

Informational Update China Tariff Update

It appears U.S. – China trade negotiations will continue in Washington, D.C. this week as scheduled despite concerns that President Trump's Sunday night tweet had derailed the process. Although reports over the last few weeks indicated that negotiations had been proceeding in a positive direction with an agreement anticipated in the near future, the President's tweet indicated that China had begun to walk back on important commitments made over the past week, triggering the President's threat to increase tariffs. US Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin confirmed this setback in comments to the press on Monday night.

In response to the Chinese reversals, the U.S. announced that tariffs on \$200 billion of Chinese goods will increase from 10 percent to 25 percent taking effect at 12:01 am EST on Friday, May 10, potentially while negotiations are underway. The Chinese have not yet officially indicated retaliatory measures to this anticipated action, but recent history indicates they will increase tariffs on an equal value of U.S. imports, including hardwood lumber and lumber products, by equal measure.

While there was some immediate question about whether the Chinese delegation would travel to D.C. and continue negotiations, China's Ministry of Commerce confirmed on Tuesday that Vice Premier Liu He will still lead a Chinese delegation to Washington for negotiations this Thursday and Friday, despite the impending tariff, although the delegation may be smaller than the 100 members that were originally expected.

The Hardwood Federation has checked in with our sources within the U.S. Department of Agriculture and with experienced China trade hands for additional insight. Negotiators representing USDA confirm that there was general optimism (and that hardwood was part of the conversations surrounding agriculture), and that the breakdown is disappointing. However they are still focused on getting an agreement as soon as possible, although clear that meaningful Chinese concessions must be part of the deal. There is also sense from many that these moves are designed as a negotiating tactic to reinforce the U.S.'s position that China must make significant structural changes to their economic policies if we are to move forward. The fact that the Chinese, and their top negotiator, have not cancelled their travel plans to Washington at this point indicate they are still seeking resolution.

If negotiations over the next few days go well, there is a chance that the U.S. will not follow through with the threat to increase tariffs. But there is probably an equal chance that they will move forward to keep the pressure on China. While this uncertainty is not beneficial to many businesses in the hardwood sector, many in the Administration believe it is the only way to extract concessions from China.

The Hardwood Federation team will continue to carefully monitor the situation and provide analysis as we can. We continue to advocate for a deal that supports free trade, conducted and enforced under international law.