TRANSCRIPT
The Trade Guys Podcast

“The Return of Tariff Man”

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Transcript by Rev.com
Scott Miller: I'm Scott.

Bill Reinsch: I'm Bill, and we're the trade guys.

Andrew Schwartz: You're listening to the trade guys, a podcast produced by CSIS where we talk about trade in terms that everyone can understand. I'm Andrew Schwartz, and I'm here with Scott Miller and Bill Reinsch, the CSIS trade guys. On this episode of the trade guys, we discussed the return of the tariff man, US president Donald Trump announced he would immediately restore tariffs on US steel and aluminum imports from Brazil and Argentina.

News report: President Trump says America will issue a substantial reciprocal action in response to France adopting a new digital service tax.

Andrew Schwartz: What are these new fronts on the trade war mean and why is President Trump picking these fights now? Also, we'll react to the president saying he'd be comfortable waiting until after the election for a trade deal with China. We'll discuss all that and much, much more on this episode of the trade guys.

Andrew Schwartz: Gentlemen, tariff man is back. We're here to talk about the return of tariff man. First, Macron's really upset. Trump called him nasty and meanwhile the French are facing a 100% tariffs on wine and cheese, which bums me out a little bit. I don't know about you.

Scott Miller: Well look first you can tell this is a low budget program because we didn't have the trumpeters with the Duh duh duh tariff man. What we really needed to start this but definitely he's back. And in this case...

Andrew Schwartz: Umi's going to need to work on getting like some sound effects. We definitely need a budget for that, so we'll talk about sponsorships.

Bill Reinsch: And if you were dieting like the rest of us, Andrew, you wouldn't be concerned about the Terrell signing.

Andrew Schwartz: I am dieting. I'm on the Scott Miller diet. I'm down 25 official.

Bill Reinsch: I'm impressed.


Bill Reinsch: Well, then you shouldn't be concerned about the cheese tariffs.

Andrew Schwartz: The cheeses in the program. Scott is my guru.

Scott Miller: It's really okay, and French cheese is fine, but digital services tax is not a smart move for France for a lot of reasons.
Andrew Schwartz: Provoked us.

Scott Miller: More importantly, it is the way it was implemented is highly discriminatory to large U S tech firms. In fact, the tax basically falls only on the big US tech companies. And so I think they used, once again, section 301, which we've referred to in the past. They've used that as the authority to investigate, and then determine a remedy. The remedy in this case, the president chose was tariffs. The investigation showed was a discriminatory...

Bill Reinsch: Which was the remedy he ever chooses.

Scott Miller: Well, it's one he chose this time and just on the eve of the NATO meetings, he applied it, so in this case...

Andrew Schwartz: Talking about cutting a broad swath.

Scott Miller: Yes. So I'm sure it got people's attention. And at the same time, I do think that these digital taxes, they look attractive for countries like France, which don't have the Googles and Netflix of the world, they don't have the champions, but what it does is it makes it more difficult for these champions to grow in a future France, so it's probably not wise tax policy in the first place, but it's without question, at least in my view, it's highly discriminatory to the large firms which are almost all US firms.

Bill Reinsch: It is discriminatory, but there's another issue to keep in mind, and that is if their goal is to avoid tax, they're going to lose. This is an enormous pot of revenue that is going to be tapped. Every country in the world is salivating at the prospects of taxing these guys, and the idea that they're going to be able to escape taxation is just not true. What's going to happen I think is the OACD is developing a proposal, which, in the end, will be a compromise and will hopefully be balanced and countries will subscribe to that, and then it won't be discriminatory. That's the one thing you can say about it, but it will be a revenue producing for everybody and these guys are going to have to pay.

Scott Miller: These kinds of companies by their nature...

Andrew Schwartz: Well they got the money to pay too.

Bill Reinsch: Well, that's why it's an attractive target.

Scott Miller: But it's also, they're able to create domiciles in various jurisdictions based on corporate structure that they seem to have much easier time of it than companies with lots of bricks and mortar or lots of factories and things like that.

Bill Reinsch: Well their businesses, their business inherently transcends borders. I mean, if you're an internet service provider, by definition, you're doing things that go all over the world.
Scott Miller: Yeah. Amazon web services is a cloud operation. The cloud is the cloud, it's global in nature.

Bill Reinsch: And you can pretty much put it where, well, you have to have servers. You have to have some hardware.

