inputs.[41] Overall, the 2018 MTB Act is estimated to "eliminate unnecessary import tariffs of more than $1.1 billion over three years, helping both consumers and manufacturers, with an estimated boost to U.S. manufacturing output of $3.1 billion."[42]

Reduced and eliminated tariffs in the Miscellaneous Tariff Bill Act of 2018 will expire on December 31, 2020. Congress cannot let the 2018 MTB lapse as it has in the past. Legislators should push for another MTB in 2020, which would allow for American companies and consumers to continue to benefit from this tax savings.

Recommendations

Congress should do the following to rebalance trade authority:

- **Reform Section 232 of the Trade Expansion Act of 1962.** There is bipartisan and bicameral interest in amending Section 232. Reform should be comprehensive in nature and follow the five principles laid out in a recent Heritage report.[43] In the meantime, Congress should not continue to fund the Commerce Department's misguided efforts to enforce it.

- **Evaluate consumer and downstream industry impacts before imposing tariffs.** Tariffs on one industry often have downstream effects—increasing prices for consumers. Sections 201 and 301 of the Trade Act and Section 232 of the Trade Expansion Act do not measure these potential effects, but such analysis should be required and taken into account during investigations.

- **Reform Section 301 of the Trade Act of 1974.** Section 301 is being interpreted to provide the executive branch with an almost limitless ability to impose trade restrictions without oversight. This broad authority has allowed Section 301 tariffs to far exceed the estimated equivalent value of any unfair economic practices by China.

- **Reform U.S. antidumping and countervailing duty laws.** Congress should apply predatory pricing standards used in antitrust cases to antidumping and countervailing duty laws, which would reduce special-interest cronyism in the process.

- **Evaluate the effectiveness of Trade Promotion Authority.** While TPA remains in effect until July 2021, it is crucial that Congress begin thinking about reauthorization now. Any reauthorization process should include a reining in of negotiating objectives on labor and the environment, as well as making the mock mark-up a required step in the process and eliminating loopholes that allow the executive to set tariff rates without approval.

Congress should do the following to eliminate tariffs:

- **Eliminate tariffs on all intermediate goods.** Tariffs on intermediate goods (inputs used by American businesses) increase the price of manufacturing. Eliminating these barriers is the simplest way to keep American manufacturers competitive.

- **Renew the Generalized System of Preferences for at least 10 years.** It is never too early to place GSP renewal on the congressional agenda. Securing this program for the long term will help American businesses plan for the long term, thanks to tariff-free inputs.

- **Approve the elimination of miscellaneous tariffs.** MTBs eliminate tariffs on goods that are not available in the U.S., many of which are intermediate goods. This program saves American businesses and consumers millions of dollars a year in tariffs.

Conclusion

U.S. trade policy is trending in the wrong direction due to a focus on imposing new barriers to trade, primarily through executive action. Congress should not let this trend continue, but instead spend 2020 focusing on rebalancing trade authority and eliminating tariffs and non-tariff barriers. This focus will ensure that trade policy benefits all Americans, not just well-connected sectors of the economy.

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