ANSAC

2014 NATIONAL TRADE ESTIMATE REPORT

Docket# USTR-2013-0027

Country:	People's Republic of China
Commodities:	Soda Ash (disodium carbonate), a principal raw material for making glass and detergents.
Classification Number:	HTS 2836.20
Tariff:	5.5% *ad valorem*

Other Import Barriers:

Taxation - *Value-Added Tax Rebates*

On April 1, 2009, China reinstated a 9% rebate of its 17% VAT on soda ash exports, a clear example of China's efforts to manipulate commercial outcomes through government industrial policy. **China's 9% VAT rebate on soda ash exports is a primary incentive for Chinese soda ash producers to channel its excess supply to export markets.** For example, China's soda ash exports increased 9% in 2009, during a period of plummeting global demand for soda ash, while U.S. exports fell 19% that same year.

China's soda ash industry is characterized by severe overcapacity in relation to its domestic demand, which has weakened throughout 2012 and 2013. Prices for soda ash have also softened and inventories are building, while shipments to overseas markets are on the rise. China overtook the United States as the world's largest producer of soda ash in 2003 and its production continues to rise. China's soda ash industry is likely to continue expanding in both capacity and total production terms, increasing the chances of oversupply, especially when domestic demand fails to keep pace with the supply growth.

China's 9% VAT rebate on soda ash exports incentivizes exports to the detriment of U.S. soda ash in third-country markets. While U.S. soda ash is highly competitive, China and the U.S. do not compete on a level playing field. Chinese soda ash producers, the majority of which are state-owned or state-controlled, are advantaged in several ways, including benefitting from a 9% VAT rebate on exports. U.S. soda ash exports are at a severe disadvantage in third-country markets where China is likely to export its excess supply, including Korea, Japan and Southeast Asia.

In 2010, China eliminated its VAT rebate on over 400 energy-intensive items; however, soda ash was not among them. This is peculiar, since China's synthetic soda ash industry is both highly polluting and energy intensive, especially in comparison to the production of U.S. natural soda ash.

The December 2012 JCCT Plenary included an agreement that "a Ministry of Finance-led delegation would hold discussions with the United States, beginning in the first half of 2013, in order to work toward a mutual understanding of China's VAT system and the concepts on which a trade-neutral VAT system is based." The United States should use this opportunity to enhance its knowledge of China's VAT system and to emphasize that industrial policies such as VAT rebate manipulation do not contribute to the rebalancing of the world economy, which China has committed to at the G-20 and elsewhere.

Potential Increase in U.S. Exports: **Between \$50 and \$100 million**

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Docket# USTR-2013-0027

Country:	**Venezuela**
Commodity:	**Soda Ash (disodium carbonate), a principal raw material for making glass and detergents**
Classification Number:	**HTS 2836.20.00**
Import Policies Tariffs:	**10% *ad valorem***
	In 2013, Venezuela unilaterally raised its tariff on soda ash from 5% to 10%. With no local soda ash production, the higher tariff amounts to an additional tax on soda ash consumers, such as detergent and glass manufacturers, who rely on low-priced soda ash to stay competitive. Over 95% of Venezuela's soda ash imports come from the United States.
Potential Impact on U.S. Exports:	**$25-$50 million annually**

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Docket USTR-2013-0027

Country:	**Taiwan (Republic of China)**
Commodity:	**Soda Ash (disodium carbonate)**, a principal raw material for making glass and detergents
Classification Number:	**HTS 2836.20**
Import Policies Tariff:	**3.5% *ad valorem***

Soda ash is not produced in the ROC and soda ash is a major component in the manufacture of glass and detergents. The ROC's imposition of an additional tax on downstream producers, who require lower-priced soda ash to be competitive in the domestic and global markets, does not make economic sense.

Further, in accordance with the Economic Cooperation Framework Agreement between the ROC and the People's Republic of China (PRC), the ROC has eliminated (effective January 2012) the 3.5% MFN duty on soda ash imports. Consequently, the PRC has a 3.5% tax advantage over U.S. and other imports.

In early 2013, Taiwan's glass industry petitioned its government to use its authority under the Customs Act (Article 71) to reduce or eliminate the import duty on soda ash. USTR, AIT Taipei and Members of Congress voiced support for the petition, but it was rejected by Taiwan's Bureau of Foreign Trade in April 2013.

Taiwan should use its authority under the Customs Act to reduce or eliminate its duty on soda ash, an action that would provide economic benefit to both Taiwan and the United States.

Potential Increase in U.S. Exports: **$5 - $15 million**

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Docket# USTR-2013-0027

Country:	**Morocco**
Commodity:	**Soda Ash (disodium carbonate), a principal raw material for making glass and detergents**
Classification Number:	**HTS 2836.20**

Import Policies:

Customs Barrier and Trade Agreement Violations:

Morocco refuses to grant FTA treatment to transshipped U.S. soda ash. Though Morocco recently lowered its MFN tariff from 10% to 2.5%, U.S. exports are levied the 2.5% tariff while its EU competitors' soda ash enters duty-free under the EU-Moroccan FTA. This policy violates the U.S.-Morocco Free Trade Agreement (USMFTA).