Scott Miller: Physical presence somewhere, but the jurisdictions in which you choose to be taxed, pretty wide open arrangement by the looks of it.

Andrew Schwartz: But on the French tariffs that tariff man slapped on them. Tariff Man, AKA, President Trump. It sounds to me like you guys think he did the right thing.

Bill Reinsch: I don't think we said that.

Scott Miller: No, I think it was...

Bill Reinsch: I think we said he's identified a real problem. It is a discriminatory tax.

Scott Miller: He was right to challenge the French tax.

Andrew Schwartz: Okay.

Scott Miller: Okay.

Andrew Schwartz: So he's right on that.

Scott Miller: Whether the specific implementation that he chose is right, that's debatable.

Bill Reinsch: Well, go back to what we've talked about before. We talked about this when the China tariffs came up, because he's using the same statute, section 301, and the point of that is to initiate a negotiation. In a way, he's put cart before horse compared to what people traditionally do. Usually you pronounce your findings, you say they've done something bad, let's negotiate it. Trump starts with a threat, and not only have you done something bad, but he says, as a result of you doing something bad, I'm going to do the following things.

Bill Reinsch: In this case tariffs. The point though is to have a negotiation to get them to stop doing it. I mean, cheese tariffs may annoy you and me and Scott, but they don't help Google, Amazon, Apple or Facebook one bit. They don't address the problem. They just punish the other party. So what you really want to have is a negotiation that produces a more equitable outcome for the victims, not just create more victims.

Scott Miller: That's why the statute exists in the first place is to actually eliminate these unfair trade practices or unfair practices in general, but we got straight to the punishment before the negotiation.
Andrew Schwartz: Okay. So how did the French take this? When we slapped... I mean because cause like truth be told, we can buy American cheese and be perfectly happy. We don't need French cheese.

Bill Reinsch: I don't think the French would agree with you.

Andrew Schwartz: They can say whatever they want, but I'm hearing that there's some really fantastic cheeses coming out of Oregon. There's like the cheese of the year. This is me showing my culinary chops here.

Bill Reinsch: I'm impressed.

Andrew Schwartz: Cheese of the year came out of Oregon this year. Okay. The best blue cheese of the year. Best cheese of the year is a blue that came out of Oregon. Okay.

Bill Reinsch: I didn't know that.

Andrew Schwartz: Yeah. You learn right here on The Trade Guys.

Scott Miller: Also, some pretty good US wines.

Andrew Schwartz: Pretty darn good US wines too coming out of California, coming out of Virginia, coming all over this great land. So we don't need their stinking cheese so to speak.

Bill Reinsch: Or even their non-stinking cheese.

Andrew Schwartz: Okay. So how did the French take this?

Bill Reinsch: They were upset. They were threatening retaliation.

Andrew Schwartz: Macron was pretty irritated. Visibly irritated for a variety of reasons.

Bill Reinsch: They have to be, but the play out will be interesting because the tariffs are on the French, which makes sense because they're the only one with a tax. On the other hand, they're part of the EU, and if there's going to be a tariff response, it ought to be an EU response, not just a French response. And so the first thing the French did was they went to the EU, and they talked to the new trade commissioner, Phil Hogan and others, who promptly said, Europe is going to stand together on this, and we're all going to march over the cliff together.

Andrew Schwartz: And tariff man said, I don't care.

Bill Reinsch: Well I think the interesting thing will be, that's what he would've said if anybody had asked him.

Scott Miller: I don't think he actually responded, but it's a line that's predictable.
Bill Reinsch: What will be interesting to see is the extent to which this is just words or whether the other European countries are actually going to support the French. They are the only country that has passed this tax. There's others that are talking about it. The English, well... Because they're on their way out, but I think the Irish had been talking about it, a couple of other countries are talking about it. Nobody has done it except the French. I would not be entirely surprised if lip service is provided to the French, but basically the under the table messages, you're on your own on this one, the right answer is the OACD. France justifiably, I think gets dinged for not waiting for the OACD. This is a process that most people will tell you optimistically, but realistically, is going to get done by the end of next year, end of 2020. That's not too long to wait here, and the French went ahead and ignored all that and the others are waiting. I'm not sure they're all going to follow.

Scott Miller: We should revisit this in a month or two because bill scenario will be evident if it plays out exactly that way.

Andrew Schwartz: Okay, so we'll table this.

