

Customs & Trade in Israel

A Legal Newsletter

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The Trade War Between the US and China: An Opportunity for the Israeli Exporter!

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In recent months, the United States under the leadership of President Donald Trump is waging an extensive trade war against China.

What were the steps taken recently?

On July 6, the U.S. imposed 25% tariffs on \$50 billion of Chinese goods. Over 1,000 categories of Chinese imports were listed for the tariffs, including products from the fields of aviation, information and telecommunications technology, robotics, industrial machines, new raw materials, vehicles and more.

For example, the list includes aircraft tires (subheading 40.11), various turbines (subheadings 84.06 or 84.10), engines (subheading 85.01), transformers (subheading 85.04), ovens (subheading 85.14), vehicles and vehicle parts (heading 87), and more.

The list does not include products which the American consumer often purchases, such as cellular phones or TV sets.

In addition, the U.S. administration published another list of Chinese goods which it intends to impose additional tariffs upon following a review by the relevant entities, but currently remain not subject additional tariffs. This list includes many other products, including oils (subheading 27.10), plastic goods (heading 39), building parts (subheading 73.08), irrigation devices (subheading 84.24), tractors (subheading 87.01), motorcycles (subheading 87.11), and more.

In response, China announced that imported U.S. goods will be subject to the same tariffs.

What were the steps taken a few months ago?

These steps follow on the heels of steps taken a few months ago.

At the time, it was reported that the U.S. intends to submit a claim against China before the World Trade Organization (WTO) for theft of intellectual property. In addition, the U.S. announced its intent to impose tariffs upon Chinese technological goods, alleging that these goods were manufactured through the theft of intellectual property from the U.S.

Moreover, in March 2018 the U.S. imposed a 25% tariff on steel and a 10% tariff on aluminum in order to encourage local American manufacture, though it expressed its willingness to exempt friendly nations, such as Canada and Mexico, from the new tariff. The U.S. later announced that it will temporarily exempt the EU, Australia, Argentina, Brazil and South Korea from the tariff.

It was also reported that the import of American cars to China is subject to a 25% tariff, while the import of Chinese cars to the U.S. is subject to a mere 2.5% tariff.

What is the total U.S.-China trade value?

In 2017, the total value of U.S. imports of Chinese goods was approximately \$505 billion, while the total value of U.S. exports to China was approximately \$129 billion.

In 2016, the total value of U.S. imports of Chinese goods was approximately \$462 billion, while the total value of U.S. exports to China was approximately \$115 billion.

In the first five months of 2018, the total value of U.S. imports of Chinese goods was approximately \$205 billion, while the total value of U.S. exports to China was approximately \$52 billion.

It can be assumed that due to the trade war between the two countries, these figures will decrease, as the additional tariffs will reduce the economic viability of the import and export of goods.

Will these steps by the Trump administration help Israeli exporters?

The series of steps taken by the Trump administration against imports from China may be a golden opportunity for Israeli exporters, granting them an advantage over Chinese exporters.

It is a well known fact that Israel and the U.S. signed a free trade agreement in the 80s, exempting most Israeli goods from American tariffs.

For comparative purposes, in 2016 the total value of U.S. imports of Israeli goods was approximately \$22.2 billion, with the total value of U.S. exports to Israel reaching approximately \$13.1 billion, while in 2017 imports of Israeli goods reached \$21.9 billion and exports to Israel reached \$12.5 billion. In the first five months of 2018, the total value of U.S. imports of Israeli goods was approximately \$9.5 billion, while the total value of U.S. exports to Israel was approximately \$5.6 billion.

As is evident from the information above, the volume of trade between Israel and the U.S. is much lower than the U.S.-China trade. But with the new tariffs on Chinese goods, the price of imported Chinese products will rise.

We therefore recommend that Israeli industries which export goods to the U.S. carefully examine the list of products now subject to increased tariffs. If the competitor Chinese product is now subject to the new tariff, this may open good business opportunities, as the competitiveness of the Israeli product has probably increased upon export to the U.S.

In addition, Israeli industries with business ties in China may consider moving part of the activity to Israel so that the product may be considered an Israeli product by the rules of origin under the Israel-U.S. free trade agreement. In such a case, an Israeli product exported to the U.S. will not be subject to the new tariffs imposed on Chinese products.

**The above review is a summary. The information presented is for informative purposes only,
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