Under the USMFT, soda ash should have entered duty-free upon implementation of the agreement. U.S.-origin soda ash exported to Morocco has not been allowed duty-free entry in Morocco under the USMFTA on the grounds that the soda ash is transshipped and not "imported directly" into Morocco pursuant to USMFTA Article 5.9.

The relevant USMFTA provisions are Article 5.1 (Originating Goods) and particularly Article 5.9 (Transit and Transshipment). These Articles clearly support the conclusion that U.S. soda ash qualifies for duty-free access under the USMFTA.

Article 5.1 provides that an "originating good" is one that has been "imported directly from the territory of one party into the territory of the other Party." Further, Article 5.9 states as follows:

> "For purposes of this Chapter, each Party shall provide that a good shall not be considered to be imported directly from the territory of the other Party if the good undergoes subsequent production, manufacturing, or any other operation outside the territories of the Parties, <u>other than unloading, reloading</u>, or any <u>other operation</u> <u>necessary</u> to preserve it in good condition or <u>to transport the good</u> to the territory of the other Part. (*Emphasis added*).

U.S. soda ash is exported in bulk to Tunisia, where it is bagged into 1,000 pound sacks and, from there, is transported from Tunisia to Morocco. The bagging operation occurs in a Customs bonded warehouse in Tunisia, and never enters the commerce of that country. This U.S. soda ash is bagged in the Customs warehouse in Tunisia because Morocco does not have the necessary facilities or the capability to receive bulk soda ash and it is not economically viable to ship soda ash in bags from the United States directly to Morocco.

The repacking of the soda ash into bags may arguably fall within the USMFTA's definition of "unloading/reloading," as set forth in USMFTA Article 5.9. However, Article 5.9 also provides other ways for a product to be considered "directly imported"; specifically, the Article allows operations "necessary … to transport the good to the territory of the other Party." There is no question that the repacking into bags is a "necessary" step in the transport of U.S. soda ash to Morocco. This is the case for two reasons: first, there is no direct shipping service from the United States to Morocco; and second, soda ash is typically shipped in bulk and because Morocco has no facilities to accept bulk soda ash, the repacking of the soda ash in Tunisia is necessary to the transport of the product to Morocco.

The Obama Administration should take steps to ensure that Morocco lives up to its USMFTA commitments.

Potential Increased in U.S. Exports: **$5-$25 million**

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Docket # USTR-2013-0027

Country:	**India**
Commodity:	**Soda Ash (disodium carbonate)**, a principal raw material for making glass and detergents *[Identified previous NTE Reports.]*
Classification Number:	**HTS 2836.20**
Import Policies Tariff:	7.5% *ad valorem*
Additional Taxes:	16% countervailing duty tax; 4% additional countervailing duty tax
Market Access Barrier:	**India's net effective import rate of 30.9% is prohibitive for a raw material such as soda ash.** India's applied tariff on soda ash – while reduced to 7.5% in India's 2007/08 Union Budget – is still among the highest in the world and higher than the 5% prevailing duty India applies to most basic raw material imports. In order for U.S. exports to compete in India, the tariff needs to be reduced to no more than 5.5%, the rate applied under the Chemical Tariff Harmonization Agreement (CTHA).
Current Market Conditions:	**India levied antidumping duties against U.S. soda ash imports in July 2012** (along with imports from six other countries - Iran, Pakistan, China, Ukraine, Kenya and the EU). In 2013, antidumping duties were placed on soda ash imports from Russia and Turkey. India has become a net importer of soda ash because local production has been insufficient to satisfy domestic demand. However, it is difficult for domestic suppliers to compete against imports due to the high costs of production, logistics and infrastructure. The consumption of glass and detergents is rising as disposable incomes rise in India.
Potential Increase in U.S. Exports:	**$5-$25 million**

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Docket# USTR-2013-0027

Country:	**Argentina**
Commodity:	**Soda Ash (disodium carbonate), a principal raw material for making glass and detergents**
Classification Number:	**HTS 2836.20.00**
Import Policies Tariffs:	10% *ad valorem* The Government of Argentina (GOA) granted a request by the sole Argentinean soda ash producer ALPAT – which began operating in May 2005 after sitting idle for nine years – to raise the soda ash duty from 0% to 10%. The tariff severely hurts the profitability of Argentina's glass and detergent industries. Overall, the additional duty translates into a $3 million penalty on Argentina's glass and detergent industries at the expense of over 4,000 workers as compared to ALPAT's 400 workers.
Import Licensing Restrictions:	The GOA imposes a Non-Automatic Import Licensing System ("NAILS") on soda ash, which causes delays in the granting of import licenses to the U.S. soda ash industry. A major concern is the arbitrary nature of the licensing system, which seems to have varied processing times depending on the production of ALPAT. When ALPAT production is slow due to natural gas shortages during the winter months, import license processing times are shorter. But during summer months, when ALPAT production is strong, obtaining an import license takes longer. This is a sign that the system is being manipulated and the GOA is following no fair or clear standards in the processing of import licenses.
Potential Impact on U.S. Exports:	**$25-$50 million annually**

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