Scott Miller: There'll be more expensive French cheese and wine in this country and no retaliation to speak of.

Andrew Schwartz: All right. And by then Umi will have the sound effects, so it we'll be good.

Bill Reinsch: Well, of course, the other question is, are we actually opposing the tariffs? There hasn't been any announcement. That was the recommendation.

Scott Miller: This is the thing, you know. Well, well we, we joke about tariff man being back. It's more like a volcanic process or something. It's Mt. Tariff has erupted again because you get an announcement, but you don't get any of the background or any of the indications or even a notice in the federal register that opens a comment period or anything like that, which is typical when these things are imposed.

Bill Reinsch: This was Brazil and Argentina too.

Andrew Schwartz: That's what I'm saying.

Bill Reinsch: We got a tweet and that was it.

Andrew Schwartz: And we did have an amount eruption because we also had president announcing that he would levy tariffs on Brazil and Argentina, which seemed to come out of left field.

Scott Miller: Well, importantly, this is still back. This is back to the national security investigation of steel and aluminum, so-called section 232 right, and in the case of Argentina and Brazil, they both negotiated quotas, quantitative restrictions,
to avoid the tariffs. All right, but now I guess enough time has passed and their currencies have declined sufficiently that the president or someone decided that it's good time for tariffs, that was part of the eruption of Mount Tariff and so not sure what to make of it.

Bill Reinsch: It's a lot more pernicious I think then the French one, I think in the French case, they're out of step with their colleagues, they're out of step with the OACD, and they've done something that is manifestly unfair and discriminatory. The Brazil and Argentina cases, they negotiated the deal with us.

Scott Miller: They made a deal. Yes.

Bill Reinsch: They made a deal and now he is coming in and unilaterally throwing the deals in the wastebasket and saying, we're going on to tariffs instead because I don't like the value of your currency. Even though if you look at what's been happening, both currencies have declined. Brazil, but not by very much. Argentina, by a lot because of the economic situation they're in.

Scott Miller: But Brazil is a floating currency. I mean, it's not like you throw it down.

Bill Reinsch: And both of them have been trying to prop it up. I mean, it's not like they're forcing it down, but here he is just unilaterally canceling agreements. I mean, if I were another country, I'd be saying, what is the point of having a negotiation with the United States if six months or a year later, the president just says, well, we're not going to do that.

Scott Miller: And the reason for this is to continue to provide protection to the steel industry. The steel industry is not getting healthier. Just this week, they had the announcement of continued consolidation. Cleveland cliffs purchased AK steel. So the industry continues to shrink. It continues to consolidate. It continues to suffer from low margins despite the pricing help you get from tariffs like this and...

Bill Reinsch: Prices are actually going down lower than when all this started.

Scott Miller: And so you begin to wonder, okay, you love tariffs. Tell me what tariff level would lead to a successful US steel industry. I don't know how high that has to be, but this seems a really strange situation, but part of the reason we can have this discussion is there was nothing other than the announcement. There was no background, there was no... It wasn't like some conversation had gone bad with the Brazilians and Argentinians. So..

Andrew Schwartz: We have no context for it.

Scott Miller: We're left to make it up. Yeah.
Andrew Schwartz: Well, so what is the leverage that we're seeking over Brazil and Argentina and what would we use that leverage for?

Bill Reinsch: No idea.

Andrew Schwartz: No idea.

Scott Miller: Yeah. We're left to our imaginations at this point.

Bill Reinsch: I mean, in a way it's, once again, I think an example of alienating our friends. I mean Bolsonaro, who seems to share a lot of Trump's views and has devoted a good bit of effort to try to develop a better relationship with the United States, which Brazil has not always had and was well on the way to doing that here now comes Trump and basically cuts him off at the knees on an issue that is economically important in Brazil.

Scott Miller: It's one thing to be a tough negotiator. It's another thing to be completely operating in bad faith, which disappears to unilaterally unwound the deal that we had come to with Brazil and Argentina, and so it's one of those mystifying actions. I just don't see what the upside is.

Bill Reinsch: In Argentina, they dumped the incumbent and elected the populist. You think it would be something that Trump would maybe welcome or maybe try to be hospitable to.

Scott Miller: Who knows? Maybe they'll be more than the press release someday.

Andrew Schwartz: What does this potentially mean for the average U.S. consumer, if anything?

