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Timberland Flash Report

Phase One Trade Deal: Potential Impacts on Exports of Forest Products from the U.S. to China

On January 15, 2020, the U.S. and China signed a “Phase One” trade deal that includes structural reforms in intellectual property, technology transfer, agriculture, financial services, currency and dispute resolution. The trade deal also sets commitments by China to greater agricultural purchases in 2020 and 2021. As part of the agreement, the U.S. will significantly modify its Section 301 tariffs on Chinese goods, canceling tariff increases originally scheduled for December 2019 and lowering tariffs established in September 2019. This Phase One trade agreement does not, however, remove the majority of the tariffs in place between China and the U.S.

Specifically pertinent to the U.S. forest industry, the exports of U.S. forest products and related items fall under the “Manufactured Goods – Other Manufactured Goods” category, not the Agriculture category. The Manufactured Goods category (Harmonized System (HS) Code 4 level) includes 321 items, which in 2017 amounted \$50.2 billion in exports to China¹. The trade deal specified that China would increase purchase of Manufactured Goods by 65% (\$32.9 billion) in 2020 and 89% (\$44.8 billion) in 2021 from the 2017 level².

¹dataweb.usitc.gov, as of December 2019, United States International Trade Commission.

²Economic and Trade Agreement between the Government of the United States and the Government of the People’s Republic of China, January 15, 2020. Office of the United States Trade Representative.

Phase One Deal Represents Significant Upside Potential for U.S. Manufactured Goods Exports

Table 1: Value of exports to mainland China under the Manufactured Goods category and Forests Product subcategory (HS Chapter 44) (US\$ billion)

	Manufactured Goods	HS Chapter 44 Items	Targeted Increase from 2017 ³
2017 Value ⁴	\$50.2	\$3.2	
2020 Additional Purchase ⁵	\$32.9		66%
2021 Additional Purchase	\$44.8		89%

Out of the total 321 items in the Manufactured Goods category, just 21 are Wood and Articles of Wood (HS Chapter 44). This subcategory of wood products had a total 2017 export value of \$3.2 billion, with logs (HS 4403) and lumber (HS 4407) exports the major components with a combined value of \$3.1 billion. The Phase One deal would suggest tremendous upside potential for U.S. log and lumber exports, if exports of logs and lumber to China were to increase anywhere near the targeted increase percentage for the overall Manufactured Goods category (65% and 89% in 2020 and 2021 respectively). Increases in exports at the targeted rates would create an additional \$2.1 billion and \$2.9 billion in log and lumber exports to China in 2020 and 2021.

However, the Phase One trade deal does not specifically address subcategory purchases, and forest products could be overlooked in the overall broader trade deal enforcement process, unintentionally leading to the forest sector losing out to other higher-value manufactured goods. Forest products account for just 6.2% of the overall Manufactured Goods category by value in 2017, while many other items in this category come with higher value-added potential, such as machinery, aircraft and medical devices. The value-adding potential of these items is expected to play a critical role for China in attempting to increase exports and meet the ambitious targets set in the phase-one deal.

The Phase One deal between the U.S. and China should build confidence in an improving trade relationship between the world's two largest economies in the future. Details about the processes and procedures that will be used to determine the allocation of the additional purchases across various product classes will remain a focal point of further trade talks.

³The potential percentage increases are derived from the increased purchase and 2017 level of the overall Manufactured Goods exports value within the trade agreement.

⁴Source for 2017 Value: dataweb.usitc.gov, as of December 2019, United States International Trade Commission.

⁵Source for 2020 and 2021 Values: Economic and Trade Agreement between the Government of the United States and the Government of the People's Republic of China, January 15, 2020. Office of the United States Trade Representative.

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