Scott Miller: Well, the steel parts probably not that much. In other words, the average consumer didn't notice when steel prices went up two years ago at the initial implementation of these tariffs, thanks to great supply chain management and a lot of hard work by a lot of people in private companies who use steel. So, to the consumer, it's been somewhat insulated from this in this grand scope of all the steel consumption in the United States, Brazil and Argentina. While it's certainly important to them and important to their customers, it's not a large share of total steel, so I don't think it's going to be particularly disruptive. There will be some customers of people who are buying within the quota from Argentina and Brazil. We're going to see higher prices. They're going to have to absorb it and do all the things that logistics managers have been doing for the last couple of years, but I think this one may go down without a ripple, which is why it's all the more concerning of why this episode of bad faith and for such a negligible effect on the U.S. market.

Andrew Schwartz: We're just going to have to wait and see on this one. This is a subject that I have been so excited to talk particularly with Bill about because the president has said that he's comfortable waiting until after the election for a trade deal with
China. And bill has been saying that at some point before the election he's going to declare some victory on China. So, but he's saying he's comfortable with waiting now. So what, what up?

Bill Reinsch: That's what he says. I'm sticking with my prediction because I think first choice for him is a deal that he can say is great and sell to his base as great. It doesn't matter whether it is or not, he'll say it is. And if he can convince his voters that it is, he thinks it'll help in the election.

Andrew Schwartz: So maybe this is a head fake here.

Bill Reinsch: Two possibilities. One is it's an effort to pressure China because we have a self-imposed deadline coming up as you know.

Scott Miller: Well, December 15th's a pretty important date.

Bill Reinsch: Yes. December 15th is the date that an additional tronch of tariffs basically on almost everything else is supposed to go into effect where there will be a significant consumer impact because it's toys, it's laptops, it's phones, it's consumer items, which they had avoided before. I mean the reality is it shouldn't affect much at Christmas because the stuff that's going to be sold between December 15th and 25th has been imported already.

Bill Reinsch: On the other hand, I can guarantee you there are retailers who if he does it, on December 16th, they will raise their prices and blame tariffs, and they will make exorbitant profits for two weeks.

Scott Miller: Bill, that's known as last in, first out accounting and it's widely accepted practice.

Bill Reinsch: Spoken as someone with a long corporate background and history. But I think it's part of a leverage game and he's saying, we can hang on, but I also think he's setting himself up for an alternative that is different than the one that I described. I still think first best option is make a deal and next October sell it to everybody, hope nobody finds out. It's not any good until after they voted. However, and I think his history is enormous confidence in his ability to do that and his ability to convince his base that what he thinks is a good idea is a good idea.

Bill Reinsch: However, it's possible that he may very well decide, in this particular circumstance, that that's not going to sell, that it's not going to be that good a deal, and people will figure that out. In that case, better to pull the plug yourself than to fail.

Scott Miller: Or to have it appear that the counterparty, China, ran the clock out on you.
Bill Reinsch: Well and it's yes and it's not... In a way, it's not exactly pulling the plug, but he doesn't have to say... He's not saying I'm going to fail. He's saying I'm going to get a better deal after you reelect me. So just wait till then and I'll really crack down on them. I mean, I don't know why anybody would believe that more than they're going to believe the deal that he's strikes is any good, but it's an alternative scenario.

Scott Miller: But in the meantime, we will have phase one, phase one either comes before December 15th or it doesn't. I think it comes before December 15th.

Bill Reinsch: I do too.

Scott Miller: And part of phase one is not ratcheting up tariffs. In other words, that will be what China will have some market access commitments to the United States. What China gets in return is a status quo on the December 15th tariffs.

Bill Reinsch: I just came from a meeting on the subject. It's one of these know who goes first routines, the Chinese continue to say we cannot commit to what we're going to do until you tell us the extent to which you're going to roll back tariffs. And as we said earlier, the goalposts have moved here a little bit. It's not just about not doing the new ones in December, it's about rolling back some amount of the old ones. And the Chinese are saying, we can't commit to agriculture buys until we know what you're going to do. The Americans are essentially saying, we won't tell you what we're going to do until you commit. So this is what used to be called an Alfonsa Guston routine.

Scott Miller: We've got another 10 days of that to look forward to.

Andrew Schwartz: As we speak though, both the Chinese and our representatives are insisting that progress is being made. Do we believe this?

Scott Miller: You know, watching the rumors about progress in US-China trade drive the markets both up and down for the last three weeks, I realized that I really don't believe anything except statements from the mouth of ambassador Robert Lighthizer because I think actually he knows what's going on, but the thing is Bob Lighthizer doesn't leak and he doesn't make a lot of public statements. So when he says something is the way it is, I have would have high confidence in that. But the rest of it all seems to be just rumors.

Bill Reinsch: Yeah, I think between now and the 15th, it's all each side trying to manipulate the other. Each side trying to leverage the other. The analogy I've been using, and I did it on TV yesterday and this has never happened to me before. They started laughing.

Andrew Schwartz: We laugh all the time, but it happens here. It happens on Trade Guys all the time.
Bill Reinsch: They were laughing with me. I thought I couldn't see them on camera, but I said it's like a Sumo match. Now, envision Xi Jinping and Donald Trump in fat suits. Okay.

Andrew Schwartz: That's pretty funny.

Bill Reinsch: And they've stopped pawing the earth and throwing rice and glaring at each other and they're now grappling, and this is going to take longer than three minutes. Your normal Sumo match, but they're going round and round and round and they can't break loose. Trump can't walk away because it would be admitting failure on a signature issue. The Chinese are not going to walk away because, first, it allows him to blame it all on them, and then that opens the door to more tariffs because it'll be their fault

Scott Miller: And neither one has leverage to win but neither one can disengage.

Bill Reinsch: They can't disengage. People have been asking, I think both of us. What does the Hong Kong legislation mean? What does the Uyghur legislation mean, and it certainly has raised the irritation factor and it may slow things down and it may make a deal harder to reach, but I don't think...

Scott Miller: It's going to raise the irritation factor with the Chinese.

Bill Reinsch: With the Chinese, right, but I don't think they break off. They can't break off. They're locked in this embrace.

Andrew Schwartz: Well what do they expect us to do? Not comment on Uyghurs or not comment on Hong Kong and just sit there and they expect us to not say a word.

Bill Reinsch: From their point of view, these are their internal affairs and they say they don't interfere in other nations internal affairs, which is an elastic statement, but that's what they say, and they don't expect anybody to interfere in their internal affairs. And I mean at least in the case of the Uyghurs, you could at least say it is an internal affair. I mean Hong Kong is harder.

Andrew Schwartz: Commenting on it isn't exactly interfering.

Scott Miller: But they would like us to be like the NBA instead of like the United States of America. We're going to be like the United States of America.

Bill Reinsch: In a way, this is, I think the episode is kind of affirming because it, I mean I don't think the president has ever been very interested in human rights issues. I think if it had been up to him, he would have said nothing about either Hong Kong or nothing about the Uyghurs.

Bill Reinsch: I mean these are not new things. This has been going on for some time and...
Andrew Schwartz: Listen to CSIS's podcast, Hong Kong on the brink, and you'll find out what's going on week to week in Hong Kong. It's shocking. Or look at our human rights reporting on the Uyghurs. It's absolutely.

Bill Reinsch: Exactly. And Congress, I think this time has in a way embarrassed the president a little bit and pushed him to stand up. Yes. That was better phrasing. They prompted them to action, and I think in a way it's encouraging that America can still stand up for the right thing.

Andrew Schwartz: Yes, it is indeed. Well, so what do you think is next between the US and China on these talks? Do you think just more of the same?

Scott Miller: Well, we've got 10 days of drama here leading up to the 15th and I expect something to be announced before the 15th but I'm not sure exactly what.

Bill Reinsch: I talked with someone on Tuesday who follows this very closely, who works with big companies, who have followed very closely and his assessment was 50% chance of an agreement before December 15th, 25% chance of no agreement and no tariffs. They find a way to kick the can, and 25% chance the tariffs will be imposed, and I think that's probably fairly accurate.

Scott Miller: Feels about right.

Andrew Schwartz: You heard it here first on the Trade Guys.

Andrew Schwartz: To our listeners, if you have a question for the trade guys, write us at trade guys at CSIS.org. That's trade guys at CSIS.org. We'll read some of your emails and have the Trade Guys react to it. We're also now on Spotify so you can find us there when you're listening to the Rolling Stones or you're listening to Tom Petty or whatever you're listening to. Thank you, Trade Guys.

Scott Miller: Thank you.

Andrew Schwartz: You've been listening to the trade guys, a CSIS podcast.